Convention Centre Proposal

Have your say before we make a final decision later this year.

Absolutely Positively
Wellington City Council
Me Heke Ki Pōneke

Conventions are important to cities because of the economic benefits they bring.

CONTENTS

INTRODUCTION

We want your feedback on our proposal to partner with the private sector to build a brand new purpose built Convention Centre located within a new five star Hilton hotel in the central city.

The Convention Centre proposal is the first of Council's '8 Big Ideas' and is a catalyst for the Council's economic growth agenda.

We believe the proposal will provide:

- A good economic return to the city for the level of investment.
- Allow the city to maintain and grow its share of the convention market in the face of tougher competition from other cities.
- Attract a range of different format conferences that the city has traditionally not been able to host.
- A catalyst for more economic growth.

This consultation document outlines why we think a new purpose built Convention Centre will be good for the city, who is involved, the cost, who will pay for it, and the major risks and benefits.

The consultation period runs from 8 July to 14 August 2014. Details on how you can have your say are outlined on the last page of this document.

The Convention Centre is a catalyst for the Council's economic growth agenda.

WHAT IS PROPOSED

We are considering an opportunity to partner with the private sector to build a new purpose built Convention Centre for Wellington that will be associated with - and located within - a new five star Hilton hotel to be built opposite Te Papa on Cable Street in the central city. The net average cost to the city over twenty years to secure the convention facility is expected to be $2m per annum.

WHY WE ARE CONSIDERING A NEW FACILITY

Conventions are important to all cities because of the economic benefits they bring. In Wellington, conventions are a strong contributor to the economy, generating $146 million a year in expenditure, resulting in $76m of GDP and supporting over 1000 jobs.

Central government also sees significant economic advantages in growing New Zealand's share of international conventions and has decided to invest $34m over the next four years to market New Zealand internationally as a convention destination.

However, the city's current facilities are not purpose built, optimally configured or flexible enough to meet modern and future customer expectations. Another key impact of not having a purpose built facility is that it means there are capacity constraints at key times during the year. For example, for a six week period each year Wellington is unable to host large conventions due to the World of Wearable Art event. This is in the middle of the peak conferencing period, and we want to accomodate both.

In a highly competitive market this has meant that Wellington has ended up losing some conventions, and the economic benefits and vital business connections that come with them, to other cities in recent years.

Importantly, the convention market is going to get more competitive in the next few years, and that will compound the issue. Auckland, Christchurch and Queenstown all have plans to bring new convention facilities on to the market by 2018, and as a result of this, without upgrading its facilities, Wellington is expected to lose market share. The most likely impact is an 8 percent loss of conference business with the worst case scenario being up to a 17 percent loss of business.

We have also looked at whether we could maintain or grow market share if the city had a more competitive offering. The business case for the proposed Convention Centre outlines that by improving our offering we can increase our overall market share by 10 percent.

Whatever decision the Council makes - invest to maintain and gain the conference business in the city, or do nothing - there will be a corresponding impact on expenditure in the city, GDP and the number of jobs. Figure 1 outlines the two scenarios.

