Property Council New Zealand

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Submission on

Wellington City Council's draft Development Contribution Policy

22 November 2021

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Wellington City Council Draft Development Contribution Policy

1. Overview

1.1. Property Council New Zealand ("Property Council") welcomes the opportunity to provide feedback on the Wellington City Council's ("the Council") Development Contribution policy 2021 ("DC policy").

1.2. We support the Council adopting and adapting the new template issued by the Department of Internal Affairs. A consistent template will aid industry and cross-sectors understanding of DC policies.

1.3. It is critical to have a robust DC policy that allows the industry to make informed long-term investment decisions and ensures fair distribution of fees amongst all ratepayers. While we believe the proposed charges are reasonable, further work is still required to ensure fair distribution of fees amongst all ratepayers.

2. Recommendations

2.1. Our recommendations are:

- Seek early engagement with Property Council on the proposed future work of Equivalent Household Unit's;
- Do not include community infrastructure into Development Contribution ("DC") fees and consider alternative tools to cover the costs (e.g. rates, targeted rates, Special Purpose Vehicles);
- Ring-fence DC revenue and associated funded infrastructure to the local area that DC charges are located; and
- When making a decision, consider the broader impact of key reforms on the property industry, such as housing affordability.

3. Introduction

3.1. Property Council's purpose is; "Together, shaping cities where communities thrive". We believe in the creation and retention of well-designed, functional and sustainable built environments which contribute to New Zealand's overall prosperity. We support policies that provide a framework to enhance economic growth, development, liveability and growing communities.

3.2. Property is currently New Zealand's largest industry with a direct contribution to GDP of $41.2 billion (15 per cent). The property sector is a key foundation of New Zealand's economy and caters for growth by developing, building and owning all types of property.

3.3. Property Council is the leading not-for-profit advocate for New Zealand's largest industry – property. Connecting people from throughout the country and across all property disciplines is what makes our organisation unique. We connect over 10,000 property professionals, championing the interests of over 560 member companies who have a collective $50 billion investment in New Zealand property.

3.4. This submission responds to Wellington City Council Contributions Policy 2021 consultation materials. In preparing our submission we sought and received feedback from a selection of our Wellington-based members. Comments and recommendations are provided on those issues that are relevant to Property Council and its members.

4. Key concepts

4.1. One of the key concepts of the Council's DC policy is the use of Equivalent Household Unit's (EHUs). We have been notified that the Council is not proposing any changes as part of the current DC policy review but will seek feedback on this concept in the future. Property Council would like to be involved in future EHU discussions with the Council, preferably at the pre-engagement or development of policy stage.

5. Presentation

5.1. The Department of Internal Affairs issued a new template for DC policies in February 2021. We support the Council's decision to adopt and adapt the new template at this review as it will help the Council meet the requirements of the Local Government Act. Having a consistent template will also provide ease of understanding DC policies for the industry as a whole.

6. New charges

6.1. We believe that the proposed increases are reasonable. However, we are concerned that not all growth has been calculated under the current review. For example, the funding for 'Let's get Wellington moving' has not been included in the Long-Term Plan 2021-31. This means that more substantial increases will be expected in 2024 Long Term Plan, which we are cautious could extend to the proposed next review of development contributions.

6.2. We urge wider considerations such as; housing affordability and alternative funding mechanisms are considered well before the 2024 Long Term Plan and review of DC policy consultation documents are released. We welcome the Council to work closely with us for the 2024 review.

6.3. While we are in support of the current DC policy and proposed charges, further refinement of the policy is recommended to ensure fair distribution of fees amongst all ratepayers. These are outlined by our recommendations in the below paragraphs.

<u>Community infrastructure</u>

6.4. The Council plans to incur around $2.8 billion on community facilities partially or wholly needed to meet the increased demand for community facilities resulting from the asset investment that has a growth component. This includes works undertaken in anticipation of growth, and future planned works. The total amount to be funded by DCs is nearly $300 million.

