

Kelvin ○

Es ○

**NEXT
STEPS
FOR CITY
BLOCK**

○ **Dee** ←

○ **Tay**

**Moving forward with City Block and
City Centre Streets Consultation Document**

***Te Kokenga Whakamua a Te Pokapū o Te
Taone me Ngā Tiriti Matua o Te Taone
Pukapuka Uiuinga***

January 2022
Kohitātea 2022

CONSULTATION CLOSES 11 FEBRUARY 2022

KA KATI TE UIUINGA A TE 11 HUI-TANGURU 2022

This Consultation Document summarises the key decision and options for Council regarding providing a loan enabling City Block to be completed and investment for Stage 2 of the City Streets Upgrade.

Community consultation closes on 11 February 2022. Council's decisions will likely be made in February 2022 and will be available on Council's website following this date.

Where can you get more information?

More information, including the information from earlier consultations on City Block and city centre streets 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 16 and 17 February 2022. 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/cityblockconsultation

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

Submissions must be received by **5pm 11 February 2022**.

What are we consulting on?

Council is consulting on what level of loan to provide to ICL to enable the completion of the City Block Development and what level of investment to make into City Streets Upgrade Stage 2 - Kelvin St and remainder of Esk St.



UPDATE WHAT ARE THE NEXT STEPS FOR CITY BLOCK?

NGĀ WHAKAHOUNGA HE AHA NGĀ MAHI E WHAI AKE NEI MŌ TE POKAPŪ O TE TAONE



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. In 2020 Council decided to provide additional investment to enable the project to proceed, following a change in committed investment from other partners.

In 2020 Council agreed to invest up to \$46M to support the first three stages of the six stage development. ICHL has purchased \$43.2M shares in Invercargill Central Ltd (ICL). \$40.5M was funded by Council's initial investment of \$25M in 2019 and then a further \$15.5M agreed in 2020. The balance was provided by ICHL in its own right as part of transactions outside the scope of the Council investment.

The O'Donnell Family have contributed \$25M in equity and Geoff Thomson \$4M. In addition, Community Trust South and Provincial Development Unit have provided loan funding of \$20M and \$10M respectively. Crown Regional Holdings Limited has also purchased \$19.5M of shares in ICL, which was a result of the Shovel Ready Funding application made by Council following the impact of COVID-19. The final funds to complete the project were to be provided by a Commercial bank subject to commercial terms.

Council allocated \$20M to city centre streets upgrades to support the success of City Block and other new developments in the city centre including Langlands Hotel. The final budget for City Streets Upgrade Stage One (Esk St and Don St) was set at \$20.8M in the Long-term Plan.

Update

To date the City Block development has progressed within the anticipated budget. However, costs have increased due to several factors predominantly due to COVID-19.

As a result, there is a shortage of available bank funding for the development stage of the project.

Further Council investment is proposed in two forms:

- + Shareholder investment in the project
- + Short term loan funding

- **ICHL** Invercargill City Holdings Limited
- **ICL** Invercargill Central Limited
- **HWCP** HW City Properties
- **HWR** HW Richardson Group

Shareholder investment in the project

Costs for delivering the project have increased. Many of these will be met by the developers from within the project contingency. However, Council and O'Donnell Family will also increase their investment.

Cost increases are a result of several factors including increased construction costs, bank fees which are greater than originally budgeted, and the cost of fit outs/ incentives for retail spaces which have been significantly higher than expected.

In addition, the purchase of the Reading Cinemas building, means investment to create connections to the Piazza area of the development is required earlier than expected. This potential space which will be paid for by the developer, will connect the City Block Development with the cinema and medical centre. Earthquake strengthening of the Reading Cinemas building purchased by ICL is also required. This funding is expected to be required for at least the first 10 years of the developments operation in line with Council's original investment.

