

Panuku Development Auckland
Quarterly Report
Quarter ended 30 June 2018

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1. Executive summary

As we head towards our third birthday, we look back with pride on what we have achieved during the year to build a strong platform, enabling Panuku to move from planning to implementation across our priority locations.

We have secured funding for the re-development programme in Council's Long Term Plan. A key component of this is the reinvestment approach where funds from property sales are ring-fenced and used to fund public good projects across priority locations.

A growing focus of our work is supporting the Council in its interactions with the Government to advance shared urban development and housing objectives, such as enabling KiwiBuild homes and the Auckland Housing Programme. Panuku is also working closely with the government in our Manukau Transform location, using lessons learnt and applying these in other locations.

A core tenet of redevelopment done well, is ensuring new neighbourhoods are healthy and resilient, making sustainability a key consideration. Panuku has adopted a minimum sustainability requirement of 6 Homestar for residential development and has implemented it in two developments. These are the developments with Avanda at Hobsonville and the development for older people at Henderson Valley Road.

A number of housing projects across its priority locations have been significantly progressed, some have been completed or are close to completion.

Panuku has also exceeded two of its significant targets in the SOI which are asset sales and return on managed portfolio.

While there's no denying there's still plenty of work to do, we believe Panuku is in a strong position to deliver and make a real difference by catalysing urban development across Auckland.

2. Strategic issues and focus areas

Working with Central Government

Panuku continues to support the Council in its interactions with Central Government on KiwiBuild and on the Auckland Housing Programme. A KiwiBuild Working Group has been established and is working on a number of immediate and medium term opportunities for KiwiBuild homes to be part of the housing mix in our locations. Under KiwiBuild- Central Government underwrites developments at an affordable range within agreed typology. This helps to speed up development otherwise dependent on market pre-sales and may enable more intensive housing projects.

Panuku is participating in the NZTA-led Light Rail Transit route investigation and is working with Auckland Transport, Homes Land Community and Auckland Council to ensure the urban redevelopment objectives are optimised.

The Panuku and MBIE led joint Crown-Council steering group had its first meeting on 23 May and the next meeting will be mid-July. The steering group's output will be a combined Programme Business Case in late October which will consider potential packaging and sequencing of Crown and Council activity in the Transform Manukau project area. There have been several workshops at a working group level to discuss early activity and inform the steering group meetings.

Panuku has been asked by Minister Twyford to undertake feasibility on major acquisition of sites in the Henderson town centre and development of a shared space/street upgrade to support mix use of KiwiBuild, market housing and retail. The intention is to produce a business case and we are currently assessing the realistic timeframe for this complex work.

Climate change/ Sustainability

Panuku has set a minimum sustainability requirement of 6 Homestar for residential development in its Transform and Unlock locations. It has worked with the NZ Green Building Council to customise the Homestar tool in collaboration with other CCOs and Council. The first homes to gain a 6 Homestar Design rating under Panuku's custom tool were the stage two homes to be built by Avanda at Hobsonville.

Panuku also attained a 7 Homestar Design rating for the 40-unit development for older people in Henderson Valley Road, to be managed by Haumarū, the joint venture with the Selwyn Foundation. This was the first time Homestar was used to recognise innovation in social housing, cost benefit analysis, and application of Te Aranga design principles.

In May Panuku became the first organisation globally to be pre-awarded credits under Green Star Communities, an international rating tool to guide sustainable precinct planning and delivery. Panuku is now aligning the sustainability framework with its priority locations to assess which areas will best benefit from a formal Green Star Communities rating of 4 – 6 stars.

Panuku has also explored opportunities for innovation, most notably through taking part in C40's Reinventing Cities initiative. C40 is a network of global cities which collaborate on responses to climate change. Under Reinventing Cities, Auckland nominated two sites in Henderson for international bids to design and develop them with a zero carbon aspiration. Designs were invited to redevelop two Henderson carparks as part of the global C40 initiative to encourage low carbon development. Bids were received from local and international design teams. These are being shortlisted, prior to the Request for Proposals stage opening in September 2018.

Development sites

Panuku and Auckland Transport (AT) are currently working together to progress key opportunities to deliver high-quality integrated development as well as transport infrastructure.

Both organisations are primary contributors to the Auckland Plan transformational shift to 'radically improve the quality of urban living'. A key aspect of improving the quality of urban living is delivering high-quality integrated development. Two tranches of work

are being progressed currently; the first is the potential to develop current transport service assets such as Park and Ride sites across the region. This will largely be the sale of the airspace above a transport service asset for residential development. There is potential for intensive mixed use/ housing opportunities on and around these transport assets.

The second tranche of properties are those development opportunities located within the Panuku priority development locations near transport facilities. Panuku is mandated by council to implement development opportunities on council owned land within these locations.

3. Highlights for the year

Over the year, Panuku achieved the following project milestones and business results:

Waterfront

Panuku has partnered with Willis Bond to deliver a total of 500 homes in Wynyard Quarter over several stages, the first of which – Wynyard Central Pavilions is now complete. The first residents of the Wynyard Central Pavilions moved in around December 2017, marking a major milestone in the redevelopment of the Wynyard Quarter. This stage of the development offers a total of 113 residencies comprising of 25 free-stranding pavilions, 8 townhouses and 80 apartments with retail space on the ground floor.

The five-star Park Hyatt hotel overlooking Viaduct Harbour is taking shape with the façade of the 195-room hotel being wrapped around the seven-storey building. The hotel is due to be completed in May 2019.

The carparks were removed from the Eastern Viaduct in March 2018 allowing the area to be better used as a public space.

An agreement was reached with Orams in June 2018 to develop a new marine refit facility at the Waterfront. The proposed development will feature a superyacht haul out facility for vessels up to 620 tonnes and is part of the ongoing commitment to retain a vibrant marine industry in the area.