6.5. We question using DCs to pay for community infrastructure. The Property Council has long opposed the incorporation of community infrastructure into DC fees. Collecting DCs to fund community infrastructure will result in an increase in DC fees charged to developers (ultimately passed on to the home buyer or tenant). Large increases in DC fees will negatively impact Wellington as developers will need to factor in the additional costs in their feasibility. A concoction of DC increases, increased material costs, skill shortages, supply chain restrictions and other uncertainties that the COVID-19 pandemic has caused, will impact on whether projects proceed. This is particularly concerning given the impact of COVID-19 on housing affordability.

6.6. Increased DC fees will likely result in the following outcomes:

- Additional costs being passed on to the eventual buyer or occupier, making housing and occupancy costs more expensive; and/or
- Planned developments are postponed or cancelled, due to increased costs reducing the overall affordability of the development or project.

6.7. In 2018, the Council commissioned Insight Economics[1] to complete an independent report on the likely developer reactions to increased DC charges. The report signalled several ongoing issues with DCs, which align with our concerns. In particular:

> *"**As DCs increase, the cost of land development rise, and thus its profitability falls**…In other words, land developers (who physically pay the DC) will seek to share some of the cost with raw land owners by paying them less for their land…it is unlikely that the resulting fall in land prices will be sufficient to fully compensate them. **As a result, the increase in DCs will also increase the total cost of land development**…"*
>
> *"**In summary,** economic theory predicts that the imposition of **higher DCs will impact most, if not all, participants in the wider property market.**"*

6.8. Given the above, we recommend the Council consider alternative funding mechanisms such as recovering the costs (or at least a portion of the costs of community infrastructure) through rates or targeted rates over the life of the infrastructure, or through a Special Purpose Vehicle. We believe that these alternatives would improve intergenerational equity and ensure that those who benefit from the community infrastructure help contribute towards it over a longer period of time, reducing the financial burden upfront. For example, targeted rates for the funding of community infrastructure could occur over a period of time compared to being a lump sum upfront in house prices.

[1] Insight Economics. (2018). Likely Developer Reactions to Increased Development Contribution Charges. Retrieved from https://www.hamilton.govt.nz/our-council/10-year-plan/10Year%20Plan%20documents/Economic%20report%20-%20Likely%20Developer%20Reactions%20to%20Increased%20Development%20Contributions%20Charges%20-%20Insight%20Economics%20Ltd.pdf

Ring-fencing income from DCs

6.9. From a fairness and intergenerational equity point of view, we recommend the Council ring-fence revenue collected from DCs to the local area. For example, DC revenue collected should be used to fund infrastructure within the local area that the DC charges occur. This will help ensure that DCs reflect the infrastructure costs within the area and will assist in the implementation and successful delivery of the projects these DCs have been collected for.

7. Additional comments

7.1 There are additional factors the Council should also consider before finalising the DC policy. We encourage the Council to take into consideration the broader impact from key reforms on the property industry at both a national and local level. For example, at a national level considering how resource reform and the National Policy Statement on Urban Development impacts DCs, and at a local level how the Let's Get Wellington Moving options will impact DCs. It's easy to look at one proposed change and expect that it will have minimal impact, but collectively these reforms could significantly increase the cost and risk of development.

8. Conclusion

8.1 The DC policy is of significant importance to our members in the Wellington region. It is absolutely critical to have a robust DC policy that would allow the industry to make informed long-term investment decisions and ensure fair distribution of fees amongst all ratepayers while not creating a further barrier to the development of affordable housing.

8.2 We keen to continue working with the Council to ensure fairness and equity of DC charges for all.

8.3 For any further queries contact Katherine Wilson, Head of Advocacy, via email: katherine@propertynz.co.nz or cell: 0278708150.

Yours sincerely,

Gerard Earl
Wellington Regional Chair