



# Hundertwasser and Wairau Maori Art Centre ("HWMAC")

Feasibility Study - UPDATE

9/10/2014

# Executive Summary

- The architecture has the “Disneyland” ... “Hobbiton” ... or ... “Guggenheim” factor
- The Maori connection adds depth, intrigue and cultural authenticity
- Hundertwasser’s “sustainability” philosophies have enduring contemporary relevance for all of Northland
- The HWMAC will attract significantly more visitors and can create significantly more economic benefits in the wider community than it costs. Our analysis concludes that both the previous Deloitte feasibility study and economic impact assessment are conservative (the latter very)
- International economic development research argues a regional growth story should be founded on sustainability, place and inclusiveness. As one symbol for the excitement, unity, pride and self esteem that must take hold (as it has in Kawakawa) around this, is there a more contemporary heart for Northland than the HAC and the ‘sustainable’ philosophies that it represents?

**One research observation:** A google search on “Friedensreich Hundertwasser” returned 660,000 hits. In comparison, the “Poor Knights” returned 454,000 hits, Tutukaka 336,000, KiwiNorth 19,000, Claphams Clock Museum 12,000 and Hobbiton 571,000 (and Hobbiton appeared in a series of recent global blockbuster movies and an international visitor campaign)



## Understanding The Problem

As per the Deloitte feasibility report, and our peer review of it, the elements of the analysis in assessing the economic impact of an iconic building and art gallery are:

- Estimating the number of visitors which will be attracted at a given price to a facility
- Estimating the proportion of visitors which will stay extra nights solely as a consequence of the facility (driving their accommodation, food and other daily spend up)
- Estimating the number of visitors who will be attracted to stop/stay in Whangarei because of the presence of the facility, and proportion that will observe it rather than entering it (e.g. additional parking revenue, greater demand for food and boutique shops)
- Estimating the impact on airport, transport and attendance at other attractions
- Estimating the impact, on a 'creative knowledge economy', of businesses and workers decisions to choose to locate in Whangarei (due to greater local self esteem and self belief)
- Estimating impacts on the value of land in the central city and beyond (due to all of the above, along with catalyst effects to further investment)
- The degree of addition, as opposed to displacement, of economic activity and so on

*One can see why 'big data' has the potential to be a game changer in this context and while that is some way off, recent advancements do provide access to Whangarei specific spend, which granularity was not previously available.*

## Deloitte's economic impact approach and our critique

Deloitte approached the key difficulties by focusing solely on “Tourism induced by the HWMAC”. We endorsed the general modelling approach, as far as it went, though noting that key assumptions could be improved in certain respects. More particularly, we recommended that the following be further explored:

### Visitor capture rates

- Capture rates;
- Seasonality;
- Whangarei specific visitor profiles (not available at the time);
- Understanding HWMAC as part of a wider network;
- Drawing comparisons with comparative venues;

### Pricing and Revenue Streams

- Museum v art centre admission prices;
- Levels of government/local government support for comparator facilities;

### General

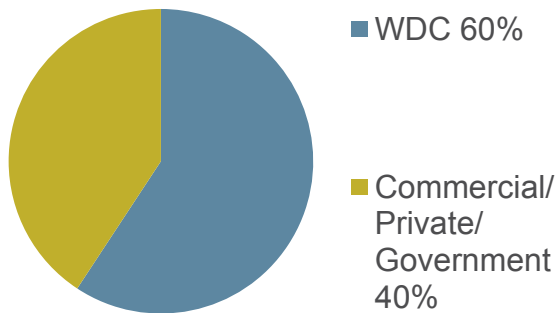
- Whether art and culture are viable strategies independent of natural features;
- More balanced sharing of risks and rewards with private interests;
- CBD land owner contributions as major beneficiaries of waterfront re-development and town centre rejuvenation.

**Our terms of engagement** for the present work go to revisiting the funding assumptions in light of developments, along with: HWMAC as a catalyst for other economic development opportunities (hotels, cruise ships), wider regional benefits adding to the regional offering, assumptions around visitor numbers and land value impacts.