More than two million people were recorded to have visited the city waterfront In the 2017/18 financial year.

City Centre

Panuku has worked closely with the selected developer for the Civic Administration Building to address the complex requirements that need to be met to enable the conversion of the Civic Building to residential use, and the development of the surrounding land to commence. The planned scheme will deliver 190 housing units and a new hotel. In June 2018 the project was close to becoming unconditional with a construction start expected by second quarter of the 2019 financial year.

Onehunga

Panuku reached an agreement with the Ports of Auckland in June 2018 for the purchase of the Onehunga Wharf from Ports of Auckland. This will be critical to the revitalisation of Onehunga over the next 30 years. The vision for the wharf is that it will be transformed into a new community with homes, cafes, retail and public space, while retaining its seafaring history and spirit.

Manukau

Development Agreements have been entered into with two limited partnerships for the residential development of the council land at 20 Barrowcliffe Place in May 2018. One partnership is led by the New Zealand Housing Foundation and the other by Te Ākitai Waiohū. The overall development will deliver over 300 new homes of which the majority will be affordable for owner occupation or rental. The developers are exploring various options to introduce shared ownership models and possible KiwiBuild support.

Avondale

Significant progress was made on three strategic sites in the Avondale town centre.

- **1 Trent Street** - 33 housing units were completed in March 2018 on a site sold to our development partner the NZ Housing Foundation. This property was registered as one of the earliest Special Housing Areas. The housing units range from 3 to 5 bedrooms, 75% of which are part of NZ Housing Foundation's shared equity home ownership model.
- **96 Saint George Street** – This site was sold to Housing New Zealand in April 2018 for the development of state houses. It was combined with a Housing New Zealand site. The project will yield 102 housing units, comprising of 26 one bedroom, 62 two bedroom and 14 three bedroom apartments around two and five storeys high. This is a significant increase compared to the 10 houses on the current site. Civil works is near completion and construction is expected to start early 2019 and completed late 2020.
- **24-26 Racecourse Parade** - The development of 72 housing units by our development partner Ockham is expected to be completed by August 2018 and will comprise 10% affordable housing.

Takapuna

A "change of use" for 40 Anzac Street in Takapuna was granted by Auckland Council's Planning Committee in March 2018, meaning the site can be used for purposes other than car parking. The decision paves the way for the site to be developed into a town square in the heart of Takapuna. Extensive engagement continues to help identify development outcomes that are beneficial to the wider community including business and residents.

Henderson and Haumaru Housing for older people

In early August 2017 a plan to develop 40 new housing units for older people at 33 Henderson Valley Road was given the go ahead and gained resource consent. This

project forms part of a wider Panuku remit to redevelop the Haumaru portfolio to better meet the needs of tenants. With the building consent approved and a contractor engaged, the construction commenced mid-2018. The first tenants are expected to move in by late 2019.

Ormiston

Ormiston Town Centre at Flatbush is a multi-stage development undertaken in partnership with Todd Property Group to build a new town centre and residential housing. This development covers an area of 129,222 sqm divided over 11 blocks.

Sixty three housing units were completed in quarter 2 of 2017 on blocks A, B and C, a mixed development comprising of residential and commercial properties.

Construction commenced in December 2017 on 66 residential dwelling units and a medical centre on Block E. Once completed, this will take the total number of completed homes to 129.

On a separate but related development at 66 Flat Bush School Road near the Ormiston Town Centre, with the Todd Group. Construction started on 91 housing units in November 2017 for stage 1 of the development where 369 housing units is planned for the entire site. This will comprise of 215 apartments and 154 terrace type housing units.

Hobsonville

A 20 hectare Council-owned site in the heart of Hobsonville Point is being transformed into a new residential and mixed use development called the Airfields. Around 14 hectares is being developed into housing, with a mix of housing types to promote a diverse residential community and six hectares of land is proposed to become a mixed use area. The Airfields precinct has been designed to integrate into the wider Hobsonville Point and Scott Point developments, and is divided into six “megalots” with a minimum of 890 dwellings.

- Megalot One - AV Jennings was confirmed in April 2016 as the development partner to develop 102 homes of which 10% will be affordable. Forty two homes have been completed by end of June 2018.
- Megalots Two, Three and Four - The Avanda Group was confirmed in February 2017 as the development partner for the second stage 2 of the Airfields precinct, also known as Top Garden. The development will include a minimum of 510 homes of which of which 10% will be affordable. Top Garden housing units are the first to gain a 6 Homestar design rating. Prior to housing construction, infrastructure works are currently underway to develop key roading networks which are Wallace Road, Waka Moana Drive and Commanders Avenue. Housing construction is targeted to start in late 2018.
- Megalots Five and Six – These megalots are planned to be developed as mixed use, with a view to creating employment and a minimum of 288 homes.

Papatoetoe

A number of tenants have moved into the upgraded Old Papatoetoe Mall which is almost complete. The refreshed mall has new spaces for retailers and a medical hub.

Support locations

The construction of the first homes at 20 Link Crescent Stanmore Bay started in January 2018. Panuku is working with McConnell Property on the Mariner Rise subdivision which will deliver 60 housing units, comprised of two, three and four-bedroom terrace and standalone homes on what was an empty site. Building consent has been obtained and construction is underway on 18 of the 60 Homes.

High Level Project Plans

The plans to redevelop Avondale, Panmure and Papatoetoe town centres were approved by the Planning Committee during the 2017/18 financial year.

Property acquisitions

Panuku acquired 25 properties worth \$38.7 million on behalf of council and for Panuku projects. These properties will help the council deliver important projects including open space and stormwater.

Property Disposals

Panuku also completed 24 unconditional property sales generating net proceeds of \$231 million which was above the SOI target of \$100 million.

Property Management

Panuku provided Council a return of \$31m from the Council's property portfolio it manages in the 2017/18 year, \$3.9m above the annual SOI target.

