

## Confidential Report

**TO:** Council

**FROM:** Group Manager Economic Development and Property

**MEETING DATE:** 10 February 2014

**SUBJECT:** **ECONOMIC DEVELOPMENT**

### SUMMARY

Fisher and Paykel, a key employer and one of the largest tenants within the CBD, have approached the Council to extend their existing lease of office space in Wall Street. This is to provide them with accommodation for a further 73 new employees, ten of which have been employed since investigations commenced into this project. They cannot employ any further staff until additional accommodation, on-site, can be provided.

This report provides information on the work City Property and Fisher and Paykel have carried out to date to facilitate the needs of Fisher and Paykel.

The report seeks the Council's support to continue working with Fisher and Paykel to ensure that they can be provided with the necessary accommodation for their total staff complement of 223.

### IMPLICATIONS FOR:

- |  |   |
|--|---|
| <b>(i) Policy:</b>                     | No  |
| <b>(ii) Approved Annual Budget:</b>    | <p>Yes.</p> <ul style="list-style-type: none"> <li>– Currently no approved capital funding for development work</li> <li>– Proposed to fund from property sales.</li> <li>– Increase in operational revenue associated with additional leased space.</li> </ul> |
| <b>(iii) LTP/Funding Policy:</b>       | No.   |
| <b>(iv) Activity Management Plans:</b> | No.   |
| <b>(v) Community Boards:</b>           | No  |
| <b>(vi) Sustainability:</b>            | Yes. Additional employment for the city and the flow-on economic impact effects.  |

### RECOMMENDATIONS

- 1 That the Council approve the Group Manager Economic Development and Property continuing negotiations with Fisher and Paykel to conclude a transaction on the basis outlined in this report to ensure that Fisher and Paykel's requirements for additional accommodation are met.
- 2 That the information contained in this report is released at the discretion of the Mayor and CEO in consultation and agreement with Fisher and Paykel.

## FISHER AND PAYKEL

Fisher and Paykel closed their operation in Mosgiel in April/May 2009. In November 2009, they approached Dunedin City Council to provide premises for their International Design Centre. They required 3,000 m<sup>2</sup> of office and product design space in the Central City specifically designed to their needs, no later than July 2010 as this was the settlement and vacation date under their Sale and Purchase Agreement with Fonterra. They identified Wall Street as their preferred option due to its location and the ability to meet the very short timeframe required.

A ten year lease was signed with Fisher and Paykel with 2.5 year rent reviews, reflecting market rentals.

Haier, the new owners of Fisher and Paykel (based in Qingdao, Shandong, China), have designated the Dunedin operation to be the "World Design Centre" for their premium Fisher and Paykel brand (dishwashers and cooking appliances), providing a "Global Gateway" for Fisher and Paykel and associated advantages for Dunedin. Their existing accommodation also provides for a call centre servicing Australia, the United States, New Zealand and parts of Asia.

As a result of this decision, they require additional accommodation on site of approximately 1,204 m<sup>2</sup> for a further 73 employees. They currently employ 160 people, making a total staff complement, on completion of the project, of 223.

The Dunedin Site Manager, Fisher and Paykel, has provided a written statement relating to their site expansion – refer to Attachment 1.

## THE SITE

In order to meet these additional accommodation requirements, space in both the Wall Street Complex and the adjoining Penrose Building is required.

### a) Wall Street Complex

At its meeting on 28 February/1 March 2007, the Council gave consideration to the redevelopment of its site in George Street, Dunedin, formerly occupied by the DEKA and Bond and Bond stores.

The "Council's Economic Benefit Objectives" for the Wall Street project were:

- ~ Create short and long term employment/growth opportunities.
- ~ Secure the retail heart of the city.
- ~ Assist City funding:
  - New ratepayers
  - Property investment returns higher than leasehold land.

The Council resolved to proceed with the development and construction work commenced in July 2007. The Wall Street Complex was opened to the public on 21 March 2009.

### b) Penrose Building

In October 1995, the Penrose Department Store, located on the corner of George and St Andrew Streets (adjoining the Wall Street site), ceased trading and the building was sold to a syndicate of local investors. This syndicate approached the Council, as owner of adjoining "DEKA" site, to ascertain whether the Council wished to be involved in the syndicate (who had an ownership of the Golden Centre) with up to a 50% share.

