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EXTRA MONEY FOR CITY BLOCK



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City Centre Block Consultation Document

May 2020

CONSULTATION CLOSES 12 JUNE 2020

This Consultation Document summarises the key decision and options for Council regarding extra investment in the City Block Development project.

Community consultation closes on 12 June. Council's decisions on investing further in the City Block Development project will likely be made in June 2020 and will be available on Council's website following this date.

Where can you get more information?

The statement of proposal and supporting information from the first consultation in 2019 is available at

www.icc.govt.nz/cityblockconsultation

You can also view copies by request at the Civic Administration Building Help Desk, the Bluff Service Centre or the Invercargill Public Library. Alternatively, contact us on **policy@icc.govt.nz** or by phone **03 211 1777**.

How can you talk to Councillors?

Hearings are planned for the week commencing Monday 22 June. If it is not possible to hold the hearings in person due to Covid-19, alternative options will be provided.

How can you submit your views?

Submit online at **www.icc.govt.nz**

Alternatively, use the submission form in the back of this document and:

Deliver to: Civic Administration Building
101 Esk Street
Invercargill

OR: Bluff Service Centre
16 Gore Street
Bluff

Post to: Submission - City Block
Invercargill City Council
Private Bag 90104
INVERCARGILL 9840





UPDATE

WHY IS EXTRA INVESTMENT REQUIRED?

Background

Invercargill City Council and the community have recognised that in order to support economic and population growth a vibrant and healthy CBD is needed.

Following consultation in 2019, Council made the decision to be an investment partner in the redevelopment of the CBD. Council is a part owner in the land, which was secured for future development, through Invercargill City Holdings (ICHL) and HWR Property Limited. Council agreed to invest up to \$30m (\$20m + \$5m contingency and an additional \$5m for potential design changes) to support the first three stages of the six stage development. ICHL has purchased \$25m shares in Invercargill Central Ltd (ICL).

Update

At the time of the initial consultation, two private investors were identified as having committed to the development. Since that time, one private investor made the decision to invest no further funds beyond their initial \$4m. Since consultation, Community Trust South and the Provincial Growth Fund have confirmed their investments in the development.

As a result of these changes, and allowing for repurposing of \$5m initially allowed for by Council towards design changes, there is a \$16m gap in funding for the project. At this stage no other funders have been found to meet this shortfall.

To date the development has been progressed within the anticipated budget. If the shortfall in funding is not met by Council then this may have consequences for the development to meet the objectives noted above. A shortfall in equity funding may have implications for the

decisions of other funders. The developer has indicated that without further investment from Council the project is unlikely to proceed.

Covid-19

Covid-19 is creating greater uncertainty in the business environment. One result is that it is taking longer than anticipated to agree leases for retail spaces.

Council has applied for Central Government support from the Shovel Ready fund for City Block and other city centre projects. A \$30m grant and \$55m to underwrite loans has been applied for. If this funding is achieved then the \$16m shortfall will be met through this funding.

What are we consulting on?

Council is consulting on whether to increase its investment to a total \$46m for stages one, two and three of the development, which incorporates:

- + Initial investment: \$25m (\$20m +\$5m contingency)
- + \$5m allocated to allow for design changes
- + \$16m extra investment