4. Future outlook

Programme delivery

Panuku's main focus in the 2018/19 year will be on delivering project outcomes and operational targets contained in the first year of the 2018-28 LTP, which will contribute to achieving the long term outcomes contained in the Auckland Plan.

America's Cup

Panuku will continue its support of the America's cup project working with the Wynyard Edge Alliance in areas such as a resource consent, relocation of existing tenants to ensure the start of base construction, planning for the event and other.

5. Key deliverables

The key projects currently being delivered are:

| Deliverable | \$'000 YTD CAPEX/ OPEX Actual | Completed/ carry over to next quarter/ deferred | Status | Comments |
|----------------------------------|---|---|---|---|
| TRANSFORM | | | | |
| <i>Transform Manukau</i> | \$1,456k (OPEX) \$1,742k (CAPEX) | carry over to next quarter |  | <ul style="list-style-type: none"> • 20 Barrowcliffe: A 5ha site to be developed for approximately 300 new homes, the majority of which will be affordable. New Zealand Housing Foundation have commenced earthworks to form the super lots. • Putney Way stage one: Transforming the road into a pedestrian friendly main street. Practical Completion was achieved for the first street portion in June 2018. The balance of works left is for the streetlights. • Advancing discussions with Scentre Group on masterplanning of shopping centre site. • Regular place activation activities have continued in the town centre including Ko Puanga lights and the Manix mid-winter markets. • Manukau Plaza and Karoro Court improvement works - project initiation was approved in July 2018. |
| <i>Transform Onehunga</i> | \$836k (OPEX) | carry over to next quarter |  | <ul style="list-style-type: none"> • Onehunga Dressmart precinct project is at initiation phase. A Memorandum of Understanding has been signed and the design phase is underway. • The Onehunga Frame work plan has been launched online in July 2018. • A Local Board resolution for the Municipal Precinct : Community |

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|--|-------------------------|-----------------------------------|---|---|
| | | | | <p>Facilities has approved the community needs assessment. Its intention is to look at consolidating the community centre.</p> <ul style="list-style-type: none"> • A final carpark management plan has been confirmed. |
| <p>Transform Wynyard Quarter – (Public Projects)</p> | <p>\$8,002k (CAPEX)</p> | <p>carry over to next quarter</p> |  | <ul style="list-style-type: none"> • Work continues with Healthy Waters and Watercare on the Skypath project. • Westhaven Marine Village: Marketing and design works are progressing. • Vos Shed Restoration: Detailed design is continuing and construction procurement is commencing. The building consent process is well advanced. |
| <p>Transform Wynyard Quarter – (Capital Projects)</p> | <p>\$3,799k (CAPEX)</p> | <p>carry over to next quarter</p> |  | <ul style="list-style-type: none"> • Precinct Stage 2: 10 Madden Street (office buildings): Panuku has approved the development design. • Fu Wah / Park Hyatt Hotel: construction is progressing with facade and fit-out works. On track for completion in May 2019. • Willis Bond Stage 1 Wynyard Central (Site East 2): The apartments and townhouses are targeted for completion by mid August 2018. Residents to move in shortly afterwards. Willis Bond have confirmed that both practical completion and code of compliance have been achieved for Wynyard Central. Settlements are starting soon. • Willis Bond Stage 2 - 30 Madden Street (Site West 1): Stage 1 construction commencement is forecast for August 2018; subject to achieving the required pre sales threshold. This is a residential development with 90 housing units. • Wynyard Central East-West Pedestrian Street: Practical completion was achieved on 22 June 2018. The formal opening of the street took place on 29 June |

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| | | | | 2018. |
| UNLOCK | | | | |
| Panmure | \$375k (OPEX) | Carry over to next quarter |  | <ul style="list-style-type: none"> Stakeholder engagement with strategic partners and community groups have been established and initial meetings took place in early July. Panuku is building a strong working relationship with the Auckland Manukau Eastern Transport Initiative (AMETI) team. A community engagement site is being developed for the Community Hub and Streetscape upgrade projects. A 3 year work programme was presented to Mana Whenua and endorsed at the Local Board business meeting in May 2018. |
| Avondale | \$356k (OPEX) \$159k (CAPEX) | carry over to next quarter |  | <ul style="list-style-type: none"> The Programme Business case was signed by Board in June 2018. |
| Henderson | \$ 581k (OPEX) \$ 225k (CAPEX) | carry over to next quarter |  | <ul style="list-style-type: none"> Panuku and Crown collaboration feasibility study is underway. Two C40 development sites, a climate change initiative : Panuku has short-listed 5 finalist to progress to request for proposal phase. |
| Takapuna | \$365k (OPEX) \$635k (CAPEX) | carry over to next quarter |  | <ul style="list-style-type: none"> Gasometer development site went to market on 5 July 2018. The R78 and 72A sites on Hurstmere Road was approved for release by the Auckland Transport Board in May 2018. Community engagement has been completed to investigate options for the public realm and development layout on 40 Anzac Street and 30-38 Hurstmere Road. |
| Hobsonville | \$4,655k | carry over |  | <ul style="list-style-type: none"> Settlements by AV Jennings (Stage |