*The condition of the wider and Northland tourism market and the qualities of the HWMAC business model are foundational considerations.*

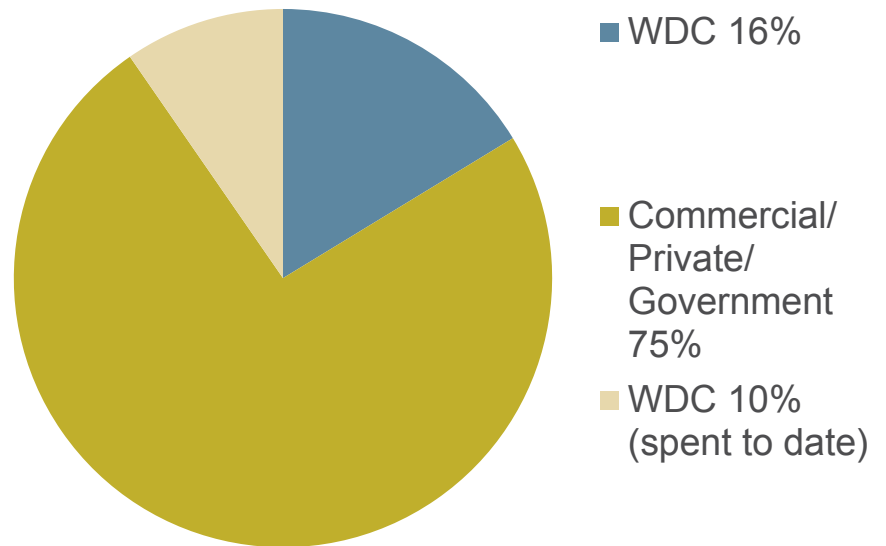
## Funding model reworked

The balance of capital funding is now strongly weighted in favour of central government and commercial/private interests, substantially reducing reliance on WDC ratepayers and substantially increasing the net public benefit to Northland.



Proposed funding \$13m September 2011

### Proposed funding \$13.5m September 2014



## Economy and national tourism

Further, September 2014 has the New Zealand economy growing above trend and predicted to continue to do so, much as was the case in September 2011. The major drivers of growth continue to be Auckland and Christchurch. The major drag on wider NZ growth remains—slow and fragile economic recovery offshore.

Nevertheless, September 2014 versus September 2011:

- At least for now, the NZ dollar is heading back towards 2011 levels
  - More expensive for domestic tourists to travel overseas
  - Cheaper for foreign tourists to visit NZ
- Net immigration levels are at historic highs
- Auckland is bursting at the seams
- The total number of inbound visitors to New Zealand increased 10% to approximately 2.7m (from 2.5m)
- Total visitor spend is up, though per visitor spend is down

*This is important for Whangarei  
as it is almost 80% dependent  
on domestic tourism*



## International Visitor Survey projections – All NZ

Year	2013	2014	2015	2016	2017	2018	2019	2020	2013-20	CAGR <sub>3</sub>
Total spend (\$m) <sub>1</sub>	6673	6885	7157	7300	7528	7777	8047	8337	25%	3.20%
Total visitors (000s) <sub>2</sub>	2710	2805	2932	3013	3134	3265	3404	3553	31%	3.90%
Total Days (000s)	52061	55207	57947	58997	60826	62894	65124	67483	30%	3.80%
Spend per day	128	125	123	124	124	124	124	124	-4%	-0.50%
Length of stay	19.2	19.7	19.8	19.6	19.4	19.3	19.1	19	-1%	-0.20%

Notes: Source: MBIE (Ministry of Business, Innovation and Employment, Statistics New Zealand)

1. From the International Visitor Survey, revised in 2013 for 2012 and earlier years;

2. Visitor arrivals are from the IVA that excludes education visitors,

3. Compound Average Growth Rate per year (2013-2020).

*Little of this is positive for Northland or Whangarei if they do not reposition their offerings*

Key **growth stories** within the above include:

- Christchurch tracks back towards historical pre-earthquake levels
- Chinese visitors now second (behind Australians) – but non-existent in Northland
- Traditional European markets expected to continue a steady decline
- Hobbiton was an important factor in visitors choosing NZ (contributing to a 13% gain in US visitor numbers as against 2% growth in worldwide US market) – but, from Northland's perspective, Hobbiton turns more foreigners south from Auckland
- Increased international flight capacity