A company, Golden Block Investments Limited was subsequently formed. The ownership is held by the DCC (49% share) and Golden Block Developments Ltd (51% share). Golden Block Investments Limited is administered by City Property.

## REDEVELOPMENT OF THE SITE

The requirement for an approximate additional 1,204 m<sup>2</sup> of space for Fisher and Paykel cannot be solely accommodated in Wall Street. They have an operational requirement to have a significant proportion of this on the same level as their existing space in Wall Street. Therefore the following is proposed:

- ~ **Penrose Building:** Redevelop a total of approximately 654 m<sup>2</sup> of office space on the first floor of the Penrose Building. Internal connections through to Wall Street will be provided. These connections are critical to the day to day operational requirements of Fisher and Paykel.
- ~ **Wall Street:** An extension to Wall Street of approximately 550m<sup>2</sup> will be built on the second level, at the rear of the car park fronting Filleul Street. As this will be within the existing rear façade, Resource Consent for the extension is not required.

## COSTS OF REDEVELOPMENT

Estimate of costs provided by Chas. E George and Sons Ltd, Quantity Surveyors – refer to Attachment 2.

### a) Wall Street

- ~ Fisher and Paykel expansion and alterations

### b) Penrose Building

- ~ Fisher and Paykel expansion and alterations

Golden Block Investments Ltd have agreed to contribute [REDACTED] to the building alteration costs of [REDACTED]. They will review the amount of this contribution once final construction tender costs are known.

In addition to the above, additional costs will be incurred in relation to the relocation of existing tenancies to enable the office redevelopment to proceed. This will result in F&P leasing the entire first floor of the Penrose Building. The agreed sharing of these costs are as follows:

- ~ Golden Block Investments Ltd [REDACTED] (to be funded from Golden Block Investments Ltd working capital)
- ~ DCC [REDACTED] (included in total funding proposal detailed below)

### c) Net Estimated Cost to DCC

## FISHER AND PAYKEL COSTS

In addition to all the above costs, Fisher and Paykel are estimated, by Chas. E George and Sons Ltd, to expend [REDACTED] on specialist fitout, including upgrading of services in their existing premises, (refer Attachment 2).

(It should be noted that as part of the development of the original accommodation in Wall Street for Fisher and Paykel, they expended \$690,200 on specialist fitout.)

## LEASE TERMS

Negotiations with Fisher and Paykel have proceeded to the point where they have agreed to the following (subject to Council approval and formal documentation being completed and signed by all parties):

### ~ Wall Street

Term: Existing lease to include the new additional premises and the term to be extended to August 2023. This is an additional four years.

Rental: [REDACTED]

Term: A new lease will commence on occupation of the premises being provided and will expire in August 2023 to coincide with the expiry of the lease for the Wall Street premises.

**Rental:**

### a) Extension into Penrose Building

1. The Council funding for its share of this work, totalling [REDACTED], will be included as part of the funding required for the extensions to Wall Street as detailed in (b) below.
2. GBI funding of its share [REDACTED] will be met from working capital.

The Wall Street extensions can be funded by the sale of the following properties:

Valuation as at 30.6.12

Valuation as at 30.6.13

- 10% allowance for variations in sale price
- Commission on sales and legal fees

Estimated net proceeds of sale

### c) Sale of Properties

Both pose a financial risk to the continued cashflow available to City Property and for some time, have been identified for sale.

Crighton Anderson Ltd, Registered Valuers, have undertaken an analysis of the Return on Investment for the Council on completion of the total project, (Wall Street and the Penrose Building).

The International Valuation Standards (2004) defines the Internal Rate of Return (IRR) as *"the discount rate that makes the present value of the cash inflows equivalent to the present value of the cash outflows. The IRR reflects both the return on the invested capital and the return of the original investment, which are basic considerations of potential investors. An IRR, thus developed, services as a good indicator of the market discount rate. (It is) used in discounted cash flow analysis to find the implied or expected rate of return of the project, the IRR is the rate of return which gives a zero net present value (NPV)".*

Refer to Attachment 3.

Authorised for  
release under  
LGOIMA

## ECONOMIC IMPACT

Butcher Partners Ltd, Consulting Economists, were requested to provide an analysis of the likely economic impacts on the City of the expansion of Fisher and Paykel's Dunedin Design Centre.