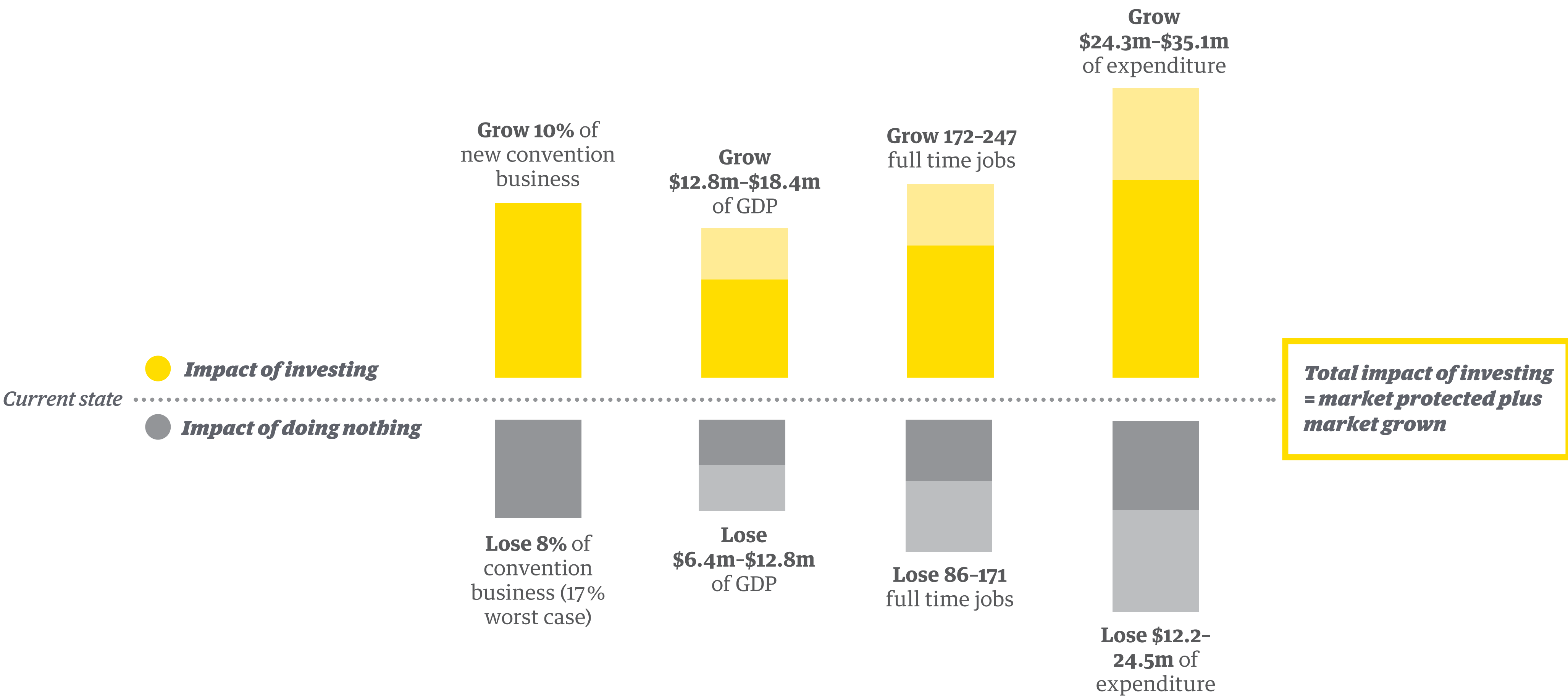

***Figure 1:** Total impact of investment.*

(Note: The economic benefits are uninflated.)

The proposed partnership approach is the most cost effective way of securing a new convention centre.

WHY WE THINK IT'S THE BEST OPTION

We have looked at building a new convention centre to improve the city's offering in the convention market. The estimated capital cost for a stand-alone facility would be in the order of $55m, plus the costs of finding an appropriate site and required additional operational ratepayer funding of around $5.7m per year to cover the interest, depreciation and other building ownership costs. The proposed partnership approach is the most cost effective way of securing a new convention centre because significant construction and land costs are shared between the convention space and the hotel.

WHO IS INVOLVED IN THE PARTNERSHIP

There are three parties:

- Consortium (made up of a local developer and investors)
- Hilton International
- Wellington City Council.

WHY COUNCIL IS INVOLVED

Most cities have publicly funded convention centres because of the economic benefits they generate. Many hotels also have convention spaces to help with occupancy rates. However, they tend to be tailored to the size of the hotel. We are involved so that the Convention Centre will be built at a much larger 'city scale', providing a modern and purpose built convention centre for Wellington to meet the requirements of the current and future market.

HOW THE PARTNERSHIP MODEL WORKS

The developer builds and owns a large (over 4400 sqm) purpose built convention centre and 165 bed hotel.

+

Council leases the convention centre from the developer for 20 years (with rights of renewal).

The Hotel would be operated and managed by Hilton International (with no Council involvement).

+

Council would enter into an agreement whereby Hilton International would operate and manage the Convention Centre.

Council would receive a share of the profits from the operations of the Convention Centre in return for making available the convention centre to the Hilton International.

