

WATER SPORTS CENTRE - WĄGROWIEC

(SUMMARY OF ANALYSES)

1. SCOPE OF THE PROJECT

The authorities of the town of Wągrowiec have stated that the key objective of the proposed investment project is construction of the Water Sports Centre meeting the standards of an aquapark. The Centre should provide the inhabitants of Wągrowiec and the surrounding areas with high-quality swimming pool facilities, which would stand out against similar complexes in the Wielkopolska (*Great Poland*) province, simultaneously contributing to raising the standard of living and general health of the community by increasing its sports and recreational activity. Next, the project will add to tourist and investment attractiveness of the town and the county.

Proposed functional programme:

Planned functions: recreation, sports and leisure activities comprising:

❖ **Aquapark-type complex of swimming pools:**

- 6-lane swimming pool 25 m x 12,5 m.
- recreational pools, building up a complex of interconnected basins of irregular shapes with elements of structural landscaping, connected with learners' swimming pool, with varied infrastructure of the "water fun" type: rushing river, water cavern, power showers, underwater hydromassage, water geysers, fountains, cascades, water curtains, water couches, hydromassage pools, tube and channel slides, paddling pool for children with attractions and possibly an all-season open-air basin.
- wellness & spa area: sauna complex (dry and wet saunas, steam baths, infrared cabinets etc), massage and hydromassage parlour, treatment rooms: rehabilitation, physiotherapy, beauty parlour, fitness room, gymnasium.
- leisure area (bowling club): bowling alley, pool room, games room and multifunction leisure and dance hall.
- catering and retail facilities.
- office and mechanical rooms with pool plant room.

❖ **Hotel** of the proposed three-star standard, oriented to offer, among others, tourist, recreation, sports, health and conference services.

❖ **Development of the site**

Recreational areas and other outdoor leisure attractions.

2 SUMMARY OF FINANCIAL ANALYSIS

Participation of a Private Investor in the undertaking has been adopted as the investment project completion formula. It has been assumed under this formula that the private investor will finance part of the required investment and will operate the facility and derive revenue for an agreed period of time, guaranteeing a minimum return on the capital invested by the investor. After expiration of the agreement, all of assets will become the property of the Town.

Total investment (Project Budget) is estimated at **32.079.883 zł**, on the assumption that the PPP Company will be able to reclaim the VAT on investment outlays.

It has been assumed that 50% of the investment will be financed with a loan contracted by the PPP Company (15-year investment credit with a 2-year grace period).

Revenue has been estimated on the basis of an analysis of the market milieu (competition) and on the results of marketing research carried out in Wagrowiec and in the surrounding area. Attendance at the swimming pools is estimated at 256.000 p.a. during the first year of operation (excluding visitors using the pools free of charge), followed by 212.000 from the third year. The number of people using the wellness & spa facility is estimated at 101.000 pa. The prices and costs have been indexed to allow for inflation.

PPP Company net profit forecast for the first five years of operation:

Description	1	2	3	4	5
Sales	6 013 133	6 254 517	6 451 587	6 657 270	6 869 534
Costs of operations	-3 909 246	-4 158 516	-4 391 831	-4 522 296	-4 659 509
EBITDA	2 103 887	2 096 001	2 059 756	2 134 974	2 210 025
Amortization	-926 698	-939 207	-965 013	-991 642	-1 019 120
EBIT	1 177 189	1 156 795	1 094 743	1 143 332	1 190 905
Interest	-1 062 679	-1 020 774	-975 659	-927 087	-874 795
Profit/loss before taxes	114 510	136 021	119 084	216 245	316 110
Taxes	-21 757	-25 844	-22 626	-41 087	-60 061
Net profit/loss	92 753	110 177	96 458	175 159	256 049

Source: Own estimate

The calculations allowed to estimate boundary parameters for the PPP contract, i.e. the contribution by the Town of Wagrowiec, to guarantee the investor exceeding the profitability threshold (IRR>10%).