Short-term loan funding

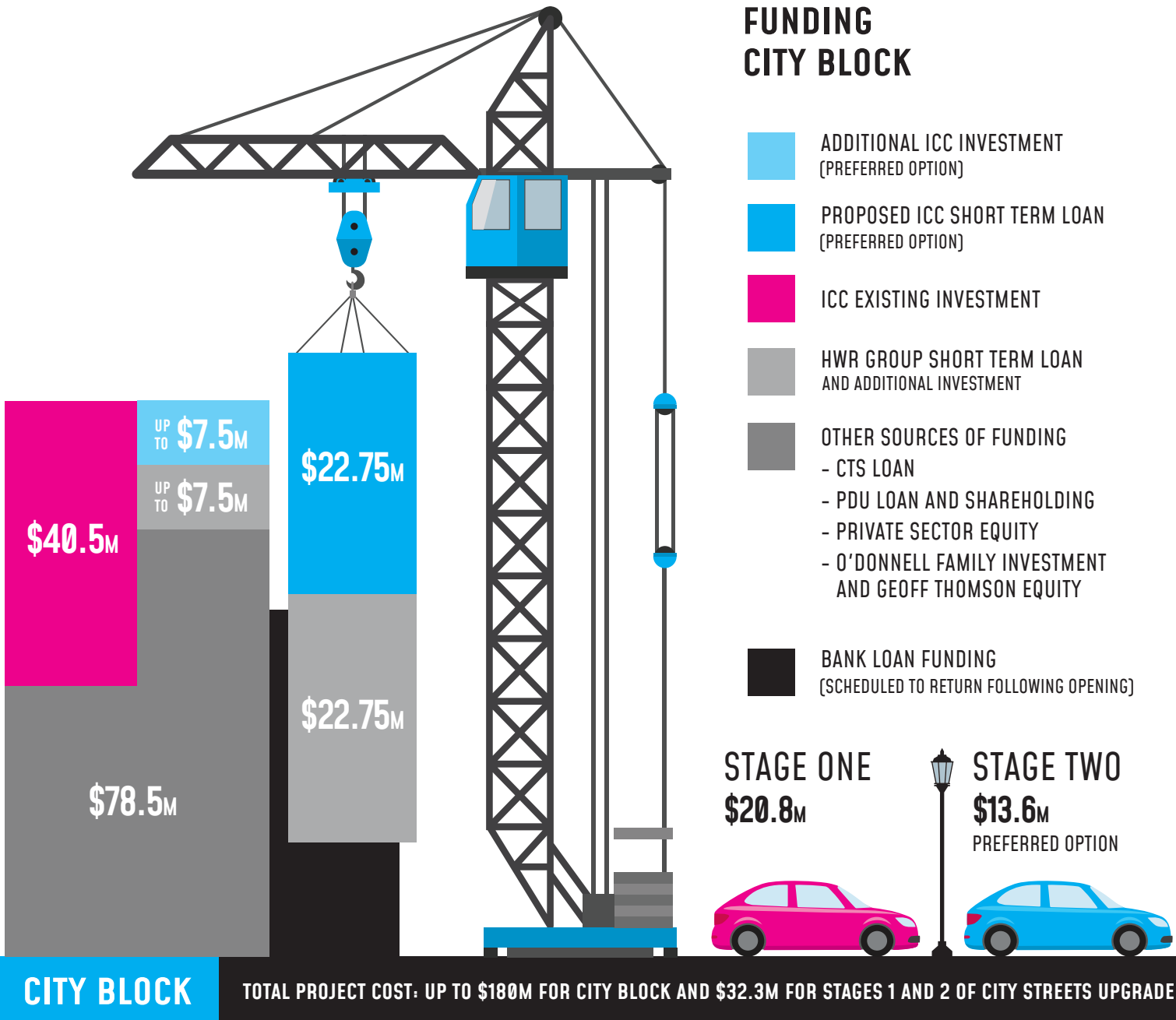
The short term funding shortage is partly as a result of changes in the economic environment which have impacted on the satisfaction of bank conditions for loan funding. Covid-19 is creating greater uncertainty in the business environment. One result is that it is taking longer than anticipated to agree leases for retail spaces and greater incentives are required.