| | | | | |
|--|--|----------------------------|---|--|
| | (CAPEX) | to next quarter | | <p>1; 102 dwellings) is still ahead of schedule. Final settlement is due 4th October 2018.</p> <ul style="list-style-type: none"> Acquisition of Block 14c land will be amalgamated into mega lot 5 to enable development. Section 127 of the Resource Management Act has now been approved enabling the subdivision of Mega Lot 6 to proceed ahead of Mega Lot 5. |
| Northcote | <p>\$1,235k (OPEX)</p> <p>\$14.2M (Total SDF spend on ground leases)</p> | carry over to next quarter |  | <ul style="list-style-type: none"> Work on the Programme Business Case is essentially completed, but we are awaiting outcome of the current commercial partner negotiations before it is finalised. Currently exploring funding options with potential master developers. Nine out of 32 ground leases have now been acquired. Another is under contract and due to settle in August. |
| Ormiston <i>(Partner: Todd Property)</i> | <p>(\$139k) (CAPEX)</p> | carry over to next quarter |  | <ul style="list-style-type: none"> Lot 1 Flat Bush School Road works completed and titles for 30 lots and subsequent housing are being monitored as a condition of sale. Lot 3 – Sale has been declared unconditional . Subdivision consent applications for Lot 4 and 5 were lodged with Council in May 2018. |
| Haumarū | <p>\$172k (OPEX)</p> <p>\$2,534k (CAPEX)</p> | carry over to next quarter |  | <ul style="list-style-type: none"> Relationships with the Ministry of Business, Innovation and Employment (MBIE) and Housing New Zealand are being established to build the foundations of future commercial opportunities with Panuku within the portfolio. Lot 2, 21 Henderson Valley Road went to market in July 2018 . |
| Papatoetoe | <p>\$3,031k (CAPEX)</p> | carry over to next quarter |  | <ul style="list-style-type: none"> Papatoetoe mall refurbishment stage 1 and 2 were completed 4 May 2018. Supermarket closed for refurbishment 30 March 2018 The design of the town square is being reviewed. |

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| | | | | <ul style="list-style-type: none"> • Foodstuffs started supermarket construction in July 2018. The supermarket is planned to open in March 2019. |
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5.1 Key deliverables for next quarter

| Deliverable | Comments |
|--|--|
| TRANSFORM | |
| <i>Transform Manukau</i> | <ul style="list-style-type: none"> • Putney Way Road Stage 1: Complete streetlights. • Crown Liaison: Crown negotiating engagement with Beca to prepare Joint Programme Business Case • Place activation activities will continued in Manukau areas • Negotiating Easement agreement with District Health Board (DHB) for Panuku to form public access along the Puhinui Stream • Continue work on the commercial property land development strategy. |
| <i>Transform Onehunga</i> | <ul style="list-style-type: none"> • A business case for Onehunga Dressmart Precinct will be presented in September 2018. • The Laneways business case August 2018. • Waiapu Lane precinct design underway with Progressive Enterprises Ltd. |
| <i>Transform Wynyard Quarter</i> | <ul style="list-style-type: none"> • Continue to support integration with the America's Cup programme. • Fu Wah / Park Hyatt Hotel: Practical completion expected in May 2019. |
| <i>Transform Tamaki – Panmure</i> | <ul style="list-style-type: none"> • Business case for the sale of 3 Mountwell Crescent approved. |
| UNLOCK | |
| <i>Takapuna</i> | <ul style="list-style-type: none"> • Preliminary design is continuing on the Gasometer car park. Construction expecting to commence October 2018. • Gasometer car park – Outline Plan of works will be lodged with Council in August |
| <i>Avondale</i> | <ul style="list-style-type: none"> • Avondale Central: 1909-1949 Great North Road expected to go to market in October 2018. A residential /retail site with up to 150 housing units. • 24-26 Racecourse Parade (Ockham): practical completion expected August 2018 (72 houses) |
| <i>Hobsonville – Airfields</i> | <ul style="list-style-type: none"> • Release of retentions for the contract works due in late August 2018. |

| | |
|--|---|
| Northcote | <ul style="list-style-type: none"> Continue with acquisition of strategic leasehold interests in the town centre. |
| Ormiston <i>(Partner: Todd Property)</i> | <ul style="list-style-type: none"> Residential Block (Block HL) Civil works underway with estimated completion in late 2018. Town Centre Block (Block F&J) estimated settlement in July 2018. This is the main retail block for Ormiston Town Centre. It does not have a residential component. |
| Haumaru | <ul style="list-style-type: none"> Continue to work with Housing New Zealand around commercial partnership opportunities within this portfolio. Draft business cases for sale of sites where the sales receipts will be reinvested into the portfolio for future housing for older people residential developments. Lot 2, 21 Henderson Valley Road to enter into a conditional contract by the end of August. |
| Papatoetoe | <ul style="list-style-type: none"> Car park upgrading works to be tendered on 16 July with work to commence in September 2018. |

6. Development budget and Strategic Development Fund

6.1 Development budget

Annually council approves a budget (before deferrals) sourced from property sale proceeds to cover investigatory activities and value-adding capital works on properties prior to development or sale. The 2017/18 budget has been split between \$7.3m for operational expenditure (includes inflation) and \$4.0m for capital expenditure.

| \$000 | Full year Budget | Forecast | Committed to projects | Actual Expenditure | |
|-----------------------------------|------------------|----------|-----------------------|--------------------|-------|
| Development Expenditure | | | | | RAG * |
| Development capital expenditure | 3,987 | 1,352 | 1,352 | 1,193 | |
| Development operating expenditure | 7,344 | 7,777 | 7,777 | 6,069 | |

The committed capital expenditure of \$1.3m relates to value add activities for 16 projects. These include site decontamination, building demolition, subdivision, preliminary design, vendor due diligence and infrastructure such as water reticulation.

Committed operating expenditure to date relates to 26 projects and includes High Level Project Plans and Framework plan work not capitalised.

6.2 Strategic Development Fund

| \$000 | Cumulative SDF spend to date | Full year Budget | Actual Full year | Comments | |
|---|------------------------------|------------------|------------------|---|-------|
| Strategic Development Fund (SDF) | | | | | RAG * |
| Development capital expenditure | 55,494 | 36,764 | 21,324 | The Panuku Board approved the acquisition of strategic properties and sites in Northcote, Avondale, Hobsonville, Mt Wellington and Onehunga that will contribute to the activation of the areas and support regeneration of the town centres. | |

The Strategic Development Fund is available for land acquisition and capital improvements for sites which will benefit from short to medium term investment and return both financial and non-financial outcomes.