# Total visitor spend actual and projections for Northland

	2009 Actual	2014 Actual	2020 Forecast
International	\$153m	\$157m	\$189m (3.2%CAGR)
Domestic	\$440m	\$430m	\$484m (2%CAGR)
Total	\$593m	\$587m	\$673m
International Visitor numbers @ \$100 (median) per day & average 2 days (in Northland)	765,000	785,000	945,000
Domestic Visitor numbers @ \$100 (median) per day & average 1.8 days (in Northland)	2,444,444	2,388,889	2,688,889
<b>Total</b>	<b>3,209,444</b>	<b>3,173,889</b>	<b>4,578,889</b>

Spending data is the most reliable source of visitor information due to the fact that it is hard to argue with the fact a card has been used where, for what and by whom. Still, cash transactions, telephone and internet sales where the card is not presented at POS and various other sources. Various adjustments are thus still made by MBIE to arrive at the above.

Source: Ministry of Business and Innovation, Statistics New Zealand together with some extrapolation.

### Reasonableness checks:

- Alternatively, the toll road between Puhoi and Silverdale recorded approximately 5m trips (excluding heavy vehicle) in the year to June 2013 and reputedly captured 79% of all travel between these points. Assume HWY16 to the West captures 5% of equivalent traffic, traffic volumes are equal in both directions, 20% percent of north-bound trips terminate at Walkworth or are in and around Puhoi, Northlanders make one in every four trips and that on average there are 1.5 people in each vehicle - all this would imply approximately 2.95m individual visitors to Northland via road. On top of this we need to add an estimated 100,000 fly-in travelers along with a number of arrivals by boat, including cruise ships. This calculation method suggests similar total numbers to those above (**We are awaiting more granular data around this from NZTA, but this might take a month**).
- Cross-matching the combined international and domestic visitor numbers with annual guest nights of 1.64m implies one out of two visitors stay with friends, relatives or in other accommodation (i.e. on boats, in a family/friend's holiday home) not captured by the commercial accommodation monitor. This does not seem unreasonable.

2014 data shows Northland visitor spend has stalled since 2009 and this is despite continued population growth in Auckland, which accounts for 34% of Northland's total visitor spend

As concerning, Whangarei has captured insignificant tourism dollars from Chinese and Asian tourist numbers growth (the Far North hasn't fared much better at \$3m): this compares to Rotorua's \$71m, Queenstown's \$99m and Auckland's \$453. We note that care needs to be taken with these numbers as Northland may be a first stop where cash spending is higher than average (cash spend is not captured in the present data)

The message appears clear. Competition is fierce and growth will not happen as a matter of course; particularly since Whangarei and Northland are at the end of the line and not on the beaten tourist track (Auckland to Queenstown). Northland needs to continuously freshen up it's offering to become/remain relevant.

*Promoting creation of a national circuit would help*



## Some observations from and on the spending data

### Whangarei 2013 (refer MBIE's interactive Regional Economic Activity Report 2014)

- \$190m visitor spend (compares to \$349m for the Far North and \$49m for Kaipara)
- Approximately 79% of visitor spend (\$150m) is domestic (slightly higher than for all of Northland)
  - Over 43% (\$65m) of this is by visitors from Auckland (Aucklanders spend \$72m in the Far North)
  - Northlanders 29% (\$43m). This is consistent with Whangarei being the Northland hub
  - The rest of New Zealand 29% (\$42m)
- Australian based visitors make up 40% of international visitors, their spending totalling \$40m
  - European and American continent origin tourists make up the vast majority of the balance
  - Various Asian countries, including China and Japan, barely register at \$2m (In the Far North these countries are similarly poorly represented at \$8m)

### Observations

- The spend numbers for Whangarei District suggest it is more than a stop on the way to the Far North
- Getting more Aucklanders to come as far as Whangarei is highly likely to translate into more Aucklanders continuing, in approximately equal parts, into the Whangarei District and further north
- A 10% sustainable lift solely in Auckland visitor numbers/spend represents \$6.5m p.a. economic benefit to the Whangarei district. Only 4.1% of Auckland spending as visitors outside Auckland is currently incurred in the Whangarei District
- Chinese visitors represent a great and growing opportunity