REFINEMENTS TO THE DEVELOPMENT PROPOSAL

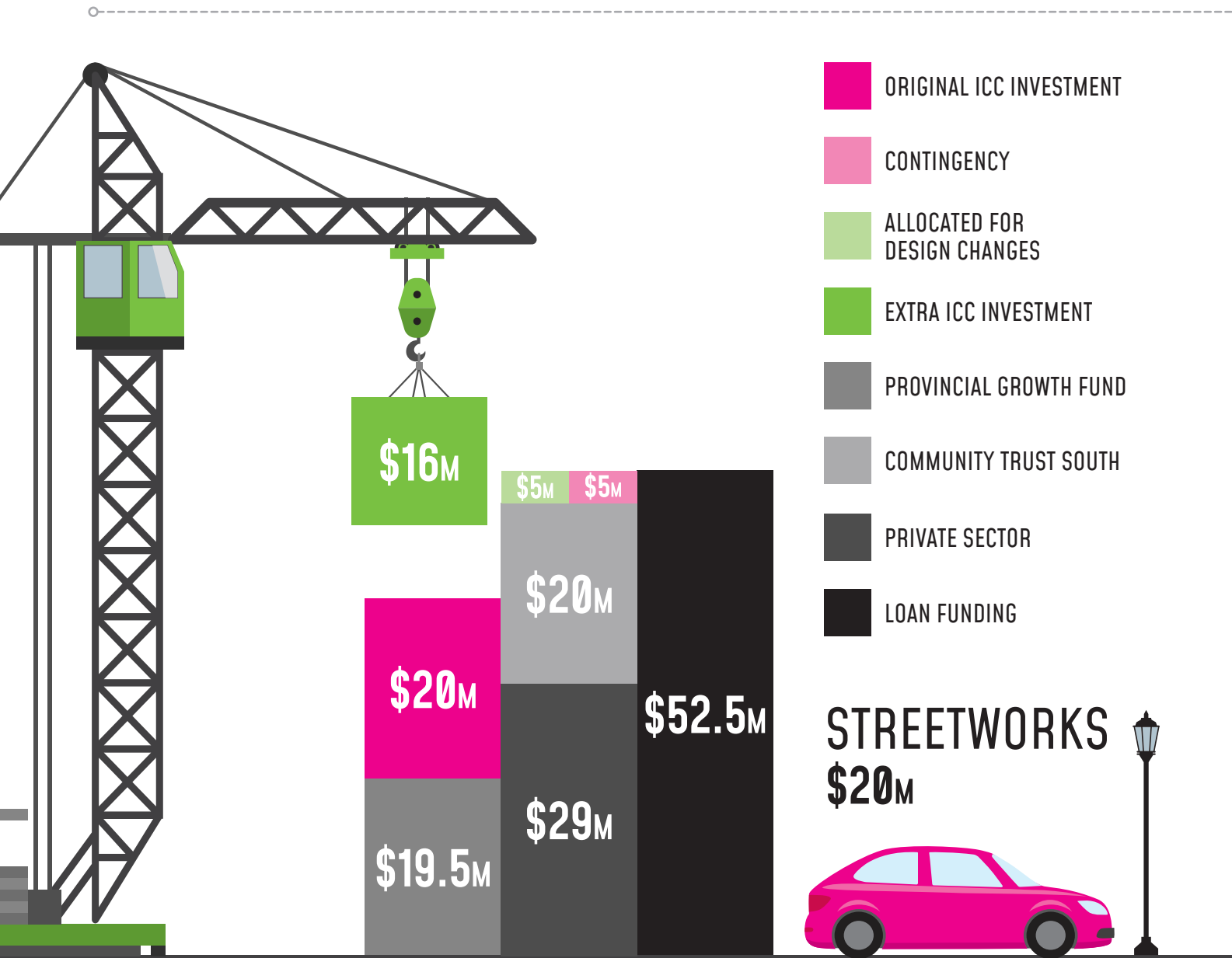
At the time of the initial consultation, the total project cost was estimated at \$180m, this has now been refined to \$167m.

700 instead of 850 car parks are planned.

In the original consultation document, an outdoor courtyard with space for people to enjoy time outside was included - This is in fact part of the planned stage five of the development.



FUNDING CITY BLOCK



THE OPTIONS



OPTION ONE

Invest an additional \$21m in the City Block redevelopment project, bringing the total Council investment to \$46m. This comprises the original \$20m investment, the \$5m for contingency and a repurposing of the \$5m for design consulted on in August 2019 and a further \$16m to cover the funding shortfall. This would allow the project to continue with the current scope and scale. No further rates increase is anticipated due to changes in the cost of borrowing.

OPTION TWO

Do not invest additional funding. Keep the investment at \$25m. This comprises the \$25m consulted on in August 2019, including the \$5m allowed for contingency, but does not include the \$5m consulted on for design changes. Developers would have to manage the impact of this on the development and/or other funders. The developer has indicated that at this level of investment the project is unlikely to be able to proceed. No rates increase.