This impact across the bank funding is expected to be temporary and to be closed by the second year of operation.

CITY STREETS UPGRADE STAGES

Stage One	Esk St and Don St (between Dee and Kelvin)
Stage Two	Kelvin St and the remainder of Esk St
Stage Three	Dee St and then Tay St

THE OPTIONS - FUNDING CITY BLOCK



PREFERRED OPTION:

Council will provide its share of the required \$60M (\$30M - incorporating up to \$7.5M increased investment and \$22.75M short term loan) by way of loan at commercial rates to ICL to enable completion of the City Block Development (Stages 1 - 3) bringing the total Council investment to \$70.74M (\$48.2M Total Investment and \$22.75M short term loan). HWR Limited will fund the remainder. This option has been assessed as a lower financial risk, because the terms of the short term loan would mean Council and HWR would receive priority in repayment over other longer term loans for the greater portion of the funding. This will increase Council's debt by \$30M but will have no increase on rates as funding costs will be recovered from ICL.

ANOTHER OPTION:

Provide \$10.07M loan to ICL, the minimum required by the current shareholder agreement. Developers would have to manage the implications of this shortfall which they indicate would put the completion of the project at risk and may trigger further obligations on Council as a shareholder of the project. This option has been assessed as a higher financial risk because the terms of the loan would mean Council and HWR would not receive priority in repayment over other loans and significant delay in repayment could impact on Council's ability to borrow for other Council projects. This will increase Council's debt by \$10.07M but will have no increase on rates as funding costs will be recovered from ICL.

THE OPTIONS - CITY STREETS UPGRADE



CITY STREETS UPGRADE STAGE TWO KELVIN ST AND FURTHER WORK ON ESK ST



PREFERRED OPTION:

Invest an additional \$13.6M to upgrade Kelvin St between Don St and the Kelvin St Hotel and Esk St between Kelvin St and Te Rau O Te Huia (new SIT Esk St Campus). The impact on Council's debt would be an increase of \$13.6M. Rates would increase by 1.3%.



ANOTHER OPTION:

Invest an additional \$15.5M to upgrade Kelvin St between Don St and Tay St and Esk St between Don St and Deveron St. The impact on Council's debt will be \$15.5M. Rates would increase by 1.5%.

The preferred options would increase Council's total investment into City Block to \$45.5M plus a short-term loan of \$22.75M and City Streets Upgrade work to \$32.2M. The impact on Council's debt will be \$41.35M. Rates will increase by 1.5%.

THE DEVELOPMENT TE WHAKAWHANAKETANGA

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



This project is core to the Council's strategic vision of He Ngā kau Aroha - Our City with Heart.

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

The up to \$180M redevelopment includes:

- + 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 approx 700 parks
- + A childcare facility on the second level

The development is on schedule to open in three stages - Farmers, the anchor tenant trading opening June 2022; with the balance opening in two stages, with final completion in December 2022.

Stage One of the City Streets Upgrade work is aligned to these dates as well as to the opening of the Langlands Hotel on Don St.

Invercargill Central Limited (ICL) has been formed to undertake the redevelopment of the land owned in the Block. Council, through ICHL has invested \$40.5M in ICL. Council has invested \$20.8M into city centre streets work directly.

WHAT ARE THE BENEFITS OF THIS DEVELOPMENT?

Council is 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
- + 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.

Further background information is available online at www.icc.govt.nz/cityblockconsultation.

IMPLICATIONS FOR COUNCIL NGĀ HĪRAUNGA MŌ TE KAUNIHERA



WHAT ARE THE IMPLICATIONS FOR COUNCIL OF THE NEXT STEPS FOR CITY BLOCK?

Community Outcomes

Maintaining and reinforcing the viability and vibrancy of Invercargill's CBD is of widespread concern to the Invercargill community and is a key priority for Council. Increased investment, as well as a short term loan, is required to enable the project to be completed and further investment is required to complete Stage 2 of the City Streets Upgrade work.