*As Auckland makes up a 1/3<sup>rd</sup> of visitor spending (\$65m), they are the key target for visitor spending growth*

# The HWMAC business model (What we are assessing)



## Productivity:

More visits to other venues and attractions? ✓

Attract visitors in the low season? ✓

Extended opening hours? ✓

## #1 ARCHITECTURE



## #2 CAFE/RESTAURANT

## #3 ART GALLERY

## Longer stays:

Get more visitors to stop in Whangarei? ✓

Get more visitors to spend a night? ✓

Hundertwasser's architecture is **marketing gold** in being so memorable as to be unforgettable. For present purposes we have to assume the HWMAC will be constructed to the highest standards, the art gallery will be top notch and the café/restaurant will target the visitor markets that deliver economic impact.

## HWMAC Critics and concept context

### Chief criticisms:

- Hundertwasser was about art by, with, and for the community
- Pitching as an economic development initiative was inconsistent with Hundertwasser's philosophy, lacked integrity and distanced the community
- Late addition of Maori Arts Gallery seen as cynical
- The costs could blow out beyond \$13m and we don't want to end up like Kiapara
- A phone survey recorded 53% opposition and only 28% public support. The four main reasons for opposition were:
  - Higher priorities for ratepayer money
  - Too expensive. Waste of money
  - Not right for Whangarei. Won't attract tourists
  - Hundertwasser is not well known. Irrelevant in NZ and Whangarei

### And yet:

- The building was always designed as an art gallery. A Hundertwasser design is host to a MacDonalds franchise. Another is a block of apartments. His belief was that art should be functional and engaged with daily. His NZ flag design was a tribute to his esteem for Maori culture.
- Cost is a function of sound management, verifiable and able to be locked down pre-start (by contractual allocation of risk).

- The two main phone survey counter arguments, being expense and use of ratepayer money were well made. However, they have been answered with a much more balanced proposition
- People visit, time-and-again, compelling architecture the world over, from the Egyptian pyramids to the Eifel Tower, to castles, the Sydney Opera House, the Sky Tower, Te Papa and Hobbiton.

Picture: La Pedrera is one of the best-known works of Antoni Gaudí, to which Hundertwasser's architecture has been likened. La Pedrera is one of the symbols of Barcelona.

A google search on "Freidensreich Hundertwasser" returned 477,000 hits. In comparison, the "Poor Knights" returned 222,000 hits, Tutukaka 333,000, KiwiNorth 19,000, Claphams Clock Museum 12,000 and Hobbiton 526,000 (and Hobbiton appeared in a series of recent global blockbuster movies and an international visitor campaigned).

Parallel: "The history surrounding the design and construction of the [Sydney Opera House] became as controversial as its design. Reputedly rescued from a pile of discarded submissions, Jørn Utzon's winning entry created great community interest and the NSW Government's decision to commission Utzon as the sole architect was unexpected, bold and visionary."



## Early stage of development critics are not unusual for Hundertwasser architecture:

### Controversy

“In 1983 Hundertwasser started with the conversion of a complex of public housing units into a bizarre looking colorful patchwork with irregular patterns and varied window shapes. When it was completed two years later, his fantastical creation caused quite a stir and some architecture critics quickly dismissed his work as kitsch. However, the Hundertwasserhaus - as it became known - was a hit with the general public and soon started to attract visitors to this otherwise quiet residential area.”

### Tourist Attraction

“Soon after the conversion of the private apartment complex into the colorful patchwork we see today, the building soon started to attract visitors. To relieve the inhabitants of the tourist overload, a shopping arcade was constructed opposite Hundertwasserhaus. The arcade, also designed by Hundertwasser, is just as unconventional as Hundertwasserhaus itself.”

