

3.3 INVERCARGILL – OUR CITY FOR TOMORROW

PGF Application		For: Approval	
Applicant:	HWCP Management Limited ('HWCP')	Pipedrive ID #	ID# [Commercial Information] (following on from ID# [Commercial Information])
Entity Type:	Company	PGF Funding Sought:	\$ [Commercial Information] ([Commercial Information])
Region	Southland	Total Project Value:	\$ [Commercial Information] (up to)
Tier:	1 - Regional	Co-contribution rate:	Commercial Information [Commercial Information])
Sector:	Regional Projects	Funding Structure:	Commercial Info [Commercial Information]

We recommend that the IAP:

- a) **Note** that the PDU recommends approval of \$ [Commercial Information] from the PGF by way of a loan [Commercial Information] towards an Invercargill inner-city regeneration project, costing up to \$ [Commercial Information]. This involves the redevelopment of a block in the Invercargill City CBD as the key project identified in the Southland Regional Development Strategy ('SoRDS') Action Plan to rejuvenate the inner-city, as the first step to addressing the key problem identified for the region of de-population. This recommendation is subject to:
 - A minimum of \$ [Commercial Information] being confirmed (excl. PGF contribution); resolution of the \$ [Commercial Information] contribution from the [Commercial Information]; and a shareholders agreement covering shareholders, directors etc, [Commercial Information], all to the satisfaction of the PDU.
 - All necessary consents being granted.
 - [Commercial Information]
 - Receipt, to the satisfaction of the PDU, of a formal valuation of the proposed redevelopment.
- b) [Commercial Information]
- c) **Note** since submission of the application, the now proposed structure (with the sites for the project to now be transferred to a new legal entity), and some quotes having come in lower than forecast, the cost of the project looks like having reduced by some \$ [Commercial Information].
- d) [Commercial Information]
- e) **Note** the request for PGF funding, [Commercial Information] aligns with the co-contribution criteria, and results in a good mix of public/private investment, and an appropriately geared asset.
- f) **Note** in relation to the [Commercial Information] contribution from [Commercial Information], based on discussions with the PDU there is a firm intention by [Commercial Information] to invest in the project. [Commercial Information]
- g) **Discuss** the PGF's funding contribution. [Commercial Information]

Commercial Information

Proposal:

- HWCP was formed to undertake the planning and secure ownership of the key sites for the project.
- Proposed Investors in the project, with total ^{Commercial Info} of \$ ^{Commercial Info} are:
 - ^{Commercial Information}
 - ^{Commercial Information}
 - ^{Commercial Information}
 - ^{Commercial Information}
 - the PGF \$ ^{Commercial} (requested)
 - ^{Commercial Information}
- The sites for the project (Stages 1, 2, and 3 shown below) will be transferred to a new legal entity (believed to be Invercargill Central Ltd) to own and operate the property asset. ^{Commercial Information}

Commercial Information

- The Cinema (Readings) and the Kelvin Hotel remain. The rest is demolished although some of the historic facades are retained.
- ^{Commercial Information}
- Invercargill's CBD building stock, and its streetscape and commercial performance, has remained relatively unchanged over the past decade, and the buildings are now falling apart and present a significant seismic risk. The applicant has advised that all this has impacted businesses, with the CBD having become less attractive for retailers to locate in and consumers to shop in, with reduced footfall and static sales growth and, with the lack of a 'heart' and an unattractive and run-down inner-city, often cited as a reason people don't want to live in Invercargill or Southland.

- A key goal of SoRDS is to achieve 10,000 more people living in the region by 2025, and they anticipate the proposed inner-city re-development will provide a significant contribution to achieving this – with the belief that more people will seek to live and work in Southland when perceived negatives such as distance and climate are exceeded by perceived benefits of jobs, discretionary income, quality of life, lifestyle and environment.
- The project is to create a high-quality mixed-use precinct that provides for and attracts high-quality retail and national retail, restaurants, office space and entertainment; and in doing so rejuvenate the inner-city, whilst preserving the heritage of key buildings of significance. A national retail anchor tenant has been secured for the development (details are commercially sensitive).
- HWCP has consulted widely on the project with all stakeholders including iwi, the wider community and their regional partners, and gained strong support.
- The project is expected to be a catalyst for a further \$^{Commercial Inf} of central city investment from the peripheral developments.
- Construction completion is timed for late ^{Commercial In}
- An extensive Business Case has been prepared and submitted, with input from appropriate professionals, and along with appropriate letters of support.
- ^{Commercial Inf} has provided a report which outlines the benefits to the Region from the project – which include a boost to GDP; job creation (both during construction, and permanent); and increased visitor numbers and tourism spend.

Assessment against the PGF criteria:

Eligibility Criteria

The ^{Commercial Inf} report prepared as part of the Business Case indicates an expected ^{Commercial Informati} jobs created for the rebuild; and an increase in the Southland population of between 3,000 and 10,000 permanently (without the proposed re-development, they estimate that there could be a further loss of 5,000 people).