OPTION THREE

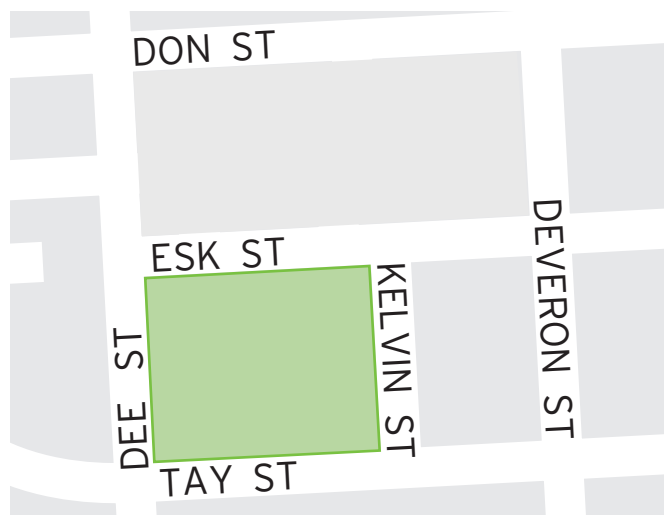
Repurpose the additional \$5m identified for design changes as a contribution of additional investment. The total investment would be \$30m. There would be a shortfall of \$16m for the project. Developers would have to manage the impact of this on the development and/or other funders. The developer has indicated that at this level of investment the project is unlikely to be able to proceed. No further rates increase is anticipated due to changes in the cost of borrowing.

The Council's preferred option is Option one.



THE DEVELOPMENT

The City Block Development proposes to incorporate the land and buildings between Esk and Tay Streets, bordered by Dee Street and Kelvin Street.



The Council and other potential partners recognise that this is the right block for an urban rejuvenation project. It is central to the heart of the CBD.

The plan at the back of this document shows the areas within the City Block in which Council would be investing.

The \$ 167 million redevelopment would include:

- + Retail shops, ranging from a large anchor retailer to small boutique stores
- + Three distinct food and beverage precincts
- + Covered laneways that connect the food and retail precincts to offices and a medical centre
- + A multi-level, covered carpark providing more than 700 parks
- + A childcare facility on the second level

The development would open in three stages - February 2022 with the anchor tenant trading; mid 2022; and the final stage completed December 2022.

Invercargill Central Limited (ICL) has been formed to undertake the redevelopment of the land owned in the Block. Council, through ICHL has invested \$25m in ICL. Resource consent has been granted and demolition has commenced.

WHAT ARE THE BENEFITS OF THIS DEVELOPMENT?

Council is proposing investing in the City Block Development for strategic reasons, rather than solely commercial reasons. It proposes to invest in the development for the social and economic wellbeing of the community, rather than commercial returns that may be realised. Some of the community wellbeing benefits identified from the success of this development include:

Economic and Social Wellbeing

- + Action as a catalyst for accelerating investment in Southland
- + Provision of \$16 million direct investment for the total project
- + Increase in Southland's GDP
- + Creation of jobs
- + Creation of a more liveable city
- + Activation of the city socially, with the provision of a public place and spaces to connect
- + Addressing of the seismic health and safety risk of some buildings
- + Creation of a more vibrant marketplace and diverse offerings
- + Provision of more opportunities for residents

Without Council investment, the City Block Development is unlikely to proceed as the returns are too low to attract enough private investment.

Full details of the proposal for City Block proposal are available. See page two for details on how to find more information.



IMPLICATIONS FOR COUNCIL

WHAT ARE THE IMPLICATIONS FOR COUNCIL OF MAKING AN EXTRA INVESTMENT IN CITY BLOCK?

Community Outcomes

Maintaining and reinforcing the viability and vibrancy of Invercargill's CBD is of widespread concern to the Invercargill people and is a key priority for Council. Extra investment is required for the construction work of the project to commence.