**The HWMAC is likely to have the pulling power to cause significantly more people to at least day trip to and stop in Whangarei. Hobbiton, an hour from anywhere in the Waikato, attracts 47,000 international visitors a year and 80,000 in total, with tour prices (including transport) ranging from \$10 for young children, \$37.50 for young adults and \$75 for adults. Hobbiton tours from Auckland range from \$250 and up.**

*The project has already attracted both French and Japanese television documentary teams to Kawakawa, together with international visitors already beginning to number in the thousands.*

## The Kawakawa 'cluster' effect

"There's something special about this little town; cultural identity and the legacy of Hundertwasser in Kawakawa, New Zealand", L. Kaino, School of Communications and Arts, Edith Cowan University, Banbury Australia, Published online 11 November 2013, contains a highly proximate and successful reference case for both the economic development value of architecture and the conditions for its success.

**Thus, one can envisage being asked to complete the feasibility study for redeveloping a rundown public toilet block as a Hundertwasser Toilet block in Kawakawa in 1999:**

- A rundown town with rundown vintage railway, soon to lose its status as a service centre for the Bay of Islands and nearby Moerewa, which itself had declined since the 1980s
- Cost high for location
- Projected revenue nil

The economic impact of a toilet block:

- Difficult to quantify whether any more people will stop and if they do will be a pit stop and a bite to eat
- Maybe increase vintage railway patronage (if it still exists) but hard to see this being material

Unsurprisingly, the toilet block redevelopment was gifted by Hundertwasser, gladly accepted by the Kawakawa Community Board and was built substantially through donated time and materials. On reflection one must suspect it was a good thing return on investment and economic impact were not top of mind in the planning process.

Roll forward to 2014 and, following further population decline to 2006, Kawakawa's population appears to be back up to 2001 levels (1400) – increasing where most rural towns continue to decline. Actual economic impact on sustaining, if not growing, the value of Kawakawa's

residential property? high. Vintage rail? Critical. The Town? The Moerewa meatworks remains economically key but the toilets, and their wider effect on the town, appear difficult to argue with as the catalyst for growth. **Wider impacts of 120,000 plus visitors a year? See note above**

### Hundertwasser toilet block, Kawakawa: Northland's Hobbiton, or Bilbao, Effect, at work

**Key themes** inherent in the Kawakawa Hundertwasser toilet block redevelopment (with certain parallels to Bilbao Spain) explain their success in comparatively short economic development time:

- Functional – people engage with them daily as a matter of course
- Fun, unique, eccentric and attractive
- Global brand tie up
- World class (as voted by travellers –'the best loos in the world')
- **Contemporary relevance** - Hundertwasser's 'sustainability' ethos (the economic relevance of this is, arguably, a step ahead of the Guggenheim Museum in Bilbao Spain)
- The back story is interesting and adds mystery, intrigue and depth to the initial appeal of the edifice
- Local community, including indigenous, behind it, deeply involved from the beginning – increasing local pride and self-esteem associated with place
- A wider vision, so the story is alive and still being written
- Unique in this part of the world



## HWMAC as a catalyst for further economic development – contextual fit

- The building design is interesting, inviting and attention grabbing. Built to the highest standards it will undoubtedly attract visitors in its own right. Children friendly explorability and photographic interest inside and out are assured, making Whangarei a must stop for bus loads of school kids, foreigners and others, travelling to Whangarei and/or to Waitangi.
- Hundertwasser's Art remains relevant, with reported prices upwards of Euro0.25m for individual pieces and his architecture well represented on visitor attraction websites.
- World class has to be earned through attention to detail in construction. The design itself appears to meet the brief.
- It is a very reasonable proposition that 'sustainability' will be the contemporary issue of the 21<sup>st</sup> century, thus ensuring the ongoing relevance of Hundertwasser's fundamental philosophy.
- The back story is added to by building Hundertwasser's last design.
- HWMAC adds to a tourist trail from the Kauri House, to the south west of Northland, to the Stone Store in Keri Keri; with less than an hour's drive between each significant cultural and artistic attraction along the way.
- Commercial interests in Whangarei have projects in planning (such as a 4 star hotel, conference facilities and apartmenting) to directly leverage interest in the HWMAC and projected increased visitor numbers stopping in Whangarei. There is significant public support. More particularly, key market Auckland is strongly supportive.
- HWMAC extends the existing wider vision in a way sympathetic to the architect's vision, including his relationship with Maori art and Maori culture. It is further noted:
  - The proposed Maori art gallery, to be housed within the HWMAC, will complement a Maori Cultural Centre (Hihiaua) proposal;
  - **There is a strategically valuable coincidence that Hundertwasser translates to 'Hundred Water' ('Wairau' in Maori)–water sustainability being a defining objective to be pursued by an innovation centre proposed for development in Northland;**
  - Making visible the strong links between Northland aspects of European and Maori sustainability, art and culture constitutes a real opportunity for Northland to convey a differentiated, strong, unique, networked, culturally progressive and positive brand to the world.
- The building will be unique in Whangarei and, indeed, in the Southern Hemisphere. It will make both the Hundertwasser story and Maori artistic and cultural history more accessible to a wider audience, establish and grow the coherency of the related art network and act as a radiating hub for the contemporary story it represents.