7. Financial performance

The following tables and section provides an overall financial summary covering all Panuku Development Auckland's activities.

7.1 Operational

For the quarter ended 30 June 2018

| \$'m | Budget Full Year | Actual Full Year | Variance Full Year |
|---|------------------|------------------|--------------------|
| Operational | | | |
| Revenue/External funding | 36.4 | 36.1 | (0.3) |
| AC funding | 44.1 | 26.1 | (18.0) |
| Expenditure excluding depreciation | 49.0 | 43.2 | 5.8 |
| Fair value decrease / (increase) on investment property | - | 1.6 | 1.6 |

| | | | |
|--|------|-------|-------|
| Depreciation | 10.8 | 7.6 | 3.2 |
| Tax | - | (1.7) | 1.7 |
| Net Surplus/(Deficit) After Tax | 20.7 | 11.5 | (9.2) |

*RAG Status:

- Green** - Performance on target or better
- Amber** - Target may not be met, corrective action taken
- Red** - Target may not be met, action required

The Net Surplus After Tax is (\$9.2m) less than budget.

Revenue and External funding was (\$0.3m) behind budget due to the following;

- a. (\$2.0m) less in recharges of Panuku staff to capital budgets, acquisitions and disposals of Council properties and development opportunities. This is linked to reduced acquisition and disposal costs and capital projects being behind timetable.
- b. Marina income is ahead of budget \$1.2m due to additional occupancy and an increase in rates.
- c. Release of a 2015 revenue provision and Maritime Museum revenue to fund capital project at Hobson Wharf \$0.5m

Panuku has not drawn on Auckland Council funding in line with budget (\$18.0m). This is due to a number of public outcome capital projects being behind budget (refer Capital Spend under 7.2).

Expenditure excluding depreciation is \$5.8m favourable compared to budget due to the following;

- a. \$3.6m saving in interest expense, Council undertook a debt for equity swap in June 2017, this was not reflected in the budget.
- b. \$0.7m saving in consultancy cost.
- c. \$1.3m saving in people and director costs, there has been ongoing recruitment throughout the year and there are still positions being actively recruited.
- d. \$0.4m saving in travel costs.
- e. \$0.3m saving in repairs and maintenance costs, savings of \$0.9m on Wynyard Wharf offset by (\$0.3m) of additional costs in the year maintaining the Wynyard Crossing Bridge due to a large number of breakdowns, as the asset has reached the end of its expected life; (\$0.3m) of additional pier maintenance on the assets of the Marina subsidiaries.
- f. \$0.2m saving in marketing, communications and placemaking at Queens Wharf for events under budget \$0.1m and general corporate marketing saving of \$0.1m.
- g. (\$0.3m) additional electricity expense at the Silo Marina, additional recoveries revenue has offset this.
- h. (\$0.2m) additional IT Costs due to transfer of Panuku assets onto SAP.
- i. (\$0.2m) additional security costs due to public safety around the tidal steps in the Viaduct.

The fair value of investment property decreased by (\$1.6m) due to the impact of America's Cup on expected rental income, which has offset any land value increase. Along with a decrease in the Wynyard central valuation reflecting the expected lease of Wynyard Quarter Stage 2 land to Willis Bond and Precinct.

Depreciation is \$3.2m favourable compared to budget; this is due to slower than anticipated delivery of capital projects from both the prior and current years.

Income Tax benefit of \$1.7m as a result of deferred tax movements due to revaluation increase on wharf assets.

7.2 Capital

For the quarter ended 30 June 2018

| \$'m | Budget Full Year | Actual Full Year | Variance Full Year |
|-------------------------|------------------|------------------|--------------------|
| Capital | | | |
| Expenditure | 43.4 | 11.8 | 31.6 |
| AC funding | 26.2 | 8.0 | 18.2 |
| External funding | 17.2 | 3.8 | 13.4 |

Capital spend was \$31.6m behind budget due to the following:

- a. AC Funded projects \$18.2m under budget : Madden and Pakenham street upgrade practically complete resulting in a saving of \$2.5m. There are a number of projects behind phased budget, Sky Path Landing related works are \$3.4m, \$1.8m Central Park (Panuku contribution to a Healthy Waters Pumping Station in the Wynyard Quarter). The Tiramarama Way project was \$1.8m under phased budget with an anticipated \$0.5m saving to budget once final costs are received.

There are a number of projects which are still in the pre resource consent stage, they include the Promenade Stage 2 \$3.7m saving in year and cruise ship infrastructure (The Dolphin) \$2.8m. Public space renewals were \$0.9m under spent in year, and there are a number of other smaller projects which are underway and will be completed in the new financial year \$1.3m.

- b. External funded/commercial projects \$13.4m behind budget. The key projects that make up the variance are: \$1.7m in relation to Contamination costs paid to Development Partners in the Wynyard central sites (Willis Bond and Precinct). These payments are made when requested by the developer after decontamination work is completed and depend on the construction progress; their construction programmes this year were delayed.

Vos Shed restoration \$2.1m, resource consent has yet to be received but construction is expected to start early in FY 18/19.

The Pile Mooring redevelopment project has applied for resource consent, but this process is expected to be extensive and \$1.5m of costs are forecast to be deferred to FY 18/19. The Westhaven Marine Village project \$5.0m was delayed as we needed to confirm 50% tenancy pre-let prior to construction starting, we have now reached this level and we are working through the consenting process.

8. Annual performance measures

Activities and key performance achievements (SOI performance measures)

Panuku carries out two categories of activities. The first category is Panuku funded activities. The second category is activities it carries out on behalf of Auckland Council using Council funds and assets.

Panuku activities - a return on equity on commercial assets and services of 11.2% (2.8% above target) and a 90% visitor's satisfaction with their experience of the public spaces on the city centre waterfront (15% above target).