Funding the investment

Council's investment in City Block will be loan funded, with the cost of borrowing funded through rates. The cost of borrowing on the initial investment of up to \$30 million was estimated at \$900,000. Since then the expected interest rate has dropped from around 2.5% per annum to around 1.5%. Changes to interest rates have resulted in a lower cost of borrowing. Our initial assessment was that funding of \$900,000 from rates would allow the interest (\$750,000) to be funded and also provide for some loan repayment. Overtime returns from the investment would enable more money for the repayment of debt. As a result reductions in the cost of borrowing falling the higher level of investment \$46 million is forecast to have an interest cost of \$690,000 per annum. However as the additional investment will use as larger portion of the available debt capacity, further provision would need to be made to ensure that other major planned projects are still able to undertaken. For this reason it is proposed that a further \$300,000 rates per annum would be required to maintain borrowing capacity for future capital.

No further rates increase beyond the 1.2% forecast during the initial consultation is anticipated due to changes in the cost of borrowing. For example, if you currently pay \$2,000 annually in your rates, your rates contribution to the investment, in say, the first year, would be \$24. These figures are indicative only

Impact on other projects

Council currently has a strong debt position. Our net debt (external borrowing less investments) is very low relative to similar Councils, and this reflects in Council's very good Credit rating of AA+ (Fitch Rating Agency). However Council has borrowing limits relating to income rather than our total assets. This is largely because our assets are mainly for infrastructure services and so do not have a return on investment.

Funding the additional investment does not breach Council's financial strategy and would not cause it to exceed its debt ceiling, which is in place to help Council ensure it manages debt responsibly. However, the increased borrowings do get close to our debt maxima. Our Long-term Plan had increases on average of 3.1%. However as a result of Covid-19, Council has determined a rates increase of 2%. With the debt level rising, at some point Council will need to return to rates in line with the existing plan, around 3%, in order to deliver future as yet unknown capital works. Future projects may need to be timed differently in order to appropriately manage debt. This may result in a delay to other projects or projects not commencing.

OPPORTUNITIES	RISKS
Direct investment in the city of \$167 million.	Significant disruption to the CBD during the build.
Catalyst for five further projects in the Block totalling \$118 million.	Building could be delayed or incomplete.
Increase Southland's GDP by \$475 million in 2019 - 2035. This estimate was produced pre-Covid, the economic impact of which is not yet known.	Significant impact on the balance of the city's retail area, through shoppers parking within the City Block building and then not leaving the complex.
Generate jobs (500+ to build City Block over 3 - 4 years; 300 permanent retail and hospitality jobs).	Does not stimulate further development, exacerbating existing issues.
Completion of an anchor project in achieving the Southland Regional Development Strategy's target of 10,000 more people.	Cost to ratepayers, including the risk that Council may be required to satisfy any cost overruns or risk an incomplete development.
Contribute to the recovery of the tourism industry in Southland.	Additional 700+ carparks saturates the paying market resulting in significant carparking revenue loss for Council.
Creates a more liveable city, providing a public place and spaces for people to connect.	Risks involved in a public / private partnership.
Addresses the seismic health and safety risk of some buildings.	The City Block Development is not "core" Council business.
	Other projects will be delayed or not occur because of the investment.
	Retail is impacted by a downturn and changing shopping habits caused by Covid-19, resulting in lower uptake of retail space



FREQUENTLY ASKED QUESTIONS



Why should Council invest extra?

Following consultation, Council resolved to invest in the development on the basis that the community wellbeing outcomes outweigh any inherent risk in investing in the proposal. At the time of making the initial decision to invest Council noted, and was aware of the social and economic benefits of its investment in the project, as well as the reintroduction of the four wellbeings (cultural, social, economic, environmental) into the Local Government Act. Council also noted that the cost of the investment reflected the lower commercial returns from a development of this type and that this creates a barrier to completion of the project by the private sector alone¹.