The employment of an additional 63 people directly at Fisher and Paykel in Dunedin will lead to the creation of an additional 45 jobs elsewhere in the Dunedin economy, leading to total additional employment in the city of approximately 110 full-time equivalent jobs. Associated with these additional jobs will be the generation of \$10 million per year in value added (GDP) in the city. The majority of this increase in value added will be in the form of earned household income (wages and salaries) which will rise by \$7 million per year.

If the potential economic impacts associated with working partners of new Fisher and Paykel employees are included, then the total economic impacts on the city of the proposed Fisher and Paykel expansion could be 130 jobs and \$11 million per year of increased value added, including \$8 million per year of earned household income.

Copy of their report – refer to Attachment 4.

## ADVANTAGES AND DISADVANTAGES

### Option 1 : Proceed with Development

#### Advantages

- Employment of a further 73 people (10 of which have been employed since investigations commenced into this project) in Dunedin over the next two years.
- Reinforces Haier's commitment to the city for their World Design Centre providing total employment in the city of 223 people.
- Provides a higher return on capital invested both for the Wall Street Complex and the Penrose Building, compared to the properties identified for disposal.
- An additional 73 staff will mean additional expenditure for retail for the whole Wall Street/Golden Centre/Meridian Shopping Mall Complex together with the Central CBD area.
- Meets the objectives of the Council's Economic Development Strategy.
- Reinforces the City's relationships with China.
- A "business friendly" initiative for the City.
- Adds value to the council's Investment Property Portfolio.
- Potential **total** economic impacts on the city could be 130 jobs and \$11,000,000 per year of increased value added, including \$8,000,000 per year of earned household income.

#### Disadvantages

- Not repaying debt from proceeds of property sales.

## Option 2 : Not Proceed with Development

### Advantages

- Total funds from the sale of the two properties identified for disposal, could be available to pay off debt.

### Disadvantages

- Loss of guaranteed employment for a further 63 people in Dunedin.
- Potential for Fisher and Paykel to relocate their operation away from Dunedin.
- Loss of positive return on capital invested for Wall Street and the Penrose Building.
- Loss of additional expenditure for retail and the CBD in general, generated by additional employees at Fisher and Paykel.
- Objectives of the Council's Economic Development Strategy will not be met.
- Opportunity will be lost to reinforce the City's relationships with China.
- The Council's support for a 'business friendly' initiative for the City, will be lost.
- Opportunity will be lost to add value to the Council's Investment Property Portfolio.
- The potential total economic impact for the city, as detailed in the Economic Impact Report, will be lost, including the potential additional 45 jobs elsewhere in Dunedin.

## CONCLUSION

This proposal supports key components of our Economic Development Strategy and will:

- Bring new business and investment opportunities into Dunedin.
- ~ Attract talent through migration.
- ~ Build critical mass in high value sectors of our economy.
- ~ Grow innovative and internationally competitive business.

This is a "business friendly" and a "positive economic development opportunity" for the City.

Prepared by:

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**Manager Economic Development**

Reviewed by:

Prepared and Approved for submission by:

Grant McKenzie  
**Group Chief Financial Officer**

Robert Clark  
**Group Manager Economic Development and Property**

Approved by: Tony Avery  
**General Manager Infrastructure and Networks**

Date report prepared: 5 February 2014

**Attachments**

1. Written statement from Fisher and Paykel's Dunedin Site Manager relating to their expansion
2. Estimate of costs provided by Chas. E George & Sons Ltd
3. Analysis of Return on Investment from Crighton Anderson Ltd
4. Economic Impact Analysis Report from Butcher Partners Ltd.



## Fisher & Paykel Dunedin Site Expansion

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In 2008, as a result of the decision to shift our Mosgiel manufacturing operation overseas, we began a search for a site for a design centre and call centre in Dunedin. We required a facility that had a high profile in Dunedin, was attractive and convenient to work in and met our specific technical and service needs. We were looking for a third party that was prepared to fund the fitout of a building to a level that we could then customize for our specific needs.

Fisher and Paykel's current design centre site at Wall Street, and the lease arrangement with the City Council has successfully met these needs since June 2009.

As we embark on a period of significant growth, we are looking to expand our facilities accordingly. It is vital that this expansion meets some key objectives:

- Maintaining an open-plan, contiguous office space.
- Ensuring an attractive and creative work environment.
- No disruption to the execution of our product and technology plan.
- Minimal disturbance to our existing services and facilities.
- Execution at a fast pace consistent with our growth.
- Capital investment from F&P within budget.