Activities carried on behalf of Council - include \$231 million worth of property sold during the year (\$131 million above target), \$88 million worth of properties recommended to council for approval to sell (\$28 million above target) and returning a net surplus on the property portfolio of \$31 million to council (\$3.9 million above target).

The full list of performance results against annual targets is included in the table below.

| Measure | Year-end target | Achieved? (RAG Status) | Last Actual |
|---|---|--|---|
| 1. Achieve ten key deliverables in the Board approved Master programme. | Master programme deliverables completed within the Board approved timeline. |  | Achieved All ten master programme deliverables were completed within the financial year. This is the last group of planning documents completed giving Panuku mandate on sites in the remaining priority development locations. Going forward the company's focus is on delivering projects contained in the plans. |

| Measure | Year-end target | Achieved? (RAG Status) | Last Actual |
|---|--|--|--|
| 2. Number of net new dwelling units is calculated in accordance with agreed criteria. | Projected number of net new dwelling units is approved by the Board at least annually. |  | Achieved The Board approved the projected number of net new dwelling units as being 11,300 units over the next decade for the 2017/18 year as calculated in accordance with the agreed criteria. |
| 3. Development agreements are submitted to the Panuku Chief Executive, Board and/or Council for approval | Three year target <ul style="list-style-type: none"> • Twenty six development agreements with partners including community housing organisations to be entered into. (Period 2016 to 2018) • 15 development agreements with partners including community housing organisations to be entered into.(Period 2017 to 2019) |  | Achieved <ul style="list-style-type: none"> • 30 agreements were achieved against the June 2018 target of 26 agreements • 24 agreements were achieved against the June 2019 target of 15 agreements |
| 4. On completion of the project or each key stage of the project, the project achieves the financial and non-financial outturn in the business cases. (Housing and urban regeneration combined) | All projects completed this year achieve business case financial and non-financial outturn |  | Achieved Financial and non-financial outturn for the 1 Trent Street project. Thirty three houses were completed by the New Zealand Housing Foundation, 24 of which were affordable. |
| 5. Percentage of visitors surveyed satisfied with their experience of the public spaces on the city centre waterfront (LTP) | 75% |  | Achieved 90% |

| Measure | Year-end target | Achieved? (RAG Status) | Last Actual |
|--|--|--|---|
| 6. Percentage of Aucklanders surveyed who have visited the city centre waterfront in the past year (LTP) | 73% |  | Substantially Achieved 72% |
| 7. Percentage of attendees surveyed satisfied with key Waterfront place programmes and activities | 84% |  | Achieved 89% |
| 8. Number of event days per year at the Waterfront | 350 days |  | Achieved 952 days |
| 9. Number of visitors per year at the Waterfront | 1.9 million |  | Achieved 2,177,078 visitors |
| 10. Percentage of customers surveyed satisfied overall with marina facilities and services (LTP) | 74% |  | Achieved 92% |
| 11. Number of significant Māori initiatives implemented or active per annum (LTP) | 47 |  | Achieved 49 Māori initiatives have been implemented this year. |
| 12. % Mana whenua groups satisfied with quality of engagement | Maintain or Improve |  | Not Achieved 18% of mana whenua survey respondents were satisfied with the quality of engagement, 27% of respondents were neither satisfied nor dissatisfied and 55% were dissatisfied. |
| 13. Written evidence that opportunities have been identified and assessed, to be progressed or not. | At least 100 opportunities identified and assessed |  | Achieved 203 opportunities have been identified and assessed this year. |
| 14. The net surplus on the property portfolio achieves the annual budget agreed with Council. | Net Surplus achieves budget for 2017/18 |  | Achieved Actual net surplus on the property portfolio for the 12 months ended 30 June 2018 is \$3.9 million ahead |

| Measure | Year-end target | Achieved? (RAG Status) | Last Actual |
|--|--|--|--|
| | | | of budget (actual surplus of \$31 million against budget of \$27.1 million). |
| 15. Improvement in gross rental income on those properties that are available for rent and have been held in the portfolio for at least two years prior to the end of the reporting period. | The annualised % movement in gross rental income of properties with rent reviews during the financial period is equal to or greater than the CPI movement. |  | Achieved Achieved 8.05% improvement in gross rental income on properties that are available for rent and have been held in the portfolio for at least two years prior to the end of the reporting period against CPI movement 2.93%. |
| 16. For those properties available for rent: The rolling average over a 12 month period, of % occupancy at each month end (LTP). | The average of monthly % occupancy for the year is 95% or more. |  | Achieved The average of monthly % occupancy for the year is 97.5% against the target of 95%. |
| 17. Maintain or improve the baseline established at the end of the 2012/13 financial year. ROI on properties on a like for like basis (LTP). Panuku is committed to continuously review and improve the ROI target over the term of the SOI. | Greater than or equal to 2.2% |  | Achieved The ROI calculated on this year's property valuation on a like for like basis is 3.06% against the 2.2% target. |
| 18. Return on Equity on commercial assets and services (LTP) at Waterfront. | 8.4% |  | Achieved 11.2% |
| 19. List of properties recommended for disposal submitted to Council. The disposal target for the next financial | A list of recommended properties with a total value agreed by the Board the prior year totalling \$60 million gross value will be |  | Achieved \$88 million of recommended properties have been presented to Council for approval to dispose. |

| Measure | Year-end target | Achieved? (RAG Status) | Last Actual |
|---|--|---|---|
| period will be agreed with Council in the current financial period. | submitted to Council seeking approval to dispose for 2017/18 financial period. | | A recommended for disposal target for 2018/19 was agreed by the Board in June 2018. |
| 20. Achieve total forecast net sales for the financial year through unconditional agreements. | Meet or exceed financial forecast Property disposal target of \$100 million (net value of unconditional sales). |  | Achieved Achieved actual net sales of \$231 million for the financial year. The target of \$100 million has been exceeded. |
| 21. Acquisitions are delivered within the timeline agreed with Auckland Council. | 80% satisfaction against agreed service performance measure |  | Achieved 100% of the acquisitions were delivered within the timeline agreed with Auckland Council. 20 acquisitions for Auckland Council were completed this year. |

