BEFORE THE COMMISSIONERS ON BEHAL F OF DUNEDIN CITY COUNCIL

IN THE MATTER	of Application for Resource Consent under Section 88 of the Resource Management Act 1991
BY	**NZ HORIZON HOSPITALITY GROUP LIMITED**
	LUC 2017-48 and SUB 2017-26

BRIEF OF EVIDENCE OF ANTHONY CHARLES ONSLOW TOSSWILL

GALLAWAY COOK ALLAN
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PP-994508-1-62-V4

INTRODUCTION

1. My name is Anthony Charles Onslow Tosswill. I am Director of NZ Horizon Hospitality Group Limited.

2. Personal background in the hospitality sector.

   (a) After leaving New Zealand in 1969 I moved to Australia where I spent a number of years working as a builder building residential homes and apartments in the Gold Coast and Brisbane. In the 80's I moved to Sydney where I was a hotelier. Following that I moved to Malaysia.

   (b) In the wake of the GFC I purchased an abandoned resort project in Malaysia, completed the development and operated it for 15 years. I still own the resort which is being operated by staff now.

   (c) I moved back to New Zealand in 2012, and currently reside in Tekapo.

3. NZHHG is not a hotel operator. NZHHG is a hotel developer. The role we play in this project is to match a site with a project that will produce satisfactory returns to investors, and then match that investment with a hotel operator.

4. The standard international model is that a hotel operator (brand, e.g. Pullman or Peppers) do not own the building and infrastructure, they manage the hotel under a management agreement. The hotel operator is not exposed to the capital risk of the hotel construction.

5. For this reason it is relatively easy to attract a hotel operator because the brand is insulated from the initial financial risk of the development. However the 5 star brands have very firm requirements about what they need to attract discerning guests at a satisfactory room rate.

6. The task in this case is to match a project that can achieve 3 things at once:

   (a) Can justify a room rate to attract a 5 star brand;

   (b) Will provide a return to development investors;

(c) Can be granted resource consent.

7. I will call this “the triangle”. It is easy to design hotels that can achieve any one of those things. Achieving them all at the same time, and in Dunedin, is a major challenge that no-one has achieved before.

Agreement with the Dunedin City Council

8. I first became involved when a previous designer made contact with me when talking to the Destination Dunedin departments some 2 Years Ago. That designer was working on another project for me at the time. It was explained to me that the City Council had a long term vision that the site is suitable for a 5 star hotel in Dunedin. I share that view.

9. NZHGG has entered into a memorandum of understanding with the DCC giving an exclusive opportunity to negotiate the purchase of the site, but strictly on the basis that a 5 star hotel will be achieved. If I cannot deliver on 5 stars, the deal is off and this project will fail.

Tourism in New Zealand Forecast

10. The Tourism sector in New Zealand has been experiencing significant growth in recent years. In May 2017 Ministry of Business, Innovation and Employment released document that outlines *New Zealand Tourism Forecasts 2017-2023*. I have discussed the key takeaways from the report below:

International Spend

11. Total annual international spend is forecast to reach $15.3 billion in 2023, up 52.1 per cent from 2016. Growth in visitor numbers is expected to be the main contributor to overall international spend growth, with increasing spend per trip (or visitor) also playing a significant role. Total visitor numbers are expected to grow strongly in the coming two years due to new air routes, increased capacity, better air connectivity and planned international events to be held in New Zealand.

Table 1: International tourism forecasts show strong growth in visitors and spend