Kawakawa (as do Queenstown) residents show the way to success

*For maximum effect, the implicit vision and consequent culture must resonate for enough of Northland, or enough of Northland must, over time, aspire to it.*



## HWMAC as a catalyst for further economic development – cluster effects?

It is undeniable cluster effects significantly increase the efficiency of accessing multiple attractions, reduce the cost, in time and money, of transition from one to the next and increase customer flexibility/choice vis a vis weather and unforeseen disruption. Egypt, Vegas, shopping centres, Queenstown, restaurants, extreme activities, the Poor Knights, ski slopes, cycle ways, vineyards, Iconic architecture, boutique shops and most other attractions, are rewarded by proximity to multiple attractions.

HWMAC has the potential to be the premier visitor attraction in Whangarei, not only feeding off existing visitor volumes but generating them, being the main entrée into the wider Whangarei District.

**The “Bilbao effect” is used to describe the very successful reinvention of an area enhanced by the construction of an iconic building, such as the HWMAC, in an in-decline, ‘off the beaten tourist track’ city.**

Footnote: The Guggenheim Museum Bilbao was instantly labelled the most important structure of its time, and is credited with contributing to a sustained 40%+ increase in tourist numbers visiting Bilbao.

In addition, an M.E Spacial report for the NZ Cruise industry estimated 2013 economic impacts for Northland of \$10m, Auckland over \$100m, Bay of Plenty \$32m and Hawkes Bay over \$18m. Those impacts currently bypass Whangarei and, very conservatively, there is no allowance for this changing in the economic impacts analyses completed to date.

Similarly not factored is the rise of Asian, including Chinese, NZ visitor numbers. A 2012 Government report entitled “China Market Review” observed:

“There is also significant scope to further leverage a natural affinity between M. ori and Chinese. Chinese ways of doing business have a strong focus on relationships and long-term investment which are closely aligned with Māori business strengths. In this way cultural connections will only strengthen tourism business relationships.”

Northland would seem to be extremely well placed to make the most of these “cultural connections”, connections to which both Hihiaua and HWMAC are strongly aligned (provided both add ‘experiential’ elements to their offerings) and which are currently untapped. However, currently, the Chinese visitor can only be factored as potential ‘cream on top’ to what the travel data directs should be the near-field target of capturing more Auckland visitors.

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## Hundertwasser Art Centre - visitor profile

In order to estimate visitor numbers we need to understand the behaviour of visitors in respect of both architecture and cultural art.

Deloitte chose to ignore the iconic architecture angle as being too complex. Instead it used a profile for “Museum Tourism” (Ministry of Tourism 2009) to derive 2% domestic visitors and 11.125% of foreign visitors as being interested in visiting a HWMAC. However, museums typically provide interactive experiences such as cultural performances and demonstrations and the Tourism Report 2013 reinforces the preference of cultural tourists for experiential/participative, as opposed to passive, activities. This is strongly reinforced when reference is made to the equivalent “Maori Cultural Tourism” profile from the same time. We do not see the provision of such within the business case and so do not agree “museum tourist” is the correct visitor profile to use for the HWMAC.

We have not found a NZ visitor profile for architecture or specifically in respect of art galleries. Whilst obviously not a direct profile of New Zealand’s domestic tourists (though perhaps the best reference we have) “TAMS 2006-US activity profile: visiting historical sites, museums and art galleries while on trips” report observed that, for adult Canadians and Americans, **strolling around a city observing buildings and architecture (25.6%) was the most popular activity, followed by visits to historical sites or buildings (23.1% well-known sites and buildings)**, visits to well-known natural wonders (16.3%) and **visits to art galleries (11.1%)**. 32.8% (29,941,969) reported this was the main reason for taking at least one over night or longer trip in the past two years.