Productivity Potential

The project is expected to be a catalyst for a further \$^{Commercial Inf} of central city investment from the peripheral developments ^{Commercial Information} which will all be separately developed and funded. The ^{Commercial Inf} report also indicates an expected boost to GDP from the direct and flow-on effects of increased investment, tourism spending, and employment, \$^{Com ercia} per year; and with real household spending increasing by \$^{Com ercia} per year. The increased tourism spend will assist in reaching the SoRDS goal of \$1bn by 2025 (also noting the benefits of the announced Air NZ trial direct jet aircraft service between Auckland and Invercargill to commence Aug19).

Policy objectives and regional priorities

SoRDS is a region-wide initiative focussed on building a thriving and prosperous future for Southland. SoRDS was initiated by the Southland Mayoral Forum in 2014 to address the key problem identified of depopulation. Funded by the four local councils, local businesses, and community funders, SoRDS is a unified Southland approach. The SoRDS Action Plan was launched in Nov 2016, and identified 3 key challenges:

- Grow Population (primary goal - to attract 10,000 new people to the area)
- Diversify the regional economy (secondary goal, but dependent on the primary goal being achieved)
- Strengthen local business (secondary goal)

The inner-city rejuvenation is the overall anchor to the Action Plan.

PGF Criteria	Assessment Commentary	Rating (0✓ to 5✓)
Link with fund and government outcomes		
Creates permanent jobs	<ul style="list-style-type: none"> Estimated to create ^{Commercial Information} pa construction jobs over the rebuild period; and retail & hospitality jobs estimated to be ^{Commerc} permanent FTE. HWCP Procurement Strategy provides a commitment that as much of the local resources that can be, are employed into the projects thereby assisting the local economy and the local employment. 	✓✓✓✓
Delivers benefit to the community	<ul style="list-style-type: none"> Engages people, activates the city socially giving people a public place and spaces to connect, and in doing so rejuvenates the inner-city and creates social value, cohesion and resilience. Builds pride in the region and helps shift negative perception of the low quality of urban lifestyle and liveability in Invercargill. The project addresses and removes the seismic and health and safety risk attached to the CBD buildings, but preserves key heritage building frontages. 	✓✓✓✓
Increased utilisation and returns of Maori asset base	<ul style="list-style-type: none"> ^{Commercial Information} have been engaged, and have actively participated and contributed to the development of SoRDS and the development of the Action Plan. ^{Commercial Information} Working with iwi to contribute to the Murihiku story by sharing their ideas on concepts for design, ^{Commercial Information} heritage and culture to be of the new inner-city spaces. ^{Commercial Information} 	✓✓
Enhanced sustainability of natural assets	<ul style="list-style-type: none"> N/A 	
Mitigation of climate change effects	<ul style="list-style-type: none"> N/A 	
Additionality		
Adding value by building on what is already there	<ul style="list-style-type: none"> Previous private development plans for redevelopment within the CBD have failed to get off 	✓✓✓✓

	<p>the ground.</p> <ul style="list-style-type: none"> The now proposed private/public partnership proposal has significant regional/local commitments ^{Commercial} % co-funding, Commercial Information The PGF \$ ^{Co} ^{rcial} contribution will enable the regional / local investment of \$ ^{Co} ^{rcial} to be leveraged in the development, and an anticipated further downstream regional investment of \$ ^{Commercial Inf} in peripheral projects to rebuild the CBD for the future. The revitalisation of Invercargill’s city centre is seen as a way to: <ul style="list-style-type: none"> ➤ attract business and local shoppers back into the central city. Putting vacant or abandoned buildings back into use will aid economic development. ➤ breathe life into the city and providing the commercial sector confidence in accelerating investment in Southland. ➤ improve liveability and local businesses ability to successfully recruit and retain talented people in the region. ➤ act as a gateway to the region for the growing tourism numbers and help monetise tourism. ➤ further enhance its educational facilities and ability to attract more students and bring them into a vibrant city centre. ➤ Act as a catalyst for further construction spending, which is contingent on this project going ahead (specifically retail and food and beverage investment). 	
<p>Acts as a catalyst for productivity potential in the region</p>	<ul style="list-style-type: none"> The direct and flow-on effects of increased investment, tourism spending, and employment at the regional level are significant (based on the ^{Commercial Info} report). <ul style="list-style-type: none"> ➤ Southland’s real GDP increases by \$ ^{Commercial} ^{Commercial} % per y r a real household spendin ncr es by \$ ^{Commercial} ^{Commercial} % per year. ➤ supplying industries in the Southland economy are positively affected by an increase in investment, tourism spending and employment. Output of Southland industries is expected to increase annually by \$ ^{Commercial Info} and \$ ^{Commercial Info} (under ^C ⁱ ^{Informa} 2 simulations). ➤ industries such as food and beverages, accommodation, retail, sports and recreation expand because of the increase in tourism spending stemming from the re-development of Invercargill’s city centre. ➤ higher incomes for households lead to increased 	<p>✓✓✓✓</p>