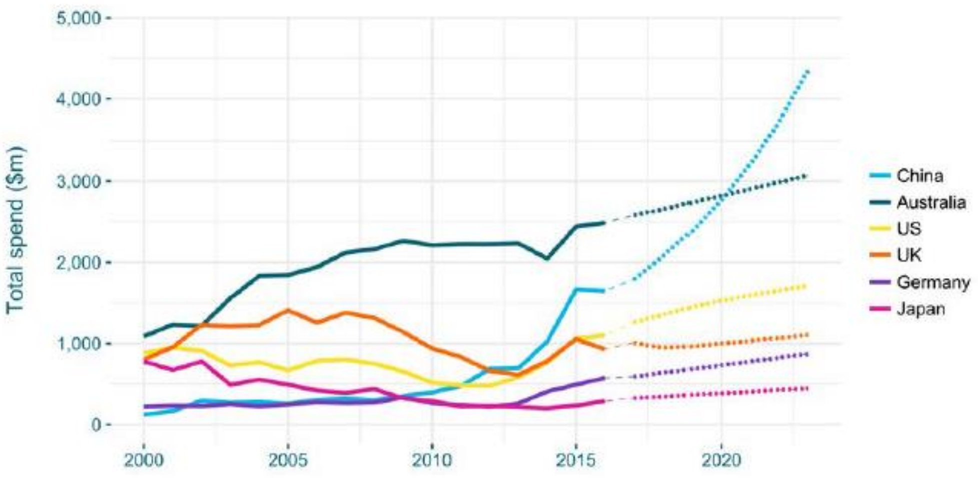
Year	2016	2017	2018	2019	2020	2021	2022	2023	Growth Total	Growth Annual[2]
Total spend ($m)	10,086	10,685	11,248	11,936	12,685	13,486	14,365	15,340	52%	6.2%
Total visitors (000s)	3,500	3,734	3,917	4,103	4,284	4,471	4,661	4,861	39%	4.8%
Total days (000s)	66,717	71,384	74,664	78,276	81,880	85,592	89,448	93,562	40%	4.9%
Spend per day ($)	183	182	184	186	189	192	195	199	9%	1.2%
Avg length of stay (days)	19	19	19	19	19	19	19	19	1%	0.1%

Growth in Visitor Numbers

12. In the medium to long term, visitor numbers are forecast to grow gradually to reach 4.9 million per annum in 2023 (refer to table 1).

13. China is expected to become New Zealand's largest tourism market by spend during the forecast period, and to reach $4.3 billion annually by 2023. These markets are expected to maintain their growth momentum in the short term and grow gradually in the medium to long term, supported by the increase in airline seat capacity and low airfare costs. Last year Chinese visitors spent almost $1.7 billion in the New Zealand economy.

Figure 2: Australia is currently our largest market by spend, but China is projected to overtake it in the near future



Source: MBIE

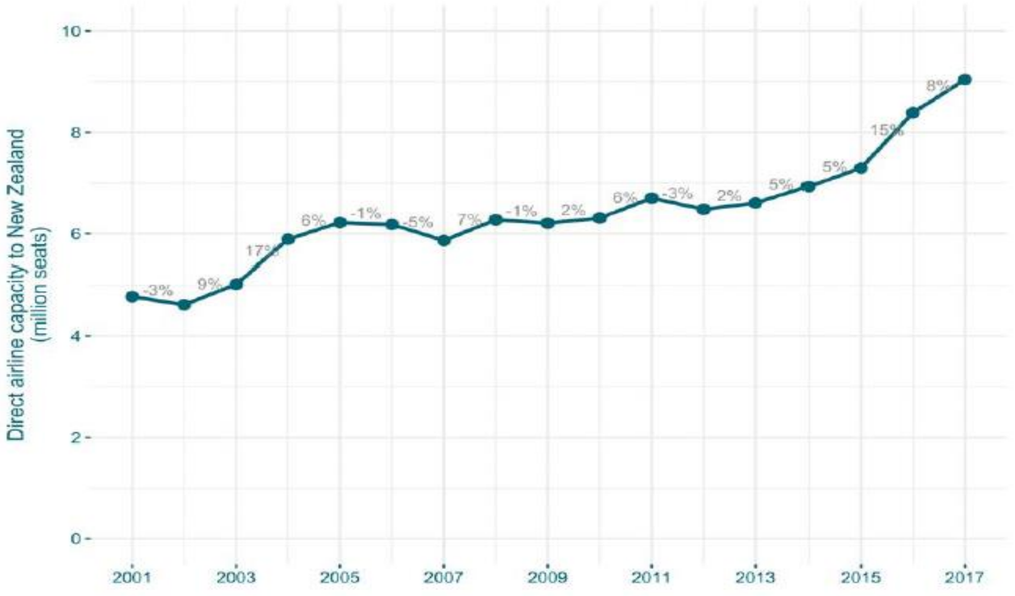
Air Capacity

14. The increase in airline connectivity and capacity is one of the key contributors to the increase in international visitors to New Zealand. The direct flight capacity is projected to continue to grow in 2017 by 8 per cent. This follows a growth of 15% in 2015-2016.