Funding the investment

Council's investment in City Block and City Streets Upgrade was loan funded, with the cost of borrowing funded through rates. Council's investment of \$46M was forecast to have an interest cost of \$690,000 per annum. At the end of financial year 2021 the Council's initial investment in City Block (and borrowing/interest exposure) was transferred to ICHL to shift the risk burden of that investment to the wider investment portfolio. The up to \$7.5M increased investment and additional \$22.75M short term loan is forecast to have no impact on rates because the commercial terms will fully fund the costs of borrowing.

Impact on other projects

Council currently has a strong debt position. Our net debt (external borrowing less investments) is 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 loan 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, as long as interest is repaid on the loans. However, the increased borrowings do get close to our debt maxima. Our Long- term Plan had increases on average rates of 4% for Years 2 and 3 of the Plan - The increase in investment into City Centre streets will increase the 2022/2023 rates increase by 1.3%. Any significant delay on the loan repayment may result in a delay to other projects or projects not commencing.



NEXT STEPS FOR CITY BLOCK? INVERCARGILL CITY COUNCIL'S AREA OF NGĀ MAHI E WHAI AKE NEI MŌ TE POKAPŪ O TE TAONE



- Signed
- Under Negotiation
- Serious Negotiations – terms generally agreed
- Agreement to lease issued

INVESTMENT FOR THE CITY BLOCK DEVELOPMENT

NGĀ WĀHANGA HAUMI A TE KAUNIHERA O TE TAONE O WAIHOPAI
 MŌ TE WHAKAWHANAKETANGA O TE POKAPŪ O TE TAONE



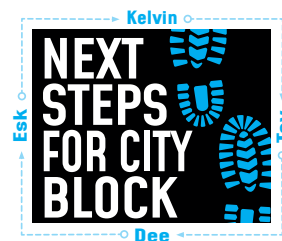
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FLOOR ONLY



IMPLICATIONS FOR COUNCIL NGĀ HĪRAUNGA MŌ TE KAUNIHERA

OPPORTUNITIES	RISKS
Direct investment in the city of up to \$180M.	Significant disruption to the CBD during the build.
Catalyst for five further projects in the Block totalling \$118M.	Building could be delayed or incomplete.
Increase Southland's GDP by \$475M 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 approx 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 NGĀ PĀTAI KĀRANGARANGA



CITY BLOCK DEVELOPMENT

What are the next steps to finish City Block?

Further shareholder investment of up to \$15M is required from Council and O'Donnell Family Investments into ICL to cover increased costs, including the costs for the connection to the piazza, which have been brought forward. In addition, a loan of up to \$45.5M is required to meet short term funding shortfalls caused by a change economic circumstances impacting on the bank conditions (Council's portion of this loan would be 50% - \$22.75M, with the remainder provided by HWR). It is expected that this loan will only be required in the short term and will be repaid in the second year of operation of City Block. This amount is greater than the amount laid out in the shareholding agreement and there are no known other funders at this time.

Why should Council invest extra?

Council recognises that its participation is a significant influence on the success of the development and that without additional investment, the development will most likely not be able to proceed. The financial return on investment for this project is unlikely to attract sufficient interest from private investors. 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

Support from Council is required as a shareholder of the project laid out in the terms of shareholder agreement (Up to \$10.07M - 60% of \$16.5M in line with its shareholding). Providing a short term loan is essential to enable the project to be completed. Council anticipates making a commercial return on its loan to ICL on which it is consulting now.

How much is Council proposing to loan ICL?

Council is proposing to make another additional investment of up to \$7.5M into ICL. Council is also proposing to provide 50% of the short term loan funding required (\$22.75M of \$45.5M). This loan funding is expected to be repaid within the first full year (December 2023) of operation and thus is shorter term in nature to the \$40.5M equity investment which Council has already made. It will bring the total exposure to the investment by Council to \$70.4M.

What happens if Council doesn't provide the investment and the loan?