In Partnership with the City Council, we have devised a plan that is consistent with meeting these objectives. It is clear that developing the current Wall Street site will deliver to our needs at the lowest cost, while maintaining the key advantages of the site and its location.

In the event that this expansion opportunity is not available to us, we would need to consider an alternative site. We have considered a range of alternatives, however these do not deliver the same benefits as Wall Street. If we were unable to remain tenanted in Wall Street, it would cause considerable costs and major disturbance to our current operational footprint.



**Richard Butler**  
Product Design Manager,  
Dunedin Site Manager



31 January 2013

**Crichton Anderson**  
Capital asset valuation and advisory services

Attention: Robert Clark

Dunedin office  
100, Victoria Street  
Dunedin 9012

Services  
Commercial valuation  
Industrial valuation  
Agricultural valuation  
Property advice

Dunedin City Council  
PO Box 5045  
Dunedin 9058

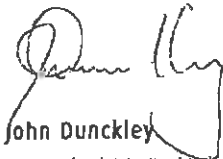
Dear Robert

**Re: Fisher & Paykel Lease – Wall Street & Penrose Building**

1. Thank you for your instructions to provide an analysis of the proposed lease extension for the Fisher & Paykel space.
2. The area occupied within the Mall is to be extended and it is proposed that they take over the space in the adjoining Penrose Building.
3. We have relied on the cost information provided by the Dunedin City Council and our conclusions are contained within the attached summary.
4. If you have any queries regarding this letter, please do not hesitate to contact us.

Yours faithfully

**Crichton Anderson Property & Infrastructure Limited**



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## **Economic Impacts of Fisher and Paykel Expansion** *Butcher Partners Ltd, November 2013*

### ***Background***

Dunedin City Council is considering the possible investment of funds to provide increased accommodation for Fisher and Paykel. Butcher Partners Ltd has been asked to advise council about the likely City-wide economic impacts of the proposed expansion.

This brief analysis is not a commercial analysis of either the proposed investment in property from a council perspective, or the likely profitability of the expansion from the Fisher & Paykel perspective. Nor does it consider the possibility that the project will add to the reputation of Dunedin as a dynamic centre of technical and research excellence. It is simply a summary of the likely economic impacts on the City of the expansion of Fisher and Paykel's Dunedin Design Centre.

### ***Conclusion***

The proposed expansion of F & P will create an additional 110 Full Time-Equivalent jobs in Dunedin. Associated with this will be an additional \$10 m/yr in value added (GDP), including \$7 m/yr of household income. The impacts may be higher if working partners of the new F & P employees also generate additional employment in the city.

### **1. The Proposed Expansion**

Fisher and Paykel propose to expand their operations, employing an additional 63 skilled people with a combined wage and salary payment of \$5.0 million per year. The company expects that other operating expenses will rise accordingly by approximately \$3.4 million per year.

The additional operating expenditure and the additional household income and spending will all boost economic activity in the region, both directly and through "multiplier" effects<sup>1</sup> as Fisher and Paykel purchases more inputs and as employees spend their household income.

### **2. Analysis Framework**

The total direct and flow-on effects on Dunedin City are estimated using a City input – output model, which can trace the wider (multiplier) effects on the Dunedin economy of an expansion of F&P activity. The results of this analysis are based on the following assumptions:

<sup>1</sup> The firms that supply goods and services to F & P and to households will themselves increase output and employment and will themselves purchase more inputs from yet other suppliers, who in turn will increase output and employment and purchases from yet more suppliers, and so on and so forth.