% share of Town in Project Budget	Town's contribution in zł	Town % share in partnership	Investor's contribution in zł	Investor's % share in partnership	Minimul PPP contract duration, years
26%	8 340 770	52%	7 699 172	48%	34
27%	8 661 568	54%	7 378 373	46%	32
28%	8 982 367	56%	7 057 574	44%	30
29%	9 303 166	58%	6 736 775	42%	29
30%	9 623 965	60%	6 415 977	40%	28

31%	9 944 764	62%	6 095 178	38%	26
32%	10 265 563	64%	5 774 379	36%	25
33%	10 586 361	66%	5 453 580	34%	24
34%	10 907 160	68%	5 132 781	32%	23
35%	11 227 959	70%	4 811 982	30%	22
36%	11 548 758	72%	4 491 184	28%	21
37%	11 869 557	74%	4 170 385	26%	20

Source: Own estimates

3 PROJECT BUDGET

Assuming that the project is implemented in two variants in the form of a commercial company, the possibility to deduct the VAT has been recognized, inclusive of advance tax on investment outlays, and therefore the costs of the project are assumed in net prices.

As it is not possible to state the starting date for the project, individual years in financial analysis tables, both at the investment stage and operation stage, have been numbered with consecutive digits. Number 1 and the following indicate the years of operation and the investment phase has been numbered with negative digits, i.e. -1 is the first year of investment phase and 0 the second year of investment (assuming a two-year investment cycle).

Table. Project budget (investment costs in net prices)

Description\Years	-1	0	Total
Preparation costs	786 910		786 910
Design costs	1 311 516		1 311 516
Land costs	0		0
Investment costs, of which:	<u>13 115 164</u>	<u>13 115 164</u>	<u>26 230 328</u>
<i>Water Recreation Centre</i>	7 691 803	7 691 803	15 383 607
<i>Leisure Centre (bowling club)</i>	1 262 295	1 262 295	2 524 590
<i>Hotel</i>	4 161 066	4 161 066	8 322 131
Contract Engineer	262 303	262 303	524 607
Financial costs, of which:	<u>177 185</u>	<u>40 084</u>	<u>217 268</u>
<i>Commissions</i>	140 642	3 541	144 183
<i>Bridging loan (VAT refinancing)</i>	36 543	36 543	73 086
Administrative costs	314 400	314 400	628 800
Marketing costs		150 000	150 000
Reserve	1 573 820	0	1 573 820
Working capital		656 634	656 634
Total project budget	17 541 298	14 538 585	32 079 883

Source: Own estimates

Investment outlays have been calculated using the comparative method, the available information on similar projects (swimming pools, hotels and other sports and recreation buildings of similar nature). The calculations were made by defining unit construction costs per m² of each of the three structures planned to compose the investment project, i.e. the aquapark, bowling club and the three-star hotel.

In order to estimate the construction costs of aquapark actual data on construction costs of existing facilities (built in recent years), such as Water Park in Sopot, Water Park in Chojnice and an indoor swimming pool in Opoczno were used, as well as the priced bill of quantities for the projects planned in Nowy Dwór Mazowiecki, Kazimierz Dolny and Żyrardów. Similarity factors comparing the functions and standards of individual project were applied in order to convert the construction costs.

Project	Gross investment costs [m zł]	Area [m ²]	Unit costs [000's zł/m ²]	Year of construction/ estimate	Price increase index*	Adjusted unit cost [000's zł/m ²]	Facility similarity weight	Construction costs weight [000's zł m ²]
Completed								
Sopot	65,0	11 000,0	5,9	2002	7,1%	6,3	10%	0,6
Chojnice	13,6	3 720,0	3,7	2001	8,4%	4,0	25%	1,0
Opoczno	11,6	2 400,0	4,8	2003	8,3%	5,2	25%	1,3
Planned								
Nowy Dwór Maz.	18,9	3 077,0	6,1	2005	2,5%	6,3	20%	1,3
Kazimierz Dolny	21,2	4 925,0	4,3	2005	2,5%	4,4	10%	0,4
Żyrardów	19,9	4 329,9	4,6	2005	2,5%	4,7	10%	0,5
Average weighted construction cost in 000's zł/m² (gross)								5,1

* construction and labour cost price increase indexed per GUS information (*GUS – Central Statistical Office*)

Source: information from facility operators, municipal authorities and publications, own calculations

The investment costs as per Variant I are as follows:

	Area m ²	Unit cost (gross) 000's zł/m ²	Investment costs (gross) 000's zł	Investment cost (ne) 000's zł
Water Recreation Centre	3 680	5,1	18 768	15 384
Leisure Centre	1 100	2,8	3 080	2 525
Hotel	3 275	3,1	10 153	8 322
Total	8 055		32 001	26 230

4. SOURCES OF INCOME. INCOME FROM OPERATIONS

USE BY SCHOOLS

Total value of swimming pool entry tickets to be covered by the municipal authorities has been estimated at 195 140 zł net, or 208 800 zł gross per annum (during first year of operation). The Authorities (school) may lower the cost of financing swimming pool for pupils by transferring part of the cost to parents.