15. This growth is facilitated by increasing airline capacity and the introduction of new flight routes such as the alliance between Air China and Air New Zealand which has resulted in a daily flight from Beijing and Air New Zealand's own daily flight to Shanghai. The introduction of these two routes in 2015 increased the capacity between China and New Zealand significantly. The effect of this increase has been reflected in the growth in visitor numbers seen through 2016. These initiatives are expected to be expanded upon with 2019 to be the bilateral China-New Zealand Year of Tourism. The purpose of the year is to facilitate the two countries working together to identify opportunities for travel to each country and increase each other's readiness for tourists. In the New Zealand's context this includes initiatives to improve communication skills and adapting services to cater specifically for Chinese likes and dislikes.

16. America is the other country where considerable increases are anticipated. Once again this is facilitated by new airline routes to the United States including direct flights from Auckland to Houston and Honolulu. However, the more significant development is the alliance between Air NZ and United Airlines which enables Air NZ to leverage off United's extensive sales channels and domestic feeder services within the United States and more widely in Canada, Mexico and into Central and South America.

Figure 8: Overall direct flight capacity to New Zealand continues to grow



Source: Sabre

Commercial Accommodation Dunedin

17. Statistics NZ released the C*ommercial Accommodation Monitor: May 2017– Dunedin* Report in July 2017. This report outlined the figures in relation to accommodation in Dunedin specifically. The key points are discussed further below:

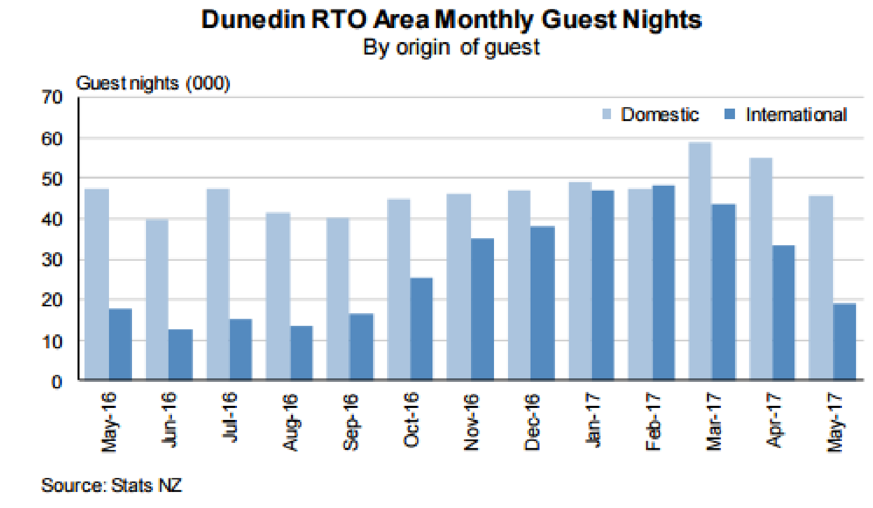
Guest nights

18. Guest nights fell 2.4 percent for the year ended May 2017 to 911,343. However, international guest nights rose 6.6 percent to 562,739. The most significant factor in these figures is that even though the total guest nights fell, international guest nights have had a significant increase.

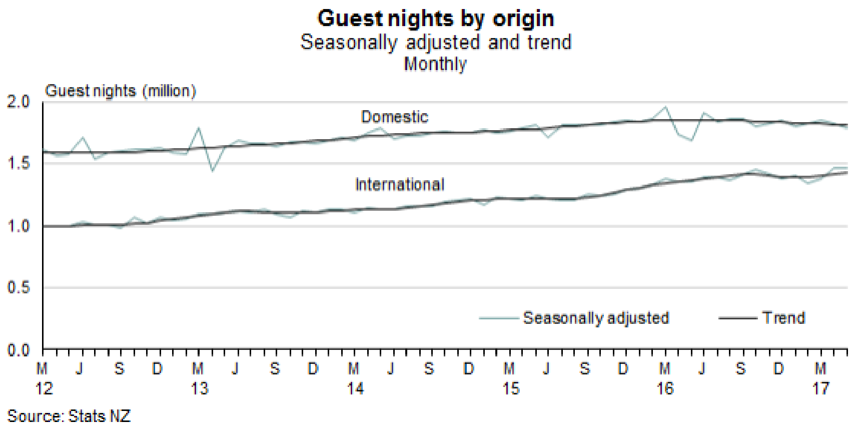
Origin of Guests

19. When compared with May 2016, the number of international guest nights spent in the area in May 2017 was up 11.8 percent to 33,370. Domestic guest nights decreased 0.1 percent, to 54,966, for the same period. Nationally, international guest nights were up 8.7 percent for the same period. This is consistent with the overall vision to cater for the international market.