	<p>spending in industries such as other personal services, retail and real estate services.</p> <ul style="list-style-type: none"> ➤ increase visitor spend for tourists incrementally above what would already have come to the region. ➤ HWCP have met with the trades training team at Southland Institute of Technology and have requested that they increase the intakes to the building trades courses to achieve more trained labourers (pre trade course), and more qualified builders (full apprentice training). 	
Connected to regional stakeholders and frameworks		
<p>Alignment with regional priorities</p>	<ul style="list-style-type: none"> • The project is the key project identified by SoRDS. • SoRDS is a region-wide initiative focussed on building a thriving and prosperous future for Southland. SoRDS was initiated by the Southland Mayoral Forum in 2014 to address the key problem identified of depopulation. SoRDS is a unified Southland approach, and identified 3 key challenges: <ul style="list-style-type: none"> ➤ Grow Population (primary goal - to attract 10,000 new people to the area) ➤ Diversify the regional economy (secondary goal, but dependent on the primary goal being achieved) ➤ Strengthen local business (secondary goal) • The inner-city rejuvenation is the overall anchor to the Action Plan. 	<p>✓✓✓✓✓</p>
<p>Support from local governance groups (inc. Councils, Iwi/Hapu)</p>	<ul style="list-style-type: none"> • There is strong local support, as indicated above. Letters of support provided include those from: <small>Co rcial</small> <div style="background-color: #cccccc; width: 100%; height: 80px; margin-top: 5px;"></div>	<p>✓✓✓✓✓</p>
Governance, risk management and project execution		
<p>Robust project management and governance systems</p>	<ul style="list-style-type: none"> • An experienced Project Director has been appointed. • Board and management yet to be confirmed (but anticipated to be sound based on shareholders) • Note an acceptable shareholders agreement is a CP. 	<p>✓✓✓✓</p>
<p>Risk management approach</p>	<ul style="list-style-type: none"> • They appear to have an appropriate risk management approach. 	<p>✓✓✓✓</p>

Funding Arrangements

- A staggered approach to the ^{Commercial Info} injections totalling \$ ^{Commercial Inf} was originally (except for the PGF's). ^{Commercial Information}
- The shareholding agreement has yet to be finalised ^{Commercial Information}).
- ^{Commercial Information}
- PDU has raised the issue of the requested funding assistance ^{Commercial Information}

Due Diligence and Ownership

Completion of Due Diligence on the proposed shareholders, and the Project Director, has been requested. A shareholders agreement (satisfactory to the PDU), will be a CP.

Shareholders:

Shareholder (proposed new entity)	%
^{Commercial Information}	Comm
Commercial Information	Comm
Commercial Information	Comm
Commercial Information	Comm
MBIE / PGF	Comm

Directors:

- To be confirmed

Key Management Personnel:

To be confirmed

Risk Assessment

- The project has been fully investigated and substantiated.
- It is the key project of the SoRDS Action Plan.
- Applicants are considered reputable (due diligence is being undertaken), being a combination of public and private.
- The project has been fully assessed, and well planned.
- A qualified Project Director has been appointed.
- Experienced contractors will be used.
- Housing the construction workforce has been considered, with plans being worked on.
- Sites have been acquired.
- Resource consents have been applied for.

The key risks to the PDU and proposed mitigations of this investment are as follows:

Type of risk	Risk description	Mitigations	Risk Rating L/M/H
Cost Risk	Costs in excess of High total estimated project cost	<ul style="list-style-type: none"> • A ^{Com} % Project Contingency (\$^{Commercial Informa} of the estimated 'Low' costings) has been incorporated • The site is flat, with easy access • Experienced Project Director, and QS 	Low
Consents	Consents not granted (formal decision by Commissioners due 20May19, with Appeal period closing 10Jun19).	<ul style="list-style-type: none"> • Obtaining necessary consents is to be a CP 	Low
Construction	Quality of construction and completion within timeframes	<ul style="list-style-type: none"> • Experienced and reputable contractors have been shortlisted 	Low
Securing and housing construction workforce	Inability to secure and accommodate man-power	<ul style="list-style-type: none"> • HWCP has engaged with some of the group housing companies to spec build to rent (awaiting their feedback); SIT build transportable housing as part of their trades training programme, and increase in the volume re-site these once completed; HWR own a number of houses around the museum which we can free up for working accommodation; Commercial Information 	Low

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Consultation undertaken or implications:

N/A

Supporting proposal:

Yes – subject to issues noted, and CPs

Appendices:

Business Case (without Appendices)

Author of paper:

MJB, Investment Director, PDU Investment Team