According to the assumed weekly programme of school activities, it stands at 1 800 man-hours. In the county of Wągrowiec there live about 12 500 children at school age (between 7 and 18 years), which means that about 15% of children and teenagers from the schools of the Wągrowiec county would have to be covered by the weekly programme of obligatory swimming pool activities. This group could be extended by student of the Wągrowiec college, and by children and teenagers from the neighbouring counties.

USE BY GENERAL PUBLIC

	Average swimming pool entry fee (gross)	
	Weekdays	Weekends
- normal	9,00 zł	10,00 zł
- reduced fee	6,00 zł	6,50 zł

Source: Own estimates

It has been assumed that 35% of swimming pool users will be entitled to a reduced fee, the remainder will pay the full price.

Swimming pool attendance prognosis

Target attendance prognosis

Age	County demographic structure		Zone I	Zone II	Zone III*	Declared interest to use the swimming pool	Average frequency of use (p.a.)	Swimming pool attendance
			Town	County (ex Town)	Other counties			
	67 349		42 820	24 529	213 419			
0-15	14 072	21%	8 947	5 125	44 592			74 640
16-24	11 154	17%	7 092	4 062	35 345	69%	4,5	41 366
25-34	9 501	14%	6 040	3 460	30 106	75%	3,5	29 495
35-44	9 373	14%	5 959	3 414	29 702	78%	3,0	26 039
45-59	13 789	20%	8 767	5 022	43 694	73%	2,0	23 881
tourists (overnight stays)								16 500
Total								211 922

* the zone III potential was estimated as 50% of the number of inhabitants of Chodzież, Oborniki and Gniezno counties (excluding Gniezno itself), and Żnin and Nakło counties.

The calculated target attendance of 212 000 visitors to the swimming pool, means an average daily attendance of 630 people and 4,400 per week.

For the purposes of the financial model, the above attendance figures were converted into percentage indices of maximum capacity of the pool complex, subdivided into days of the week and school and holiday months.

	Variant I		Variant II	
	weekdays (general public)			
	school months	non-school months	school months	non-school months
1 st year of operation	40%	25%	39%	24,5%
2 nd year of operation	35%	22,5%	34%	22%
3 rd of operation and thereafter	30%	20%	29%	19,5%
	weekends			
1 st year of operation	45%		44%	
2 nd year of operation	40%		39%	
3 rd of operation and thereafter	35%		34%	

Source: Own estimates

Furthermore, group activities will be held according to the following assumptions:

Group activities		No. of activities per week	Price per hour (+ entry ticket)
Aqua-aerobics and other (eg. for obese persons, rehabilitaton, etc) – groups of 15	weekdays	3	8
	weekends	2	10
Activities for pregnant women and young mothers – groups of 6	weekdays	2	8

Prices incl. VAT, 48 weeks per year.

Source: Own estimates

WELLNESS & SPA AREAS

Price and general public attendance assumptions to the wellness & spa areas:

Activity		Effective paid time per day (hrs)	Average number of users (people/hr)	Average price (incl. VAT zł/person/hr)
Variant I	Saunas	4	12*	16
	Gymnasium	5	15	9
	Fitness	5	15	9
Variant II	Saunas*	4	11*	16
	Gymnasium	5	14	9
	Fitness	5	14	9
Activity		Effective paid time per day (hrs)	Number of stations	Average price (incl. VAT zł/person/hr)
Variant I	Masage, salt bath, health treatment	3,0	10	1,2
Variant II		2,8	10	1,2

* sauna complex capacity 25 people

Source: Own estimates.

Realizable rents for 50 m² floor space is 40 zł/m²/month (excl. VAT).

