

## AUCKLAND REGIONAL HOLDINGS CHAIR'S REPORT For the October – December 2008 Quarter

In the December 2008 quarter, Auckland Regional Holdings (ARH) distributed \$44.2 million to the Auckland Regional Council (ARC). From 1 July 2004 to 31 December 2008, ARH has distributed \$455 million to the ARC, predominantly for transport and stormwater programmes.

The current global economic downturn and uncertainty has impacted ARH's overall investment portfolio value and revenue for the current financial year. Volatility in financial markets during the quarter has continued to have a real and direct effect on ARH's Diversified Financial Assets (DFA) portfolio which includes global bonds and equities. The NZ Short-term Cash Portfolio has been affected by the sharp fall in NZ interest rates. On 29 January 2009 we saw the unprecedented 1.5% drop of the Official Cash Rate (OCR), with NZ interest rates now at a new historical low. In the DFA most of the loss occurred in one month – October 2008 – with the remaining two months (November and December 2008) showing a slight loss and then a gain.

The ARH and Auckland City Council decisions on the plan changes for the Wynyard Quarter were announced in December 2008. Despite the current challenging property market environment, the Sea+City project is well positioned to take positive initiatives to realise carefully-phased opportunities. Steady progress is being made on the North Wharf remediation works and other areas within Wynyard Quarter and an experienced design team has been named and marks the start of the design process for the mixed-use development on Jellicoe Street.

### ARH total portfolio return

For the October to December 2008 quarter, ARH had a gross revenue budget of \$13.2 million. The actual for the period was a loss of \$11.4 million.

	Actual Quarter Ended 31-Dec-08 \$000	Budget Quarter Ended 31-Dec-08 \$000	Actual YTD Ended 31-Dec-08 \$000	Budget YTD Ended 31-Dec-08 \$000	Budget Year Ending 30-Jun-09 \$000
<b>Revenue<sup>1</sup></b>					
POAL Dividends (NZ Equity – Non-Listed)	-	-	\$7,190	\$6,066	\$12,248
Investment Property Income (NZ Property)	\$2,514	\$2,569	\$6,757	\$5,768	\$10,386
Interest, Dividends & Gains (DFA)	(\$18,171)	\$7,151	(\$36,783)	\$14,145	\$27,920
Interest (NZ Short-Term Cash)	\$4,224	\$3,484	\$9,007	\$7,926	\$12,548
<b>Total</b>	<b>(\$11,413)</b>	<b>\$13,204</b>	<b>(\$13,829)</b>	<b>\$33,905</b>	<b>\$63,102</b>

The financial performance for the quarter shows that the net loss on the DFA of \$18.2 million offsets the positive revenue in the other asset classes. It is noted that revenue for the DFA includes \$37 million of net unrealised losses offset by \$18.8 million of net realised gains. ARH's gross revenue budget for the 12 months to 30 June 2009 is \$63.1 million.

<sup>1</sup> Does not include any potential unrealised capital gains or losses on ARH's investments in POAL (NZ Equity (Non-listed)) or the Wynyard Quarter (NZ Property).

## Ports of Auckland Limited (POAL) – New Zealand Equity (Non-Listed)

Container volumes for the quarter were 8.1% higher than the same period last year. In December 2008, the port processed 81,772 TEU<sup>2</sup>, compared to 72,241 in December 2007, the highest recorded since March 2007's 81,915. However the outlook for 2009 is for lower volumes.

POAL's cruise business has also been busy, with 17 calls during the quarter and a total of 73 projected for the 2008/2009 financial year.

A joint study is being advanced by the ARC, ARH and POAL on the future use of Queens Wharf as well as the cruise ship industry needs. The parties are working collaboratively through the options and best outcomes for future uses of the wharf.

## New Zealand Property

The 18-hectare landholding within Wynyard Quarter is one of the region's most significant urban and waterfront spaces. It represents an exceptional opportunity for the councils to deliver both social and economic benefits by fostering existing marine and fishing industries while opening up the waterfront for greater public access and enjoyment.

The decisions on the plan change submissions allows the marine cluster to flourish, providing a long-term base and room to move in the future, bringing more revenue and jobs to the area, the city and the region.

Sea+City Projects Limited, the management organisation established to drive the transformation of this unique and significant property has been focused on ensuring the project can respond to the changing economic environment in the short-term and in the longer term that it remains on track to achieve key deliverables over the next 25 years.