Since that time the world has been impacted by COVID-19 which has caused higher levels of uncertainty and further decreased the likelihood of private sector funding. Central Government is considering a range of ways it can help the recovery and also expects Local Government to also do its fair share to steer the economy through the current issues. This investment, as a project currently underway, is one way in which Council may do this. While the final decision on the progress of the development lies with Invercargill Central Limited, Council is aware that it does not have a project of the same scale that is currently able to provide work and support for the community.

Council recognises that its participation is a significant influence on the success of the development and that without additional investment, the development may not be able to proceed. The financial return on investment for this project is unlikely to attract sufficient interest from private investors alone. Council does not expect to make a commercial return on its investment in the short to medium term, but neither does it anticipate making a loss. However, there are broader benefits to Invercargill - and Southland - to be realised through developing a vibrant and dynamic city centre. For Council, investing in such a CBD regeneration project is consistent with supportive action that delivers on a number of Council's community outcomes, including:

- + An economy that continues to grow and diversify
- + Business areas that are bustling with people, activities and culture
- + Residents of, as well as visitors to, Invercargill give positive feedback and have great experiences

How much is Council proposing to invest?

Council is proposing a total investment of \$46 million. This includes the initial \$20m investment, as well as \$5m contingency and \$5m allowed for design changes already consulted on, as well as an extra investment of \$16million to cover the funding shortfall.

What happens if Council doesn't invest?

Without Council's investment, it is unlikely that the project would proceed unless alternative investment can be found. Should the development not go ahead, there is a risk that the decline of the Invercargill CBD would accelerate. It is unlikely that a development of a similar nature would be undertaken, and alternative uses of the site may not have the same potential for transformational impact that is hoped to be achieved from this development. Further, Council, through its shareholding in HWCP Ltd, would be left owning 50% of a site which has already been demolished. Council would be required to undertake the maintenance and ongoing costs of owning this property. This would have a financial impact on the Council, an impact that would need to be addressed without the benefits of the social and economic boosts that the development would generate, both during and after its construction. This is likely to be a short term issue, but we can't predict what would happen in the longer term.

What would it cost to build this development?

Council has been requested to invest in Invercargill Central Limited that will complete stages one, two and three of the development. The estimated cost of these stages is \$167 million. Stages four, five and six would be undertaken by other entities. It is estimated that these developments would cost a further \$100 million. The plan at the back of this document outlines the stages and shows which stages Council investment would be used for.

Who are the other partners Council is working with?

A range of parties have been requested to invest in Invercargill Central Limited. At this stage Council can confirm that two private investors have invested \$25m and \$4m respectively. In addition Central Government has agreed to invest \$19.5 million through the Provincial Growth Fund and further investment has been sought from the Government's Shovel Ready fund. Community Trust South has agreed to invest \$20m.

¹ Council Minutes 13 August 2019



What will happen if the Government does invest more through the Shovel Ready Fund?

If the Government invests directly into Invercargill Central Limited to cover the \$16m shortfall in funding, then Council would only invest up to \$30m in the project.

Who would be responsible for the ongoing costs of managing the City Block Development?

A new entity, Invercargill Central Limited (ICL) that meets the needs of all shareholders has been formed. This new entity will own and operate the asset. As an investor and shareholder in the development, Invercargill City Holdings Ltd, the Council's holding company, has a representative on the board of ICL.

How will Council's investment be paid for?

The investment in the City Block Development would be loan funded.

What will this investment cost me, as an individual ratepayer?

Under Council's current policies, this investment would result in a 1.2% rates increase for the average rate payer. For example, if you currently pay \$2,000 in rates annually, your rates contribution to the investment for say, the first year, would be \$24.00. Because of lower costs of borrowing than originally estimated, the extra \$16million is forecast to not to bring additional costs.

What else will ratepayers / Council be responsible for?

Council would also be responsible for associated works to integrate the development with the broader environs. The total cost of this work is unknown but is anticipated to be approximately \$20 million.

The way the inner city feels and is used has been identified as a key strategic objective for Council. This project looks to take this opportunity and develop strategies and outputs which Council (and others) can utilise and implement to bring people and success back to the heart of Invercargill.