OTHER SOURCES OF INCOME

Snack bar rental (fast food) 60 m² – assumed monthly rent of 45 zł/m² (excl. VAT).

Income from space rental for drink and candy dispensing machines. It is assumed that two machines in the entrance hall will generate monthly rental fee of 170 zł each (about 1 m²)

Advertising space – assumed average revenue on different form of advertising (indoor and outdoor) of 10,000 zł/pa.

Leisure area (bowling club)

Bowling club price list [zł/hr/alley].

Price zł/alley/hr	Mon	Tue	Wed	Thu	Fri	Sat	Sun
9.00-12.00	25	25	25	25	25	25	25
12.00-17.00	25	25	25	25	25	45	45
17.00-23.00	45	45	45	45	45	45	25

Source: Own estimates.

The number of available hours at the less attractive times is assumed at 52 hours/week, assuming daily occupancy at 30% during first year of operation and 25% during the second and later years. Activity time during attractive hours is assumed at 46 hours per week, with average attendance at 46 hours weekly with occupancy at 60% in the first year, 55% in the second and thereafter.

Income from other available spaces in the bowling building (610 m², incl. catering, other leisure services) is estimated as equivalent to income from rent of these spaces, assuming monthly rental fee of 40 zł/m² (excl. VAT) and the occupancy factor at 70% during the first year, 80% in the second and 90% thereafter.

HOTEL

It is assumed that the three-star hotel will offer 75 rooms, and the hotel operator shall propose to appropriate room structure (single, double, triple rooms and apartments).

Hotel occupancy is planned to be 35% during the first year of operation, 38% in the second and 40% in the following years. Target occupancy has been adopted on the basis of analysis of data from the Institute of Tourism, applicable to the Wielkopolska province and Wągrowiec county, relating to the number accommodation places and the number of guests.

Average room price (per charging day) for the first year of operation has been assumed at 180 zł for one room (the price reflects the competitive impact of the Pietrak hotel).

The room price may include the package of additional services offered by the Aquapark (eg. swimming pool, saunas, gymnasium). For clarity of the Financial Projection, income from services offered by sports and recreation facilities to hotel guests were included in the overall revenue from sale of services.

Catering revenue has been assumed at 50 zł per room.

Other revenue generated by hotel guest (equipment rental, telephone charges etc) has been estimated at 10 zł/room.

Revenue from conference room rental is estimated as the average price of renting each bigger room (100 m² and 50 m²) at 600 zł/day, and for the two smaller rooms (30 m² and 20 m²) at 300 zł/day, with full equipment. It is assumed that occupancy rate of conference rooms will stand at 25% during the first year of operation, 30% in the second, and 35% starting with the third year.

6. OPERATIONAL INCOME

The table below shows the estimate of operational income for two discussed variants during the first five years of operation. Full Financial Projections for the Investment Project over a 40-year period have been presented for Variant I in the Annex No. 1, and for Variant II in Annex No. 2.

Operational income structure (first five years of operation) – Variant I.

Description	1	2	3	4	5
OPERATIONAL REVENUE					
Swimming pool complex	1 845 073	1 727 371	1 600 248	1 651 456	1 704 302
Wellness & spa area	1 067 611	1 101 007	1 135 471	1 171 038	1 207 744
Other revenues	46 480	47 967	49 502	51 086	52 721
Leisure area (bowling club)	590 219	598 273	622 580	642 503	663 063
Hotel	2 463 750	2 779 898	3 043 785	3 141 186	3 241 704
Total operational revenue	6 013 133	6 254 517	6 451 587	6 657 270	6 869 534
OPERATIONAL COSTS					
Aquapark	2 022 712	2 087 438	2 154 236	2 223 172	2 294 313
Leisure area (bowling club)	250 762	236 783	236 860	234 365	234 365
Hotel	1 517 841	1 712 590	1 875 135	1 935 139	1 997 064
Business operational costs	3 791 315	4 036 811	4 266 231	4 392 677	4 525 742
Property tax	117 932	121 705	125 600	129 619	133 767
Total operational costs	3 909 246	4 158 516	4 391 831	4 522 296	4 659 509
Net operational income (EBITDA)	2 103 887	2 096 001	2 059 756	2 134 974	2 210 025

Source: Own estimates.