Criteria for performance measures

We have used the following grading system to rate performance for each performance measure:

| Status | Criteria | Rating |
|---|---|--------------------------------|
|  | Where the performance result for the year is either equal to or above the target, then the performance measure target was met (or achieved). | Achieved |
|  | Where the performance result for the year is below the target, but has not been achieved by a slim margin (of around 2%). | Substantially achieved |
|  | Where the performance result for the year is below the target (with a margin of more than 2%) but the result is better than the previous year. | Not achieved but progress made |
|  | Where the performance result for the year is below the target (with a margin higher than 2%) and the result is lower than the result achieved in the previous year. | Not achieved |

9. Contribution to Māori outcomes

The table below shows Panuku's progress on SOI projects and initiatives contributing to Māori outcomes.

| Key project and initiatives | Description | Progress |
|--|---|--|
| <p>1. Achieving better outcomes for and with Māori</p> | <p>Support and develop initiatives which create strong relationships with Māori, including engagement opportunities through governance forums and with kaitiaki. Include KPIs and appropriate measures to identify progress across the organisation in delivering positive outcomes for Māori.</p> <p>Undertake engagement with Māori to increase understanding of priority outcomes, agree shared strategic objectives, and develop a way forward.</p> | <p>The Panuku SOI commits the organisation to undertake engagement with Māori to increase understanding of priority outcomes, agree shared strategic objectives, and develop a way forward. The Mana Whenua outcomes framework is a significant step towards this SOI commitment and is a collaborative effort between Panuku and Mana Whenua involved in the Panuku Mana Whenua Governance Forum, and the Kaitiaki Forum working groups.</p> <p>The draft framework is based on the four strategic outcomes as included in the Kaitiaki Forum Strategic Plan – being Governance, Economic, Social and Culture & Identity. The Panuku specific directions, and draft measures and actions were developed through workshops with the Kaitiaki Forum working groups. At the June 2018 Panuku Mana Whenua Governance Forum, a recommendation was sought for the Forum to:</p> <ul style="list-style-type: none"> a) Endorse the draft 'Mana Whenua Outcomes Framework'; and b) Recommend the draft 'Mana Whenua Outcomes Framework' be included on the Rangatira and Panuku Board hui agenda. <p>While there was general support for the recommendation, there was also feedback received for further work to be undertaken on the framework to ensure the forum members were comfortable with it before it went to the Rangatira/Panuku Board hui.</p> |

| Key project and initiatives | Description | Progress |
|-----------------------------|-------------|---|
| | | <p>a) The final resolution was that the Panuku Mana Whenua Governance Forum: Support the intent of the Mana Whenua Outcomes Framework and for work to continue on developing the framework for endorsement by the Panuku Mana Whenua Governance Forum;</p> <p>b) Request a statement clarifying how transactional matters are recognised and incorporated into the outcomes framework;</p> <p>c) For the revised outcomes framework to be presented to the Kaitiaki Forum in September; and</p> <p>d) For related BAU actions to continue.</p> <p>Panuku is mindful that future development of the Framework must include engagement with broader Māori population groups to ensure robustness, equity and relevance. While this will require sensitivity towards the existing relationships Panuku has with Mana Whenua, doing so will aid in balancing potentially competing interests and contribute to the outcomes we can achieve.</p> |

| Key project and initiatives | Description | Progress |
|--|--|--|
| 2. Enabling Māori commercial development opportunities | <p>Understand and develop the spectrum of Māori commercial development opportunities available across the organisation.</p> <p>Working in partnership with Māori to enable investment in commercial and housing opportunities.</p> | <p>Panuku has worked hard this year to better understand the spectrum of commercial opportunities across our business. Now that we have a clearer picture of this landscape coupled with clear direction from Mana Whenua in terms of their desired outcomes from Panuku, the emphasis turns to how we can enable these opportunities rather than just offer them.</p> <p>Commercial development of the whenua is often a natural focus of conversation in relation to this strategic commitment but we are also looking to other opportunities inherent in Panuku's DNA. For example we have a considerable opex spend every year managing our property portfolio, so there is genuine opportunity to provide realistic and measurable procurement opportunities at the whanau, hapu and iwi level.</p> <p>We are looking to confirm our thinking in this space with mana whenua in Q1 2018/19.</p> <p>Of considerable note in relation to this commitment is that Panuku entered into an agreement with Te Ākitai Waiohua to build a new residential neighbourhood on part of an empty site at 20 Barrowcliffe Place in Manukau. The new neighbourhood – Kōtuitui Place will be developed into a residential hub during the next five years.</p> <p>There are a number of other live conversations with iwi in relation to other sites across our Priority Location Portfolio.</p> |

| Key project and initiatives | Description | Progress |
|---|---|--|
| 3. Celebrating the Māori cultural footprint in design, the natural and urban environment, and broader social outcomes | <p>Facilitate Māori identity innovations through priority location and public realm projects.</p> <p>Foster Māori identity and te reo Māori through initiatives such as naming new streets, laneways, buildings, signage, communications, art and landscaping.</p> <p>Placemaking will work from a kaupapa Māori foundation to deliver positive outcomes for Māori across the region.</p> | <p>The Panuku Place making values draw directly from Mātauranga Maori and Mana Whenua values and knowledge. It is with this foundation in place that we can see the various ways we celebrate and honour Maori Culture across our mahi. Recent examples:</p> <p>Awataha – cultural narratives and values are deeply imbedded in project strategy and design.</p> <p>The Te Aranga Design principles are included as essential requirements in several of our RFPs / development agreements (and always in the public realm).</p> <p>With the Haumarū project in Henderson we initiated and were awarded a Homestar innovation point for Te Aranga design – this will be open source and available for other projects that are targeting Homestar to follow (whether Panuku or not) – so encouraging awareness and understanding across wider industry.</p> <p>The Reinventing Cities low carbon project in Henderson worked with mana whenua to establish criteria and involved them in evaluating the EOI. This will continue to play a strong part in shaping the RFP and selecting preferred development partners.</p> <p>Other work:</p> <ul style="list-style-type: none"> • Wynyard laneways te reo naming • Ti Ramarama way • Westhaven – proposed co governance model |