The project aim is to establish a cohesive urban design, with an emphasis on streetscape character, an enhanced pedestrian environment whilst linking these developments.

Council has allocated a sum of \$20 million which will be



considered in a staged manner for various projects which will be identified in the master plan (stage one). The master plan design consultant has been engaged and work will start in 2021.

What is the term of the investment?

Council's investment in the City Block Development would be long-term. Council would expect to receive a return on its investment. It is possible that this return would increase over time and make the investment commercially attractive to a third party. Council would, as with all its investments, continue to review the benefits and costs of holding its investment over time.

Does Council have an exit strategy?

If Council proceeds with investment in the City Block Development, it expects that the investment would be for the long-term. Council would, as with all its investments, continue to review the benefits and costs of holding its investment over time.

What would happen to Council's investment if something goes wrong?

Council is a shareholder in ICL which is undertaking the development. As a shareholder, Council's interests would be behind those of any bank or other loan funder. In the event that the investment did not succeed all parties would be focused on ensuring the greatest return possible from the investment made. Council would ensure that the investment is managed as far as is practicable in a manner that minimises the risks of this occurring. Council would seek and obtain independent commercial advice on the terms of the investment prior to signing any agreements.

How would Council avoid being the final point of call for any extra funding needed?

Any shortfall in development costs will need to be met by the shareholders in ICL including ICHL, the Council's holding company.

What is the impact of Covid-19 on the development?

Covid-19 is creating higher levels of business uncertainty. One result of that uncertainty is that companies are surviving, rather than looking forward, and that fewer retail leases have been signed than expected by this point. It is not known what the impact of Covid-19 will be on the

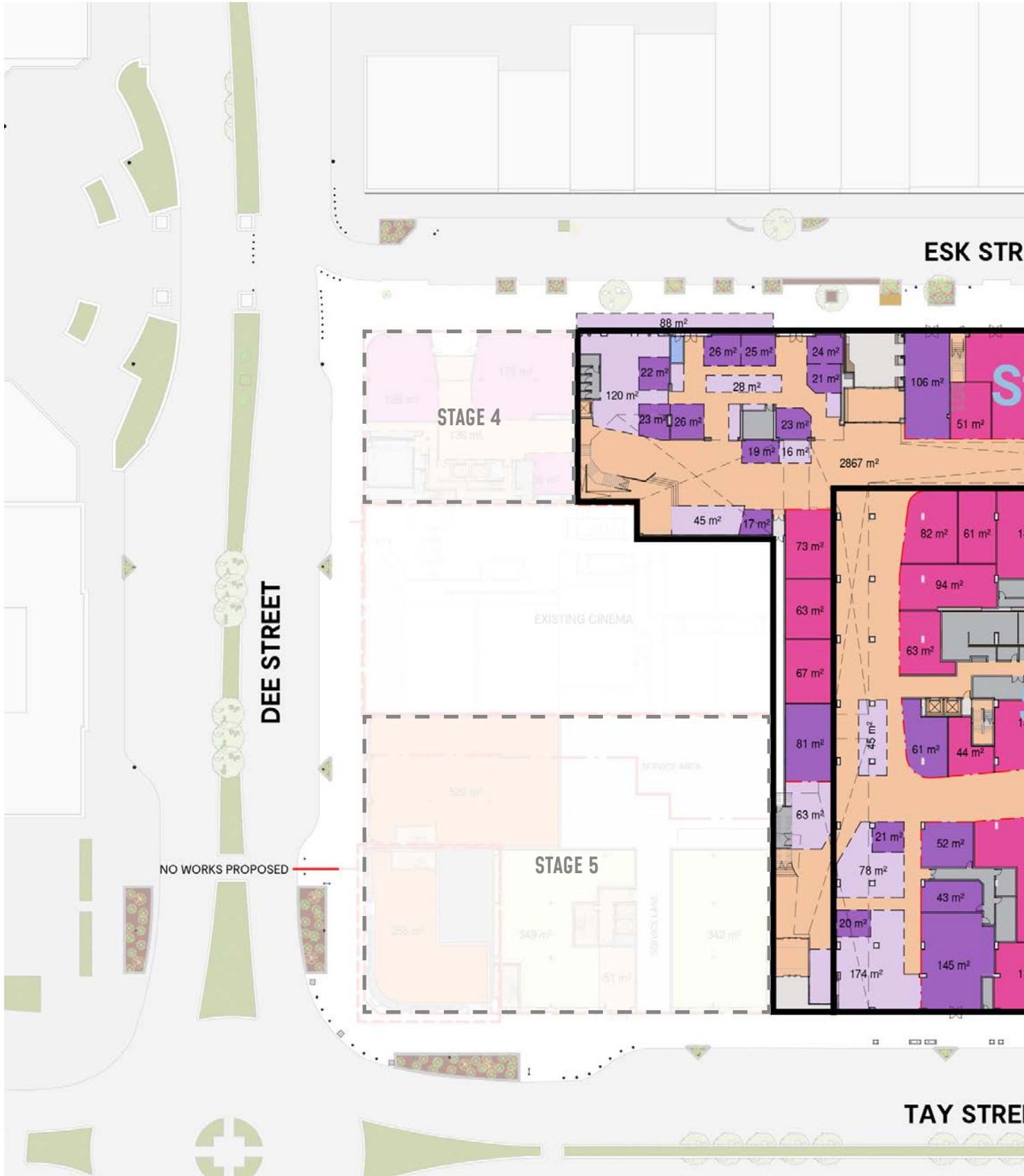
retail environment in the longer term, although Southland is more resilient than some regions as a result of not being exposed to international tourism markets. This is an issue that will be considered by Invercargill Central Limited in the final design of the development.