Council is legally obligated to meet up to \$10.07M shortfall as a shareholder. However, this is not enough to enable the project to be completed. If Council chooses not to provide the higher level loan of \$22.75M and additional \$7.5M, then there is a risk the project will not be completed. The project would have to stop while another funder was found. If another funder could not be found, the project would have to stop permanently, while a reduced design was established within the available funding.

What is the term of the investment and the loan?

The additional \$7.5M investment will be longer term in line with Council's initial expectation of a ten year investment. The short term loan \$22.75M will be repaid within approximately 2 years from January 2022 to December 2023.

How will the investment and loan be made?

The investment and loan will be debt funded to be repaid by progressively drawing down a bank investment loan following completion of the development in December 2022.

What will this investment and loan cost me, the individual ratepayer?

The additional investment and short term loan is forecast to cost the ratepayer nothing and in fact may be a cash positive. This is because the interest rate at which Council borrows is lower than market rates.



FREQUENTLY ASKED QUESTIONS NGĀ PĀTAI KĀRANGARANGA

When consultation in 2020 on Extra Money into City Block was undertaken it was forecast that it would be approximately 10 years before there was a return on the investment?

Is this still the case?

Yes for Council's initial investment of \$40.5M and the proposed additional \$7.5M investment, this remains the case. The \$22.75M short term loan will be on commercial terms to be repaid as soon a bank funding is available to replace it.

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

Council's short term loan of \$22.75M will be secured by way of first mortgage with the other funder. It will be the first money returned in the event of a sale. Council's additional \$7.5M investment is at higher risk as it is of lower priority in the event of a default.

Is this the last investment Council will be required to make? Could there be further requirements for funding?

At this stage the project budget is accurate based on current information. It remains unlikely, although it is possible, that Council will be required to invest further funds to complete the project in its current scope.

During the previous two consultations, Council said the intention was to make sure they didn't have to come back to ask for more money. Why is this happening again?

This is happening because one of the sources of funding, during the development phase, has changed. The conditions of the bank loan can no longer be fully satisfied as a result of these changes, which is primarily as a result of higher than expected lease incentives, slower revenue growth than expected as a result of COVID-19 and other factors. As a result other sources of funding must be found.

Will this investment mean that ICL becomes a CC0?

No, as this is debt funding there is no change in the status of ICL.

The project received loan funding from the Government's Provincial Growth Fund and the Shovel Ready Fund. Has this affected the total investment required?

As a result of the funding achieved from the Shovel Ready application, Council was able to reduce the amount of equity investment required following the consultation in 2020. However this was then partially offset by the reduction in possible available bank funding.



Will the City Block build be finished on time and to budget?

The project is currently due for final completion in December 2022 with stage 1 opening in June 2022. There have been small budget increases as a result of errors in estimates, some cost overruns and the need to bring the piazza forward. The project budget is now up to \$180M instead of the original \$165M.

When will the City Block development be open?

Stage 1 will open in June 2022, with the remainder of the project open by December 2022.

How many of the units are rented? What percentage of the floor space does this equate to? Can you announce any of the businesses which people will be able to shop with in the new development?

31 of 50 units are leased. This equates to 85% of floor space within the development. The map on page 8 shows which retailers and other businesses are confirmed on the ground floor.

What has been the impact of COVID-19 on the development?

COVID-19 has caused only minor delays to the project. It has however impacted the market for retail tenancies due to the uncertainty in that space. This has made meeting bank conditions difficult for the development stage of the project.

Is the Reading Cinemas facility now part of the project? Will there be new screens and cinema technology as part of this project?

Yes the cinema facility is now part of the project and ICL has requirements to make the building earthquake safe. Development of the cinema complex, although owned by ICL, is a matter for Readings Cinema.

Will the funding cover provision of a public meeting space?

No. Some of the funding will enable connections to the piazza. Completion of the piazza is a matter for the developer. No further Council funding will be required for this.

What accessibility features will there be? (disability, parents)

There will be disability toilets and parks in line with standards. There will be a parents area.

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

Stage 4 HWR tower is progressing and will be open in 2023. Stage 5 is currently finalising negotiations following purchase of the land from Readings. SIT has withdrawn from development of Stage 6 and other opportunities are currently being explored.