1. The ratio of salary expenditure : non-salary expenditure for the expanded workforce will be the same as for the existing workforce (advice from F & P);
2. Non-salary expenditure by F & P is on the same mix of goods and services which is purchased by other businesses operating in the same industry (as revealed in the regional inter-industry model);
3. The additional jobs created at F & P will not be at the expense of employment elsewhere in the region. This is consistent with the fact that typically 80 % of new F & P employees come from outside the City. Even those new employees who currently reside in Dunedin are likely to either come from other employment which then becomes available for other people to fill, or would otherwise have left the city to seek employment elsewhere.
4. New employees frequently bring family with them. The partner on occasion generates new employment in the city either by setting up their own business or by providing skills which are needed in the city but were not formerly available to employers. This additional employment has been ignored in the base case analysis, which has assumed that it will offset any loss of employment caused by new F&P employees transferring away from other jobs in the City which are not taken up by others. Sensitivity testing has considered an additional economic impact based on 10 % of the partners taking up new employment in the city at average wages & salaries.
5. Profitability in the "Scientific, Architectural and Engineering Services" sector is less than 0.5 % of turnover, with almost all value added accruing to labour, including shareholder partners, and an element of depreciation. This minimal profit is consistent with the F & P situation where the unit in Dunedin is not viewed as a profit base, but as a source of input for F & P manufacturing generally.

### 3. RESULTS

The employment of an additional 63 people directly at F & P in Dunedin will lead to the creation of an additional 45 jobs elsewhere in the Dunedin economy, leading to total additional employment in the city of approximately 110 Full Time-Equivalent jobs. Associated with these additional jobs will be the generation of \$10 m/yr in Value Added<sup>2</sup> (GDP) in the city. The vast majority of this increase in value added will be in the form of earned household income (wages & salaries) which will rise by \$7 m/yr.

Table 1. Economic Impacts on Dunedin City of Fisher and Paykel Expansion

	Direct at F & P	Flow-on in City	Total Impacts on Dunedin*
Employment (FTEs)	63 FTEs	45 FTEs	110 FTEs
Value Added (\$m / yr)	\$5.7m / yr	\$4.2 m / yr	\$10 m / yr
Earned Household Income (\$m / yr)	\$5.0m / yr	\$2.4 m / yr	\$7 m / yr
Sensitivity - Inclusion of Partner Impacts			
Employment (FTEs)	63 FTEs	62 FTEs	130 FTEs
Value Added (\$m / yr)	\$5.7 m / yr	\$5.3 m / yr	\$11 m / yr
Earned Household Income (\$m / yr)	\$5.0 m / yr	\$3.1 m / yr	\$8 m / yr

FTE = Full Time Equivalent job.

\* All rounded to indicate that these results are approximate only

If the potential economic impacts associated with working partners of new F & P employees are included, then the total economic impacts on the city of the proposed Fisher and Paykel expansion could be 130 jobs and \$11 m/yr of increased value added, including \$8 m/year of earned household income.

#### **Explanatory Note on Multipliers**

When a new business starts up, it directly employs extra people with associated earned household income. This earned income is the return to labour, and when combined with the direct returns to land and capital<sup>3</sup> in the business it becomes what is usually called value added, or GDP.

The new business also buys various inputs as well as labour, while the newly employed labour spends its additional direct earned household income on the whole range of household goods and services.

The additional demand for business inputs and household goods and services means that the further businesses which produce the extra input and the extra household goods and services also have to expand their production. With this increase in production will go an increase in employment and earned household income at those businesses and an increase in purchases of inputs. In turn this will set off a further round of increased production, and so on and so forth. The sum of these rounds of additional economic impacts are called the indirect and induced effect. The sum of the direct, indirect and induced effects is the total effect. The ratio of the total effect to the direct effect is called the economic multiplier for the industry. Hence an increase of 63 jobs at F & P is expected to lead to an additional 45 indirect and induced jobs, with total additional employment of about 110 jobs (see top section of Table 1).

The expansion of production is limited by the fact that some of the additional value added leaks from the region as savings, taxes and spending on imported inputs.

Larger regions which are more self-sufficient and rely less on imports tend to have larger multipliers than do smaller regions.

#### **Estimation of Multipliers for Fisher and Paykel**

A Dunedin City input – output economic model was generated. It was based on a New Zealand I-O model, but adjusted for the lower level of self-sufficiency in various industries in the Dunedin economy. Accounting data from Fisher and Paykel's current research operation was included in the model to create a modified "Scientific, Architectural and Engineering Services" industry.

Manipulation of the city model, using matrix algebra, enabled the calculation of multipliers for each industry including the "Fisher and Paykel in Dunedin" industry. These F & P multipliers were then applied to the expected direct economic impacts of Fisher and Paykel associated with the proposed expansion of their operations. This gave estimates of the total City-wide impacts of the expansion of F & P, as reported in the right hand column of Table 1.

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<sup>3</sup> Profit before depreciation and tax.