PROS AND CONS OF THE PARTNERSHIP APPROACH

Advantages

- Much lower cost than building a new convention centre ourselves.
- No increase in Council borrowings and no construction or funding risk.
- Operating risk limited to risks around the level of the profit share (no losses).
- Greater flexibility long-term.

Limitations

- Less control over look and design of the building (but Council will have influence).

WHAT THE CONVENTION CENTRE WILL LOOK LIKE

Detailed design work is still ongoing. We will work with the developer and Hilton International to deliver a building that would be a great addition to the city.

We will also look at how we can improve urban design around the area and improve connections to Courtenay Place and the waterfront from the site.

(Artist's impression – HBO + EMTB.)

AN OVERVIEW OF THE FACILITY

- The Convention Centre will be dominated by a "flat floor" space of 2,592m2 dividable into five large sized individual function spaces.
- Areas A and/or E will be able to be further divided to provide smaller spaces as required.
- The facility can host up to 1200 delegates (with up to 55 trade exhibition stands) and banqueting capacity for up to 1450 people. In theatre style seating, the facility can seat 2500 in the largest space.
- The centre will be able to work directly with Te Papa to jointly host larger conferences.
- There will be an onsite restaurant, purpose built kitchen and other 'back-of-house' facilities.

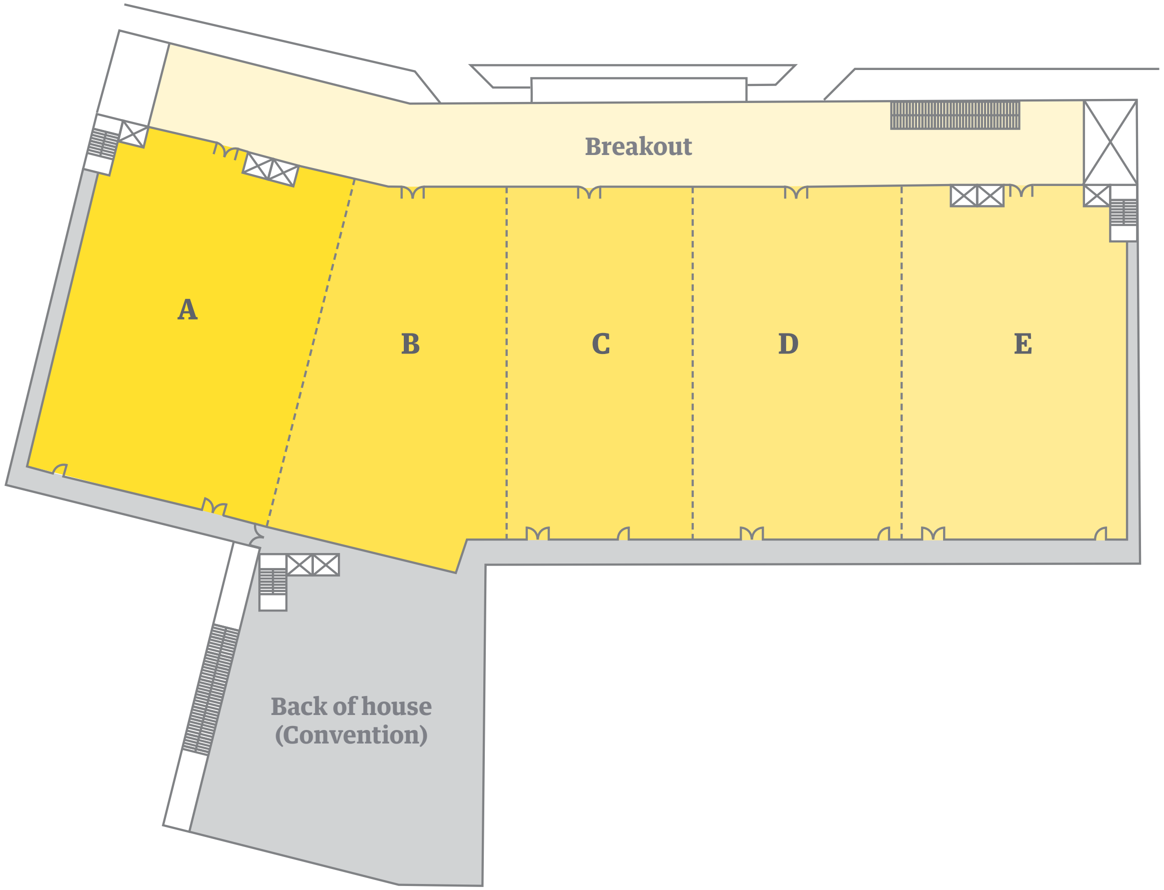

Figure 2: *Indicative layout of the convention space.*

WHERE AND WHEN IT WILL BE BUILT

The proposed Hilton Hotel and Convention Centre will be built on the vacant site in Cable Street, opposite the national museum, Te Papa. The location is well suited to a convention centre. It is close to Wellington's waterfront, across the road from Te Papa which is the country's most visited attraction, and an easy stroll to Courtenay Place with all its restaurants, bars and theatres. It is also within easy distance of Parliament and Wellington's premier shopping area - Willis Street and Lambton Quay.

It can be open for business at the end of 2017 - potentially ahead of the other developments in Auckland, Christchurch and Queenstown.

WHAT THE MARKET IS DOING

The number of international association conferences grew strongly from 2001 to 2012 - it almost doubled in size. New Zealand's share of the international market is small, but this is likely to change with central government investment increasing significantly over the next four years to attract more conferences to New Zealand.

The domestic market has been static in recent years - and Wellington's share of that has dropped slightly as a consequence of the Town Hall closure as well as the other spaces being impacted by earthquake safety considerations.

A new facility will help recapture any domestic market that has been lost in recent years, as well as a share of the growing international market, and position the city to be able to service future demands on convention spaces.