Figure 3.1



20. The national increase in international guest nights is identified within the *Accommodation survey: May 2017* which identifies the ongoing trend that international guests are increasing at a faster rate than domestic guests.



21. Two things are necessary to highlight here:

(a) The guest night data reflects the City's existing accommodation offering. Dunedin is missing a whole accommodation sector: high value 5 star tourists.

(b) The trend towards international visitors playing an increasing role in the guest night data.

What is a 5 star hotel?

22. The specification of a hotel is dictated by the requirements set down by any potential hotel operator. As a developer we require assurance that an operator will be willing to endorse and put their name on the Hotel. We must have this confidence before investing in such a significant project. In short, we must meet the requirements set down within their fact sheets. Please find the example of the Pullman brand attached as **Appendix A**.

23. The Pullman fact sheet states that the brand requires a minimum of 180 keys, and further recommends 300 keys per hotel. Mantra Group Ltd has a similar expectation in a City CBD area.

24. It is also not sufficient to just provide the minimum number of rooms; they must have five star views. The only logical way to provide the required rooms with the required views is to build up. No 5 Star guest would expect to look at the back of other buildings

25. The hotel design has the guest rooms on levels 6-12. Each storey provides approximately 24-30 rooms. The combination of elevation and Thom's Craig's design delivers acceptable views to every room to attract the higher end purchaser.

What does this project need to work?

26. This project proposes, and can be no less than:

    (a) A GFA of 20,823m2

    (b) 210 hotel rooms. This may be subject to size minor refinement based on an operator's room size requirement, and could be reduced to 200 through reconfiguration of the rooms. However this will not reduce the floor space demand or number of floors.

(c) Between 36 and 54 Apartments on levels 13-15. The number depends on the finally settled apartment size which will be determined by market demand.

(d) 10 Apartments/ 4 Penthouses on level 16. subject to size change maybe only 3 Penthouses and 6 Units

27. Levels 1-5 are taken up by car parking; staff areas; reception and guest facilities (level 4); and conference rooms/business centre and art gallery (level 5).

28. In terms of the hotel economics, apart from the bar and restaurant, levels 1-5 do not earn money. They are largely a sunk cost to serve those parts of the hotel that earn revenue. A 5 star hotel requires the restaurant/bar/room service facilities to be staffed and available 24/7. This is a huge labour cost.

29. The hotel's revenue is driven by levels 6-12. This is the "engine room" of the project. At 210 rooms, I believe the room numbers provide a balance to the cost associated with levels 1-5. At these levels of the building, the marginal cost of adding floors is relatively low, but the impact of removing floors on the development's feasibility is enormous because revenue is being removed from the development but very little cost is saved. We still have to pay for floors 1-5.

30. Levels 13-16 are also very important. The apartments can be sold down individually or leased back to the hotel operator. This achieves two important outcomes:

(a) The capital raised from sales will offset the borrowing cost for the construction of the rest of the hotel. This is essential to bring rates of return within acceptable investment parameters. The dollar values for each aspect of the hotel are commercially sensitive as we are yet to go to market, however the ratios are important.

We are expecting to structure the development funding in this way:

(i)	Total development costs (%):	100%
(ii)	Commercial (bank) funding cap:	60%
(iii)	Equity to introduce	40%

This hotel operating revenue will not sustain the cost of 60% bank funding and provide a return on introduced equity at the same time. Obtaining an acceptable rate of return on equity is dependant on retiring debt as soon as possible. This will be achieved by the sale of the apartments.

On current projections, a profit is not achieved until after year 7 of operating, at which time the development is debt free through:

1. apartments sales (will account for 80% of the borrowed funds, or 48% of the development costs) and

2. repayment of the last 20% of the debt (12 % of the development cost) will be funded from hotel revenue.

We have had the apartment market values appraised externally both in Dunedin and Wellington to provide assurance that our model is sound.

What this also shows us is that from hotel revenue alone, we can support about 12% of the development cost from bank funding over an acceptable investment horizon (7 years).

Without assurance that the capital from apartment sales will enable repayment of the debt over 7 years, this project has no hope of being funded. And relatively small shifts in apartment sales will have a significant impact on our ability to retire debt over an acceptable timeframe. This is why we have not simply offered to meet concerns over the building height by reducing the number of floors of apartments.

(b) The apartments add to the Hotel's product offering in a very important way. The apartments will offer high-end VIP accommodation not currently available in Dunedin. The availability of "flagship" product is very important to the brand positioning of 5 star international operators.