Will the later stages of the development (stages four, five and six) proceed?

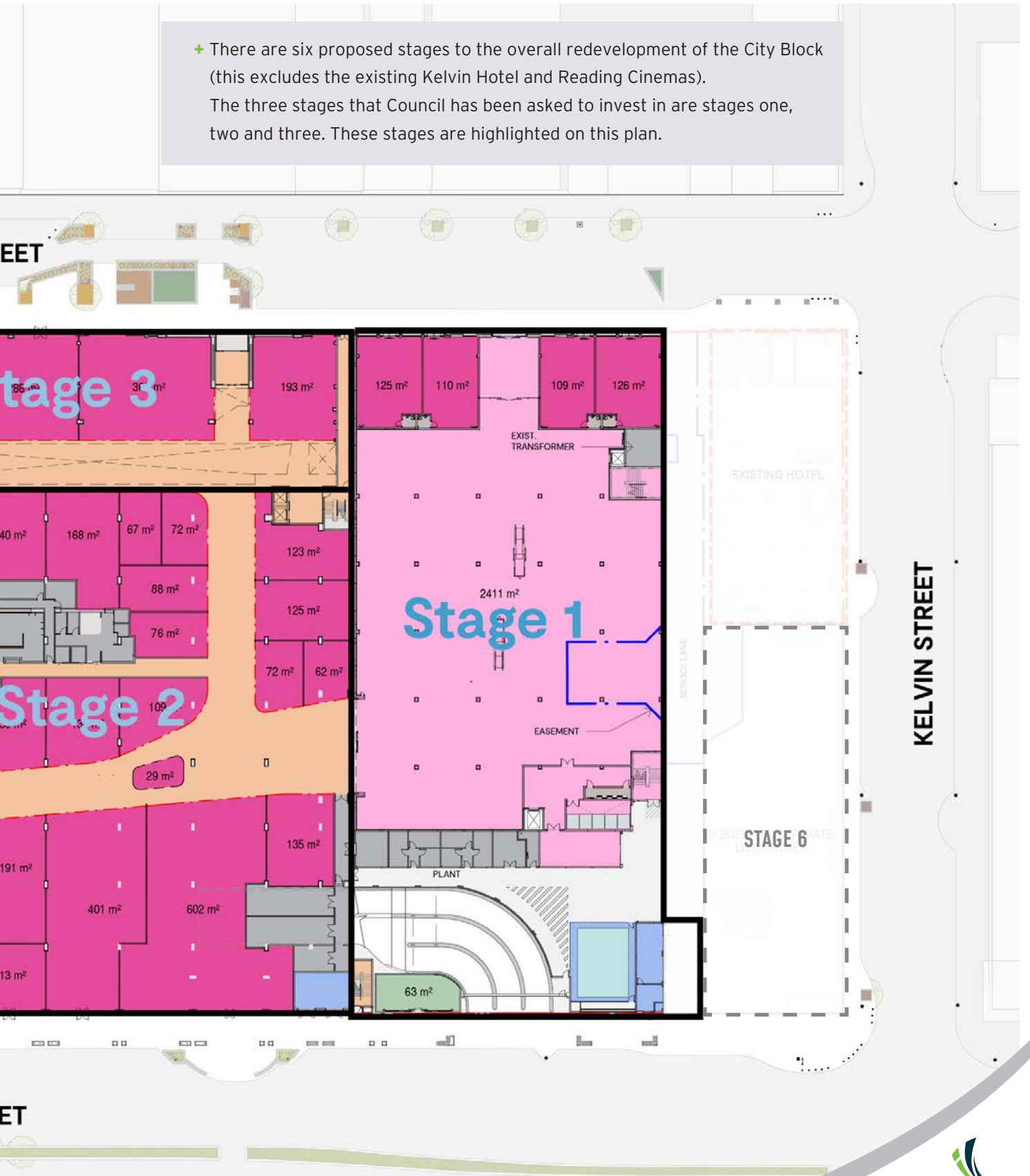
All six stages of the development have been designed to work together, including stage four, which includes office space that Council sees as integral to the city centre. Stages four, five and six will proceed if investment is secured by the parties carrying on those developments. Note that if private sector cannot do stage five, and/or Council receives funding for stage five as part of its Shovel Ready Fund application, Council may undertake work on stage five in part or in total.