Steady and carefully-phased progress to ensure high quality urban design and a well balanced mixed-use concept is implemented will significantly add to the impetus building to advance Auckland City's international standing.

A team of designers with extensive experience in waterfront projects in other cities - Taylor Cullity Lethlean and Wraight & Associates<sup>3</sup> - has been named for Jellicoe Street. They will work in collaboration with local architects, Architectus and Fearon Hay, who are responsible for other design initiatives continuing within the Wynyard Quarter and along North Wharf.

Part of the project along Jellicoe Street will reflect the essence of the councils' aspirations: a working fishing village focused around North Wharf at one end, marine industry at the other and waterfront access and places for people – restaurants, retail outlets and promenades – in between. The appointment of the design team for Jellicoe Street marks the start of a thorough design process which will involve stakeholders and existing and potential tenants.

Meanwhile, work is progressing on the North Wharf remediation works and other areas within the Wynyard Quarter. Plans for the transition of sites to mixed-use concept continue; decontamination work is progressing on sites vacated by the tanks, and existing as well as shorter term tenants continue to provide rental income.

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<sup>2</sup> Twenty-foot Equivalent Unit

<sup>3</sup> Taylor Cullity Lethlean and Wraight & Associates are considered specialists in waterfront & civic projects, and believe Wynyard Quarter has all the right ingredients to become a showpiece. Taylor Cullity Lethlean has worked on major urban developments including North Terrace Redevelopment in Adelaide, Melbourne's Victoria Harbour Development, the Geelong Waterfront redevelopment, and Craigieburn Bypass. Wraight & Associates has been involved with the Wellington, Tauranga & Dunedin waterfronts and Rotorua's lake front.

The result is indicative of the level of open and frequent engagement with many key stakeholders managed by the Sea+City project team. The benefits of establishing Sea+City Projects Limited are increasingly apparent and give ARH confidence around the long-term future success of this important and exciting development.

### **America's Cup Village Limited (ACVL)**

ARH has commenced disestablishing America's Cup Village Limited (ACVL) which no longer has any assets and has ceased trading. ACVL was established to operate solely for the period that the Team New Zealand syndicate held the America's Cup. The residual ACVL land, comprising the Halsey Street reclamation and associated waterspace, was transferred to ARH, and is now fully integrated into the 18-hectare Sea+City project area and is being managed by Sea+City Projects Limited. I wish to record my thanks and those of the ARH Board to John Lindsay and the ACVL Board for their careful management of ACVL.

### **Diversified Financial Assets Portfolio (DFA)**

Volatility in financial markets was again reflected in the DFA which declined a further \$18 million in the quarter ended December 2008. The majority of this loss is unrealised and largely occurred in one month – October 2008. November 2008 showed a much smaller decline (down by \$1.3 million) and in December 2008 the DFA gained \$3.4 million. Subsequent to the end of the quarter, the portfolio has experienced a further gain of approximately \$1.9 million in January 2009. Refer to section 4.4 of this report for further information on the DFA.

### **New Zealand Short-term Cash Portfolio**

This asset class has performed ahead of budget during the quarter and provides ARH with the liquidity required to meet its short-term distribution targets to the ARC. At 31 December 2008, \$163.7 million was held in the New Zealand short-term cash portfolio, of which \$75.1 million is expected to be distributed to the ARC by 30 June 2009.

For the quarter, the gross performance of the cash portfolio was 2.19% with interest revenue for the quarter of \$4.2 million. Refer to section 4.5 of this report for further information on the portfolio.

### **Summary and outlook**

The international economic downturn is now seriously affecting the New Zealand economy. A deeper and longer recession is now predicted and business confidence in December 2008 was the lowest for 39 years. These factors will continue to have an impact on all asset classes in ARH's investment portfolio, and consequently their revenue. The length of this downturn is very uncertain, but it is now seen as the worst since the 1930's. ARH, in common with other intergenerational investment funds, is experiencing significant uncertainty over its funding capacity for the medium term.

ARH is the custodian of two key regional assets, being Ports of Auckland Limited and the waterfront property (Sea+City Project). ARH's prudent stewardship of these assets as well as assisting ARC with its long-term funding, will be an ongoing challenge in these turbulent times.

Judith Bassett  
**Chair**