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THE COST

The total cost for the hotel and convention centre will be significantly over $100 million. The average net cost to the Council to lease the Convention Centre over the term of the lease will be about $2 million a year.

The $2 million figure is the most likely cost to the city based on a range of market assumptions. The best case scenario is $1.5 million per year with a worst case of $3.5 million per year if no profit share eventuates.

Average over 10 years (inflated)	High case	**Most likely case**	Best case	Worst case
	$m	**$m**	**$m**	**$m**
Net financial cost to City (10 year average)	2.5	2.0	1.5	3.5

The return on investment ranges from 8.3 to 17.8 of GDP (protected and new) for each dollar invested.

ECONOMIC RETURN TO THE CITY

The return on investment has been calculated across the range of operating scenarios. The economic returns have also been calculated on the total value proposition from investment - the 10 percent growth plus 8 percent added benefit of protecting the city's market share.

The table below outlines return on investment for new expenditure in the city ranging from 15.8 to 34.0 of expenditure (protected and new) for each dollar invested. The return on investment ranges from 8.3 to 17.8 of GDP (protected and new) for each dollar invested.

The "worst case" example shows the cost if no profit share is achieved over the first 10 years, and the assumption that only market share protection has occurred and no growth in events or economic benefit flows. Under this scenario, the return on investment is still positive showing that for every dollar invested in the new convention centre, 3.8 of expenditure or 2.0 of GDP was protected from loss to other cities.

Average over 10 years (inflated)	High case	**Most likely case**	Best case	Worst case
	$m	**$m**	**$m**	**$m**
Net financial cost to City (10 year average)	2.5	2.0	1.5	3.5
Net economic returns (total value: market protected + grown)	**$m**	**$m**	**$m**	**$m**
Total expenditure benefit	39.4	45.2	50.9	13.4
Wellington GDP value add	20.7	23.7	26.7	7.0
Investment returns (total value: market protected + grown)	**Ratio:1**	**Ratio:1**	**Ratio:1**	**Ratio:1**
Total expenditure benefit ratio	15.8	22.6	34.0	3.8
Wellington GDP ratio	8.3	11.8	17.8	2.0

We also expect flow-on secondary development to occur in time in supporting businesses such as accommodation, entertainment, hospitality and retail.

OTHER BENEFITS

Construction benefits

The construction aspect of this project will make a significant contribution to the Wellington economy through the two year construction period. This will be over and above the economic return to the city outlined above. We anticipate the construction phase will add around $50m to the regional economy over the two years and support over 300 jobs through the construction period.