31. Achieving all of these things within 20,000m2 of floor space is a major achievement. This is a feature of Thom's design in which all of the spaces are arranged around a single central core. This requires minimal "dead" corridor space and a very high ratio of exterior surface area affording wonderful views of the City, hills, and harbour. There will not be a bad room in the hotel.

Relationship with Dunedin Venues Management Limited.

32. Dunedin Venues Management Limited owns the Town Hall and the Dunedin Centre. DVML has been consulted extensively in the preparation of this project. I attach a power point presentation prepared by DVML for us to explain the potential benefits they saw in our project (**Appendix B**).

33. I believe the Dunedin Centre is one of New Zealand's premier conference venues. Within walking distance of NZ's leading medical sciences research institution (the University of Otago) and across the road from the Dunedin Centre, I believe there are major un-tapped opportunities for Dunedin to market itself as a major international conference destination, especially for medical science. At the present time, the development of that market for conferences in excess of 300 people is being ham-strung by the lack of suitable hotels in the City.

34. Typically 5 star hotels have their own conference facilities to support off-peak room utilisation. I have made the deliberate choice not to include a conference centre in this hotel design because there are fabulous facilities across the road. This has saved one whole floor in building height. There are conference/meeting rooms on the 5th floor but these are scaled at business meetings and break-out facilities (less than 100 pax) that would be used as an adjunct to conference sessions at the Dunedin Centre.

35. I am aware that DVML has elected not to play any formal role in this hearing despite the co-operation we have enjoyed to date. DVML is

understandably sensitive not to show favouritism between competing hotels in the City.

Why is this building so tall?

36. This issue goes to all corners of the Triangle.

    (a) Building height is necessary for outstanding views. Room rates are proportional to the quality of views. We need to maximise the number of rooms with excellent views in order to achieve rates that will sustain 5 stars.

    (b) A tall building is more economic to build than a short, wide building. This is because:

        (i) A tall building uses less land than a wide building, so land utilisation rates are better. We could not justify the land cost of a site twice the size.

        (ii) A disproportionate cost of building goes into things you cannot see and generate no income: earthworks, geotechnical engineering, and foundations. The bigger the building footprint, the more those things cost.

        (iii) Building services are most economic to arrange around a central core that can serve the whole hotel: lift shafts, waste, water, fire stairs and so on. A long low building is very hard to service economically. Thom Craig's design is an absolute model of efficiency in that regard.

    (c) In preparing this design, the team went through a number of different design options. We were very conscious that the hotel would be blocking the views of the City to some people on City Rise to the North-West of the site. We were never going to be able to preserve views over the building for people who live close, so preserving views around the building as much as possible seemed the best solution. We felt that a tall, slender building would block the views from fewer properties than a shorter, wider building.

37. All of these issues came together in Thom's design in a way that I am very pleased with, and am confident can be delivered. It should also be clear that modifications will have consequences that will threaten all corners of the Triangle.

Anthony Tosswill

17 July 2017

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BRAND POSITIONING

- **Rating:** Contemporary Edge International 4 stars
- **Segment:** Upscale
- Non Standardized brand

CUSTOMER PROFILE

- Business 55% / Leisure 45%
- Domestic 34% / International (Global & Regional) 66%

BRAND IDENTIFIERS

- The Welcomer Service
- Connectivity by Pullman
- Contemporary Art & Design concept
- Comfort by Pullman bedding
- C. O. Bigelow amenities in the room
- Co-meeting offer
- CuisinMotion & Vinoteca F&B concepts
- Innovative Fit&Spa lounge

BRAND REQUIREMENTS

- **Minimum number of keys:** 180
- **Recommended number of keys:** 300
- **Room size:** Flexible from 27 to 35 sqm
- **Total gross floor area:** from 60 to 75 sqm per room on average
- **3 main room types:** Superior, Deluxe and Suites

BRAND PRODUCT & SERVICE FEATURES

	Must have	Nice to have
Breakfast room	✓	
Restaurant(s)	✓	
Room service	✓	
Bar	✓	
Meeting rooms	✓	
Ballroom	✓	
Business centre	✓	
Fitness	✓	
Pool		✓
Spa		✓
Car park	✓	

BRAND DEVELOPMENT

	Key destinations Cities & Resorts	Major domestic destinations	Smaller cities & attractive touristic destinations
Prime locations	✓	✓	
Secondary locations	✓		
Airports / Suburbs	✓		