What is happening now that the SIT apartments aren't going in?

Options are still be explored by the developer.

Will a medical centre still be built?

Negotiations are ongoing to enable the Medical centre to be included.

What is happening with the Troopers Memorial building Bank of New South Wales Building (previously Pumpkin Patch)?

This building is owned by HWCP not ICL. Options are being explored by the developer.

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

ICL is responsible for the ongoing management costs.

FREQUENTLY ASKED QUESTIONS

NGĀ PĀTAI KĀRANGARANGA

CITY STREETS UPGRADE

Council announced as part of the original City Block consultation that it intended to invest \$20 million into the streetscapes to support the project. What has this funding been allocated to?

This funding has been assigned to the Stage 1 development of Esk St and Don St (Kelvin to Dee). These streets were identified in the Master Plan and are the core of the City Centre. Reinforcing the viability and vibrancy of Invercargill's CBD is of widespread concern to the Invercargill people and is a key priority for Council. Further investment is required to complete Stage 2 of the City Streets Upgrade work.

What is included in Stage 1 of the project?

Stage 1 includes reshaping both Esk St and Don St into places for people. This includes new paved roads and footpaths, more seating and places to rest as well as more gardens and landscaping. The developed street environment is planned to be a place for people and encourage people to come out of the City Block development and to visit and shop in adjacent retail businesses.

What design features will be included?

The design includes reshaped footpaths which are easy to walk along and across. In Esk St these do not have kerbs. Seating and large platforms are provided which face the sun, there are developed cultural elements, rain gardens to help with drainage, new adjustable (colour and intensity) lighting for evenings and an exploration trail (Esk St) for children to be able to follow and engage with whilst in the street. While Esk and Don have different elements they are similarly themed and have been developed to complement the adjacent buildings, business and street usage.

When will Stage 1 of the project be completed?

Stage 1 Don Street aligns with the opening of the Langlands Hotel planned for end March 2022. Stage 1 Esk St aligns to the planned opening of Farmers at the end of May 2022, with the remaining work on Esk St continuing through 2022.

Why is additional funding now required?

When Council approved the Stage 1 project works it was identified that additional funds would be required to complete the works required to link Esk and Don and create the heart of the city, which is Stage 2 of the project.

What is Stage 2 of the project?

Stage 2 of the project will link the core and civic axis of the city centre through developing Kelvin St from Tay to Don and extend the development further along Esk St towards Deveron St. The suggested options available relate to the extent of the development and how these link to other external activities such as the SIT development or the vacant site on Kelvin St. The completion of Kelvin - Esk to Don is seen as a requirement to fulfil the Master Plan direction.

When will it be delivered?

Dates for Stage 2 have yet to be developed and this will happen after the majority of Stage 1 is complete to ensure reasonable access is maintained.

How much will it cost?

A range of options have been developed and are included in this consultation. You can see the options on Page 5 or at icc.govt.nz/cityblockconsultation

What happens if Council does not invest in the project?

There would still need to be minimal works undertaken to tie Stage 1 together into the existing streets.

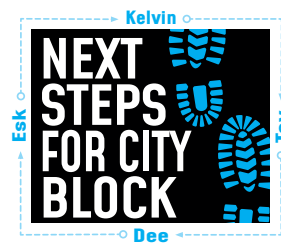
Are there further stages to the project?

There are further aspirations for Dee and Tay St but these will need to be revisited and are not currently sitting within the LTP programme of work.

NEXT STEPS 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 in person 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 FOR CITY BLOCK IS:

Preferred option:
Provide up to \$7.5M increased investment and \$22.75M short term loan to ICL in order to complete the project.

Another option:
Provide \$10.07M loan to ICL noting unless further funding can be found the project cannot be completed.

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

+ MY PREFERRED INVESTMENT OPTION FOR CITY CENTRE STREETS STAGE TWO IS:

Preferred option: Invest an additional \$13.6M

Another option: Invest an additional \$15.5M

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

(Please turn over)