| Initiative | How it contributes to Maori outcomes | Spend to date \$000 | Full Year Budget \$000 |
|--|---|----------------------------|-------------------------------|
| Maori engagement | Improves public space and activities through input from Iwi | \$103 | \$ 93 |
| Maori technical/specialist advice | Ensures that public spaces and developments respect and reflect Maori culture and history | \$595 | \$ 341 |
| Development Projects | Maori related expenditure spent on Panuku's development projects | \$235 | |
| Maori koha | | \$1 | \$ 5 |
| Commercial Advisory Fund | | - | \$100 |
| Total | | \$934 | \$539 |

10. Key Local Board issues

One of our key strengths is that we listen, learn and hold a genuine belief that effective collaboration will regularly out-perform individual or siloed approaches. We are keen to understand what challenges, frustrations or concerns local board members have in respect of their Panuku interactions, we are keen to also hear about the things we are doing well. We are constantly seeing genuine feedback from local board members and Local Board Services so we can be responsive to the information where reasonably practicable. To this end we conducted a number of surveys with local board members at year end and the results reflect a quiet optimism that Panuku is listening, key stakeholders are being engaging and change is starting to occur.

It must also be noted that this is not seen as a time to relax, there are more wins needed and engagement must continue in a true and meaningful manner in order to cement our partnership approach with local governors. We are developing a focused action plan to mitigate the constant challenges we face with local boards to ensure momentum is maintained across our work programme, the challenges remain relatively unchanged since our creation in 2015, and include:

- Building trust and confidence as a relatively new organisation
- Being the change agent in established communities
- Asset sales

11. Risk management

| No | Strategic Risk | RAG Risk Level and Movement from Q3 |
|----|---|-------------------------------------|
| 1 | America's Cup (AC36) Risks relate to the relocation of tenants including but not restricted to Sealink and ASB; Hobson Wharf carpark; consenting; fishing fleet relocation; interdependencies between council organisations and consent delays. | ↑ |
| 2 | Cyber Security There has been an increase in phishing emails within Council and a global increase in cyber-attacks/scams. Council's ICT team are actively monitoring the trends and mitigations on behalf of Panuku. | ↑ |
| 3 | Interdependencies and stakeholder management Possible misalignment with key stakeholders including Council, AT, Mana Whenua and Iwi. | = |
| 4 | Resources The resource market remains tight with a shortage of skills sets in the property and project management fields. | ↓ |
| 5 | Loss of institutional knowledge The possible rotation of members of the Board may lead to a loss of institutional knowledge from long serving board members, and possible loss of key staff. | ↑ |

The period under review covers April 2018 to the end of June 2018.

We are working closely with Auckland Council and the Wynyard Edge Alliance (WEA) to coordinate the risk management efforts and mitigations around the America's Cup project. A number of risks are identified as Panuku specific and these are being managed internally. Progress is being made in the negotiations with the various tenants, although there is the potential of knock-on effects should there be any delays. Cross family risks are being managed through regular meetings with Auckland Council Risk team and risk managers from Auckland Tourism, Events & Economic Development (ATEED) and WEA. The consent process is progressing well although there are risks should the consent process receive significant objections in the Environmental Court.

Although cyber security is managed by Auckland Council information technology (ITC) teams, it is a key aspect in our working environment. Any major interruption to our ITC systems would have an adverse effect on our programmes and projects. A protracted outage would hinder communication channels and the transfer of information. This eventuality is managed through our Crisis and Business Continuity Plan.

The interdependencies and stakeholder management risks are being managed by the executive leadership team. Having alignment within the Auckland family and with major external stakeholders is a key factor to ensure a constant flow of information and cooperation.

Resourcing good staff remains a difficulty especially in the project management and property sectors, turnover in the sector is relatively high, and we are growing our resource base to enable delivery of our increased project budgets. Project management training is being introduced by the Project Management Office (PMO) to increase the knowledge level of project and risk management.

The loss of institutional knowledge specifically relates to members of the Board who may retire because of rotation, and to key staff who may leave. Panuku is currently working with Auckland Council's External Partnership team for clarity over appointments. We are introducing a greater degree of succession planning, and sharing of information/record keeping as a result of using the Sentient software for programmes and projects. Alternates for key positions are identified within the Panuku Crisis and Business Continuity Plan.

Panuku's Risk Management Policy and Framework were revised as a result of the international standard ISO 31000 being updated to the 2018 edition from the 2009 version. The changes to the standard have been incorporated into Panuku's revised Risk Management Framework. The document has been presented to the Audit and Risk Committee for approval prior to going to the Board.

Key Movements from Quarter 3

America's Cup has moved to number 1 due to its potential for reputational risks and the reliance from WEA for resource consents and lease termination negotiations, prior to the start of the physical works programme. Delays in the start of construction could have a negative effect on the scope of works due to the fixed completion date.

Cyber security is a key risk to Council and as Panuku's ITC requirements are delivered via the council systems, it is a key risk over which we have little control.

Resourcing staff in the project management and property development fields is progressing and the risks posed by the shortfall has been mitigated.

Loss of institutional knowledge is a risk, but subject to change as a result of the decision relating to any rotation of board members later in the year.