The above suggests almost 60% of over-night visitors would make observing or visiting iconic architecture or an art gallery a priority, with almost one in three having these as a main reason for at least an overnight trip during a two year period. Anecdotal evidence suggests both attributes are likely to hold true for tourists in general. The examples of the Guggenheim Museum in Bilbao Spain and, closer to home, the immense and sustained popularity of Hobbiton/Middle Earth are examples translating into substantial and identifiable shifts in visitor behaviour. Hobbiton is considered particularly relevant for present purposes due to being both eccentric and new.

## By the numbers

## Feasibility Model revision – Domestic (non-local) visitors

Visitors	2014	Disaggregating Whangarei (based on proportion of spend)	Architecture, iconic building and art gallery visitors (assume 60%)
Domestic Visitors	2,388,889	833,333	500,000
Assume a 25% uplift in domestic visitors stopping in Whangarei on their way through to the Far North due to the iconic nature of the Hundertwasser (the Hobbiton effect)			625,000
Assume a 5% lift in domestic visitors choosing to visit Whangarei and the HWMAC			656,250
Assume half will enter the building			328,125
Assume a quarter of those will pay to visit the art gallery (1)			<b>82,031</b>
(1) Assuming a fair price			

We think it a very conservative assumption that only 50% of domestic visitors stopping in Whangarei will enter the HWMAC at least once a year.

Whilst assuming one in four of those who enter the HWMAC will pay to visit the art gallery sounds a lot, many visitors can be expected to visit the HWMAC on more than one occasion and this is not counted in the visitor numbers. In this way one in four is also conservative.

Notes for reasonableness check:

- 656,250 equates an average of 1,797 domestic visitors per day, or 149 per daylight hour (Kawakawa toilets get over 120,000 p.a.)
- 82,031 equates an average of 224 domestic visitors per day, or 18 per daylight hour
- The restaurant and café should attract repeat foot traffic, assisting achievement of these numbers
- Whilst different types of visitor can be expected to have different spending patterns (e.g. business travellers spend less than conference goers), the lower spending business traveller is a relatively small minority in the Whangarei region and the central nature of the proposed HWMAC site, including being within a relatively small town centre, can be expected to counter this to some degree. It follows that we do not believe that any adjustment is appropriate for this factor in the present context.

## Feasibility Model revision – International paying visitors

Visitor	2014	Disaggregating Whangarei (based on proportion of spend)	Architecture, iconic building and art gallery visitors (assume 60%)
International	785,000	199,000	119,400
Assume a 25% uplift in international visitors stopping in Whangarei on their way through to the Far North due to the iconic nature of the Hundertwasser (the Hobbiton effect)			149,250
Assume a 5% lift in foreign visitors choosing to visit Whangarei and the HWMAC			156,712
Assume 80% will enter the building			125,369
Assume a third of those will pay to visit the art gallery (1)			<b>41,372</b>
(1) Assuming a fair price			

We think it a conservative assumption that 80% of international visitors stopping in Whangarei will enter the HWMAC as there will be nowhere else to see such architecture of this scale.

Whilst assuming one in three of those who enter the HWMAC will pay to visit the art gallery sounds a lot, we think there are a range of other direct ways in which international visitors will be willing to pay (including via donation box).

Notes for reasonableness check:

- 119,400 equates an average of 327 international visitors per day, or 27 per daylight hour (Kawakawa toilets get over 120,000 visitors p.a.)
- 41,372 equates an average of 113 international visitors per day, or 9 per daylight hour
- The restaurant and café should attract repeat foot traffic, assisting achievement of these numbers
- Once again lower spending business travellers are a small minority in the Whangarei region and no adjustment for variable visitor spending patterns is considered necessary.

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## Feasibility Model Revision - Local and total paying visitor numbers

### Local paying visitors

Deloitte used the same estimate of local visitor numbers as an earlier Visitor Solutions analysis being 29,500. These percentages are consistent with those in our revisions for foreign and domestic tourists and it seems reasonable that this number of locals would pay a reasonable price to explore the inside of the Hundertwasser and/or the art centre at least once a year, including especially with visiting friends and family.