The Hilton brand

The Hilton brand is one of the strongest in the world - it has been ranked as the number one hotel brand across Asia Pacific for the past five years in terms of awareness and preference. The Hilton presence in Wellington will provide significant international exposure and a Hilton run Convention Centre facility would help attract premier industry events to the Capital and support other economic development initiatives such as the proposed film museum and tech precinct.

Importantly, Hilton has 34 sales offices globally. They are specialists in the convention business, and that level of reach and expertise will serve as a powerful sales engine to drive not only convention delegates and tourists to the capital, but also increase the prospect that the Convention Centre runs profitable and provides a profit share to the Council.

Secondary investment

We also expect flow-on secondary development to occur in time in supporting businesses such as accommodation, entertainment, hospitality and retail.

Wellington already has relatively high occupancy rates in its existing hotels (74 percent), and because the proposed convention centre is large, and the accompanying hotel relatively small, any growth in the market will mean that at peak times there may be excess demand for accommodation in the city, and that in turn could result in further development of accommodation and supporting infrastructure in future years.

Analysis of developments across the country suggests that there is a strong link between convention and other key destination infrastructure and hotel development. A good example of this is Sky City's planned investment in Hamilton following the Claudelands Convention Centre development, and also Wellington's experience of development after Te Papa was built.

WHO WILL PAY FOR IT

We want to make sure those that benefit from the new Convention Centre pay an appropriate proportion of the cost. Conventions bring visitors to the central city; providing custom for hotels, restaurants, retailers and other city businesses. They also provide employment opportunities for many in the community across a range of service sector businesses and other supporting industries.

The funding for the new Convention Centre could be paid for by a mix of rate types; the Downtown Levy, and the General Rate, and we are keen to hear your views on this funding split[1]. This diagram shows how Council funds the costs associated with existing convention centres and venues.

[1] *If the proposal proceeds then Council would determine the final funding mechanism through the long term plan process scheduled for 2015. Any feedback received through this consultation exercise will inform that process.*

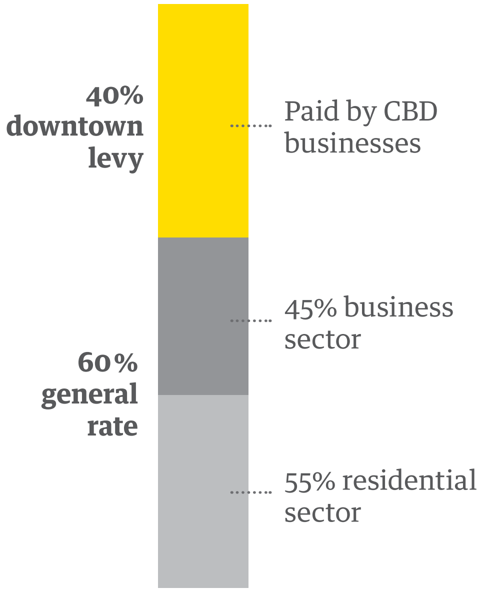


***Figure 3:** Rate types to fund the Convention Centre.*

Conventions provide custom for hotels, restaurants, retailers and other city businesses.

IMPACT ON RATES

This table outlines the rates impact on a residential ratepayer with a property valued at $500,000 and commercial ratepayer with a property valued at $1m at year one. If profit shares are received from year three as forecast, the increase in residential rates will be negligible at only $4 per year from year five.

	Residential ratepayer $500k capital value (2014/15 rates $1,981 p.a.)	**Downtown commercial ratepayer $1m capital value** (2014/15 rates $10,250 p.a.)
Year 1	+$12 (0.6%)	+$276 (+2.7%)
Year 5	+$4 (0.2%)	+139 (1.2%)

Figure 4: *Indicative rates impact.*

(Note: 2014–15 rates figures do not include GST.)

IMPACT ON EXISTING CONVENTION FACILITIES

The proposed new facility is of a size - and will be marketed - to grow Wellington's overall share of the New Zealand market and be focused on attracting conferences that have traditionally not been hosted here because of the size and configurations of the city's existing facilities.