BRAND NETWORK & PIPELINE

	Supply hotels	Supply rooms	Pipeline hotels	Pipeline rooms
Europe	31	8,280	4	804
Asia Pacific	59	17,446	44	12,306
Americas	4	1,086	1	150
Africa/Middle East	12	4,052	3	1,104

PULLMAN SUPPLY

- **106** hotels
- **30,864** rooms
- **28** countries

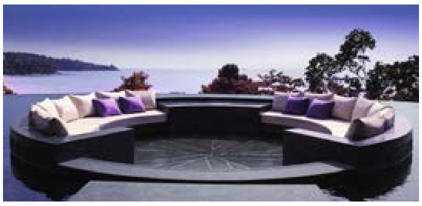
PULLMAN PIPELINE

- **52** hotels
- **14,364** rooms

TOP 5 FLAGSHIPS TO VISIT

London St Pancras, UK

Paris Tour Eiffel, France



Phuket Arcadia Naithon Beach, Thailand

Sydney Olympic Park, Australia

São Paulo Ibirapuera, Brazil

TOP 5 LATEST OPENINGS

1. **The Park Lane,** Hong Kong, China
2. **Shanghai South,** China
3. **Dubai Deira,** UAE
4. **Phuket Arcadia Resort,** Thailand
5. **Sao Paulo Ibirapuera,** Brazil

Figures: estimated supply by end of 2015 and estimated pipeline by early 2016.

Appendix B

DUNEDIN CENTRE

DUNEDIN VENUES

Business Events Conferences and Incentives

DUNEDIN CENTRE FACILITIES

- The Town Hall
- The Glenroy Auditorium
- The Glenroy Extended Foyer
- The Fullwood Room
- Conference Room 1
- Conference Room 2
- Chester's Lounge
- Breakout spaces

DESTINATION ADVANTAGES

- We have a state of the art conference centre – The Dunedin Centre
- The City Centre is compact
- Perceived to be edgy and distinctive
- Takes a collaborative approach – everyone works together
- Cost Competitive, offers value for money
- Access by air has improved domestically
- Brisbane as a “hub” for Australian market
- Is a link to our rural destinations
- Dunedin is perceived to be off the beaten track
- It has the perfect backdrop for recreational activities and wildlife
- Dunedin's undiscovered
- The Stadium and events it attracts

DESTINATION CHALLENGES

- The Dunedin Centre branding recommendation that the is a rebrand to Dunedin Conference Centre and Town Hall
- Flight access from Australia
- Mixed messages with its branding, what is our message and why bring your business event to Dunedin?
- Where is Dunedin?
- No five star hotel - attracts high end corporate and incentive business
- We have a five star conference facility that should be complemented by a five star hotel

DVML COMPETITIVE ADVANTAGE

- We take the lead
- Portfolio of venues – the best venues, location, size and variety
- Dunedin Centre Grand Elaborate Style
- State of the Art Conference Complex
- Conference and Exhibition Space combined
- Cost effective
- We offer a multitude of services to a client or a customer
- Destination Management Services
- Versatility
- Relationships
- Event Delivery
- Fresh Focus