EXTRA MONEY FOR CITY BLOCK?

INVERCARGILL CITY COUNCIL'S AREA OF INVESTMENT FOR THE CITY BLOCK DEVELOPMENT



+ There are six proposed stages to the overall redevelopment of the City Block (this excludes the existing Kelvin Hotel and Reading Cinemas).
 The three stages that Council has been asked to invest in are stages one, two and three. These stages are highlighted on this plan.



EXTRA MONEY FOR CITY BLOCK?

SUBMISSION FORM

Please note that submissions, including names and contact details, will be included in papers which are available to the public through Council's website.

CONTACT DETAILS (Please print clearly)

+ **Name:** _____

+ **Contact Person:** (if the name above is an organisation)

+ **Postal Address:**

+ **Daytime Telephone:** _____

+ **Email:** _____

+ **Signature:** _____

+ I wish to speak to the Mayor and Councillors about my submission: **YES** **NO**

+ I would prefer to speak in the morning / afternoon: **AM** **PM**

(Note: if you wish to be heard, please supply contact email or phone number. Please note that our ability to hold hearings will be dependent on circumstances surrounding Covid-19)

+ I would like to receive email updates about future Council consultations: **YES** **NO**

+ MY PREFERRED INVESTMENT OPTION IS:

Option one:
\$46m total investment

Option two:
\$25m total investment

Option three:
\$30m total investment

For full details of the options see page five of the consultation document.

+ MY SUBMISSION ON COUNCIL'S PROPOSAL TO INVEST IN THE CITY BLOCK DEVELOPMENT IS:



+ MY SUBMISSION ON COUNCIL'S PROPOSAL TO INVEST IN THE CITY BLOCK DEVELOPMENT CONTINUED:

+ Please add extra pages if needed.

Post this form to Invercargill City Council, Submission - City Block Investment

Private Bag 90104, Invercargill 9840.

Or drop it off to Civic Administration Building, 101 Esk Street, Invercargill, the Invercargill Public Library or the Bluff Service Centre.

Submissions close at 5.00pm on Friday, 12 June 2020.