Notwithstanding that, it is anticipated that there will be some redistribution of conferences, and any freeing up of existing Council facilities as a consequence of the new convention centre coming online will also allow those venues to be re-purposed for other activities[2]. A new Convention Centre will provide clarity to the future consideration of the extent and cost of the earthquake strengthening of the Town Hall. If the Town Hall is not required to support the city's conference offering then it opens up alternative public uses.

[2] *For Council this means exploring opportunities for alternative uses for the Town Hall which is already underway as part of the earthquake strengthening considerations eg. dedicated music / performing arts centre*

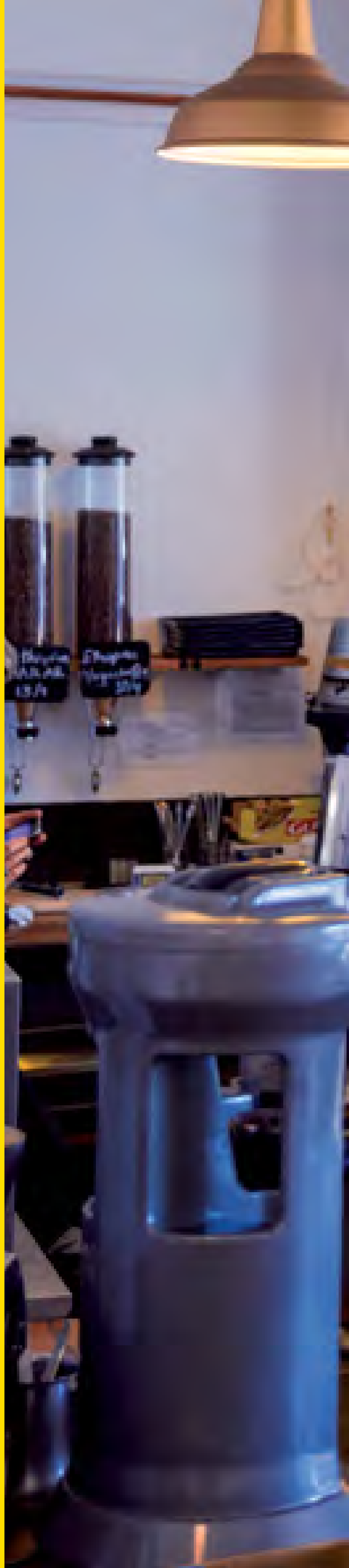
CONFIDENCE AROUND THE NUMBERS AND ASSUMPTIONS

We have engaged a range of industry experts to assist in preparing and review the draft business case to ensure it is robust and based on sound assumptions. This includes:

- Howarth HTL Ltd - market analysis and operating projections
- Covec Ltd - market analysis and projections
- Berl - economic forecasting
- Wareham Cameron - property advice and assessment
- PWC - business case review.

The business case for the proposed Convention Centre has been prepared in full knowledge of the planned developments in other regions.

Convention centres provide employment opportunities across a range of service sector businesses and other supporting industries.



THE RISKS

The partnership arrangement removes Council from two key risks - the construction risk as well the risk from any operating losses.

Regardless of that, there are no activities completely free of risk. There are a range of possible risks including for example the Convention Centre not performing as expected, or the Hilton exiting Wellington. In these instances the risk is not likely, performance targets will be agreed, and further due diligence will be taken before a final decision is made to ensure these risks are either managed or sit at an acceptable level.

Have your say from 8 July to 14 August 2014.

MORE INFORMATION

If you are after more information than is included in this consultation document, we have included the detailed business case online at Wellington.govt.nz

HOW YOU CAN HAVE YOUR SAY

We are keen to get your views on our proposal for a new purpose built Convention Centre as this will help us inform our next steps. There are a number of different ways you can make a submission:

- **Online:** Wellington.govt.nz/conventioncentre
- **Email:** conventioncentreproposal@wcc.govt.nz
- **Post:** Wellington City Council, Att. Baz Kaufman, PO Box 2199, Wellington 6140.

We will be taking feedback from 8 July to 14 August 2014.

We expect to make a final decision regarding this proposal sometime later this year.

Note: All submissions (including name and contact details) are published and made available to elected members and the public. Personal information will also be used for the administration of the consultation process. All information collected will be held by Wellington City Council, 101 Wakefield Street, Wellington, with submitters having the right to access and correct personal information.

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