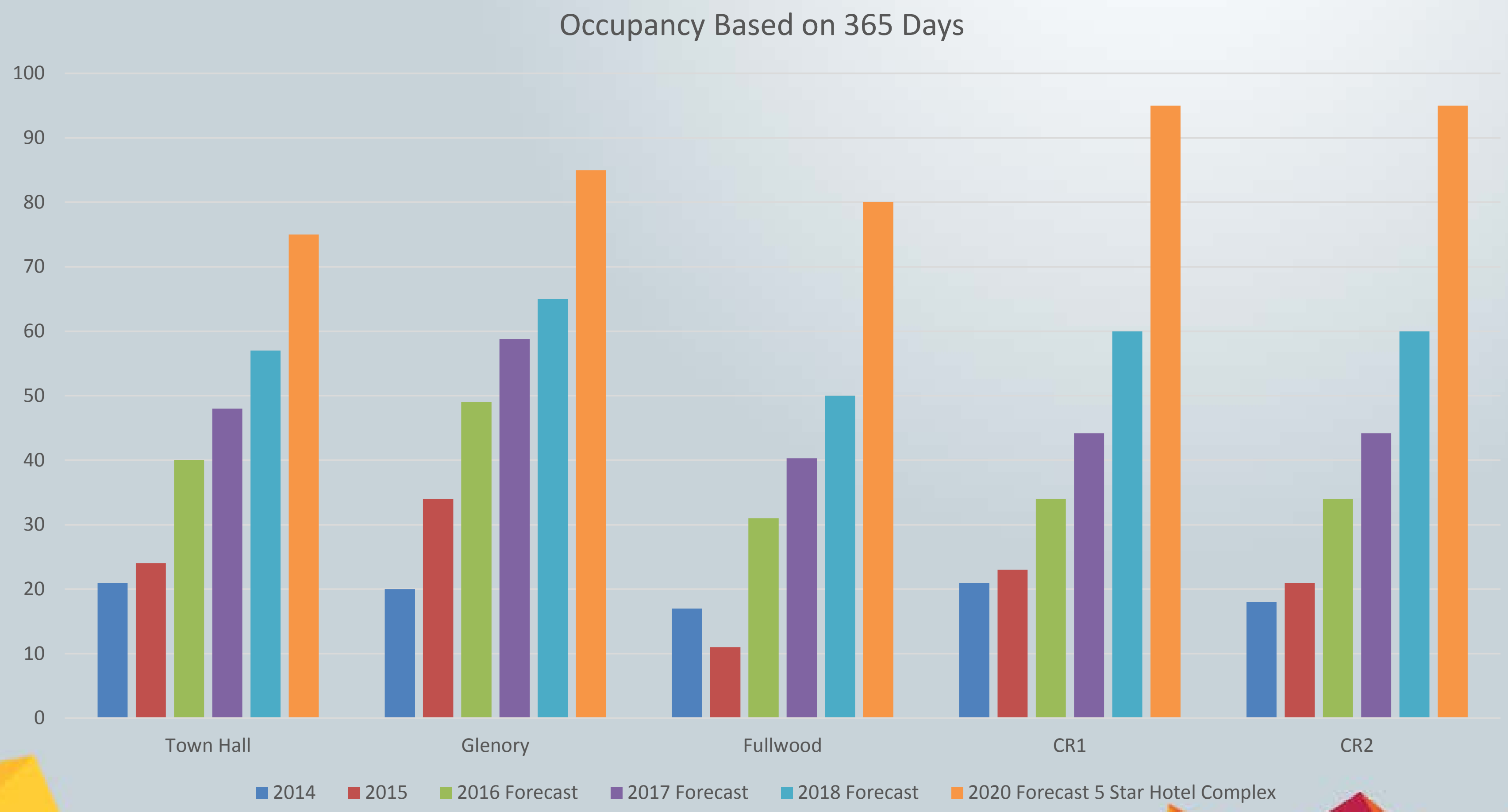
CUSTOMER FOCUSED CULTURE

- We create an experience in conjunction with our client
- We set realistic customer expectations and then not just meet them exceed them. In unexpected ways.
- Our product is fresh and real
- Our product is cutting edge
- We refine our operating model to enable client satisfaction for pre event communication
- We align technologies and processes to support and drive key partnerships (Strawberry/Compass)
- We create something we are proud of
- Incorporate and encourage customer feedback into processes and behaviours