### Total paying visitors (Hundertwasser and/or gallery)

Local paying visitors	29,500
Domestic paying visitors	82,031
International paying visitors	<u>41,372</u>
Total from existing visitor base	152,903

The above compares to Deloitte's calculation of 163,506 (on a quite different basis in September 2011), being 6.5% lower.

However, assuming 3.9% annual visitor number growth to 2017, when the HWMAC might be operational, we consider the economic impact at a regional level is substantially better than previously forecast. That is, the challenge will not be to attract the visitor volumes, but to capture the economic rewards required to sustain the building and to further develop it. Achieving this will require the right leadership, management and operational team



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## Feasibility Model revision – Financial Forecast and sensitivity

Assuming all other matters equal, our analysis confirms that the Deloitte numbers, including forecasts, are conservative

As such, we have not recast the Deloitte forecast business model numbers

### Note

1. Visitor spend has stalled to 2014 but is showing early signs of more rapid growth, particularly as the NZ dollar falls
2. Whangarei having its own ‘Hobbiton effect’, being the HWMAC, to divert visitors north from Auckland should substantially improve Northland’s ability to capture its share of NZ tourism growth
3. Deloitte’s pricing and cash flow projections appear conservative, the question in our opinion is not whether the forecast revenue can be reached but what options will be used to capture this (from higher parking charges, donation boxes, wedding venue fees, restaurant profit share, etc)

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## What the feasibility model still omits

1. Any lease income premium to reflect both the location and iconic nature of the venue
2. Ongoing funding that central and/or local government might commit in line with what is typical (e.g. Te Papa and the Auckland Art Gallery being two of many examples) for other art galleries in New Zealand and internationally (due to local and central government being the main actors able to benefit from wider economic impacts – i.e. through rates and taxes captured across the economy)

## Economic Impact – notes

The economic impact of the construction and operation of the HWMAC is essentially unchanged.

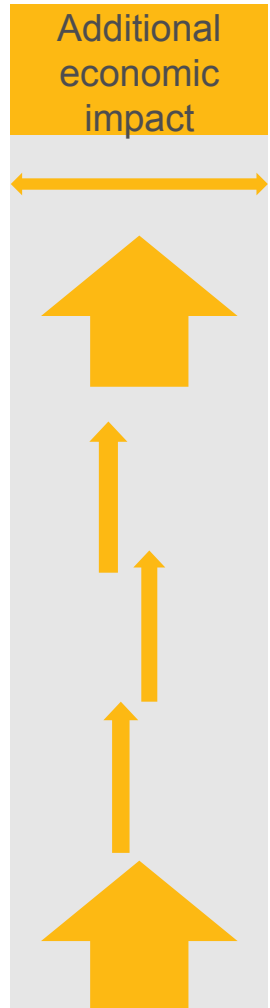
The economic impact of cruise ship visits has not been factored in. Maybe the HWMAC is the catalyst to this and maybe it is the HWMAC together with Hihiaua and the multiple other developments/upgrades in, and in the vicinity of, the town basin, much of which is highly dependent on encouraging more visitors to stop in Whangarei.

There is significant economic impact for Whangarei in the two thirds of foreign visitors stopping in Whangarei and not paying to visit the HWMAC but adding to retail and café spend. This is not captured in the Deloitte economic impact report.

Increased visitors can mean increased parking revenue for WDC.

Once visitors stop to visit one attraction, it is much more likely they will investigate (on the web or otherwise) and attend further options in the vicinity.

More activity in the center city means more opportunities, higher demand for space, increasing rents, increasing property values and increasing support services/office space occupancy. Given significant local government land ownership, this adds significant value to their respective land-banks (land currently owned but not income earning). Growth is ultimately a numbers game and this starts with creating reason for activity.



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## Mike Brunner

Associate Principal - Author

Wellington

Tel +64 4 587 0803

Mobile +64 27 274 0529

[Mike.brunner@crowehorwath.co.nz](mailto:Mike.brunner@crowehorwath.co.nz)