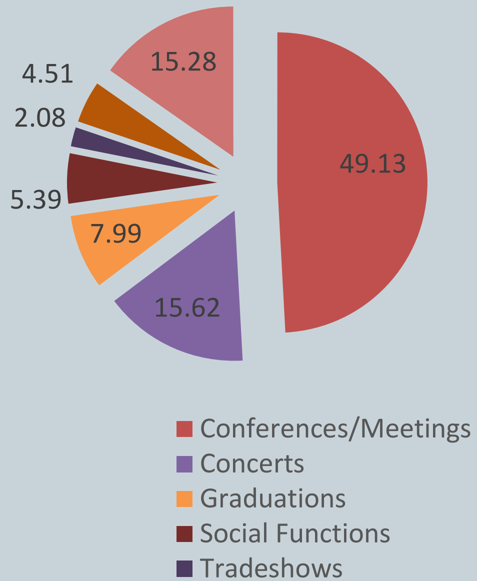
BUSINESS EVENTS FOR DUNEDIN

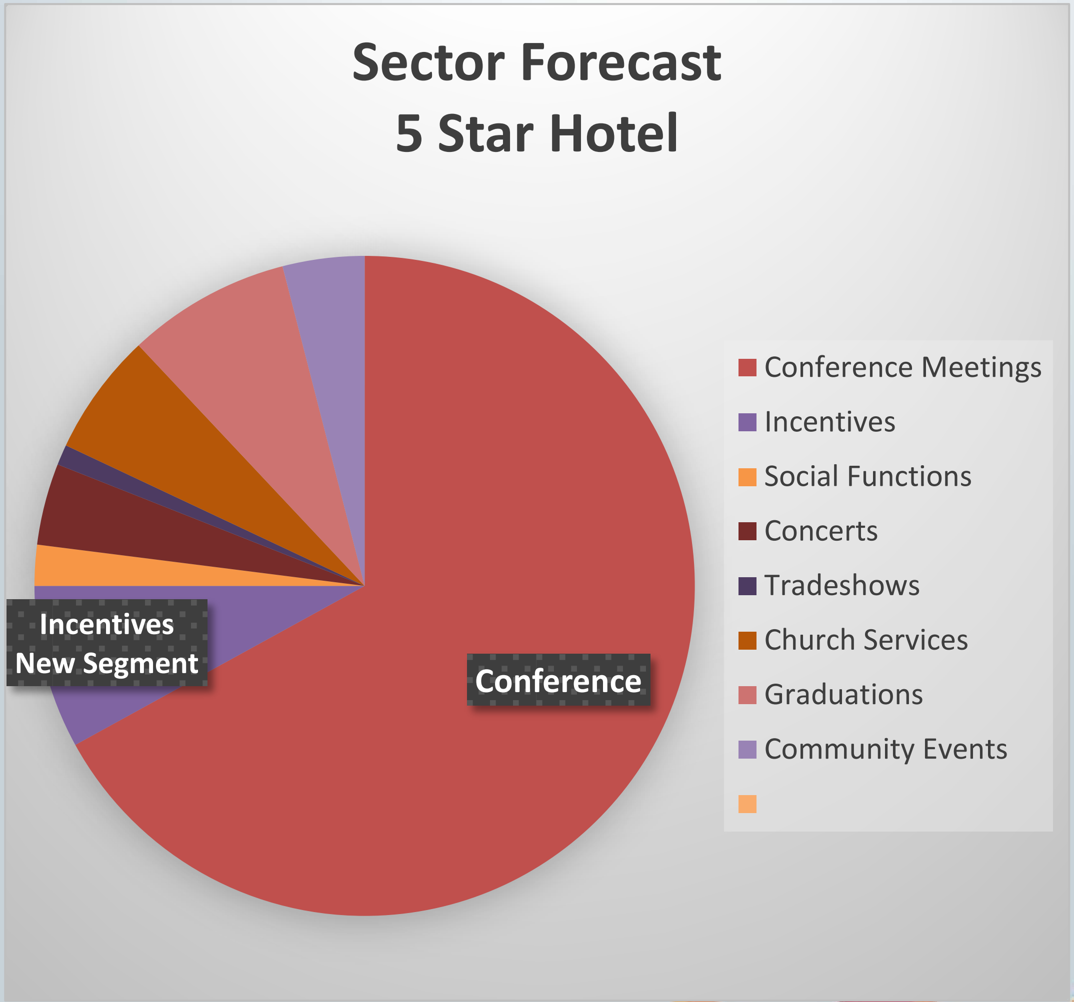
- Year Ended December 2012, Delegate Days 87,558
- Year Ended June 2015, Delegate Days 147,972
- Market share increased from 2% in 2012 to 4% as of June 2015 with a likely increase in the not too near future.
- Dunedin has now surpassed Queenstown with their share being 3%
- YE June 2015 business events contributed approx. $55m to the Dunedin economy

Occupancy


Occupancy Based on 365 Days
100
90
80
70
60
50
40
30
20
10
0
Town Hall
Glenory
Fullwood
CR1
CR2
2014
2015
2016 Forecast
2017 Forecast
2018 Forecast
2020 Forecast 5 Star Hotel Complex

RESULT BY SECTOR 2015





SUMMARY

- Continual growth in occupancy with a goal of three large conferences per month from April to November
- Growth in large conferences which continue to drive revenue and profitability
- Concerts and Social Functions generate strong returns
- The conference season is expanding with 2016 season beginning in February
- The meeting business is sound throughout the year with potential to increase this sector through local, domestic and international business
- Graduation Ceremonies drive revenue into our low conference month of December
- Community Events now slightly more profitable with the inclusion of The Community Access Fund
- Improvement of cross selling between Dunedin Centre and FBS