Property Council New Zealand

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Submission on

Hamilton City Council Draft Development Contributions Policy and Growth Funding Policy 2024

19 April 2024

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Hamilton City Council Draft Long Term Plan 2024-2034.

1. Summary

1.1 Property Council New Zealand Central Region ("Property Council") welcomes the opportunity to submit on Hamilton City Council's Draft Development Contributions Policy and Growth Funding Policy 2024. It is absolutely critical to have a robust development contribution policy that would allow the industry to make informed long-term investment decisions and ensure fair distribution of the cost of development amongst all ratepayers.

1.2 **Property Council strongly opposes the proposed increases to development contribution fees.** Development contributions can either enable or stifle development. Up to 131 per cent increases will negatively impact development resulting in; less development, less employment, less housing and less revenue for Hamilton City Council.

1.3 We are deeply concerned about the impact the proposed increases will have on housing supply and affordability. Significant development contribution fee increases will result in Hamilton becoming uncompetitive for new housing developments compared with neighbouring and other comparable regions. If enacted, this development contribution policy will add tens of thousands of dollars to the price of a new build house in Hamilton.

1.4 On 20 March 2024, New Zealand entered into a recession. The draft development contribution policy if enacted, would directly affect the feasibility of development projects across Hamilton. If projects are no longer feasible, they will be halted or stopped. This will have direct flow on effects to wider businesses and Hamilton's employment numbers.

1.5 In our view, there are significant issues with the approach taken to calculating development contribution fees increases. In particular, the Schedule of Assets outline what infrastructure projects Hamilton intend to fund with development contribution fees. Many of these projects are priced with all 'bells and whistles', which is contrary to today's tough economic environment. A more sensible Schedule of Assets is strongly advised.

1.6 There have been increases to development contributions over successive years, which is not financially sustainable. Any modelling that assumes that development will continue regardless of development contribution increases is fundamentally flawed. Our members tell us that development will stall and go elsewhere which will add to our existing housing crisis, hurt employment across the city and make Hamilton City Council financially worse off.

1.7 To address our concerns, we strongly recommend that Hamilton City Council pauses their Development Contribution policy and work closer with the private sector to revise what Schedule of Assets are 'must haves' or 'nice to haves'. Working closer with the private sector will also help determine what assets are necessary and better align growth plans with infrastructure spend. Furthermore, this exercise could result in some assets being delivered by the private sector, reducing councils balance sheet.

1.8 Following a pause and review of Hamilton City Council's Schedule of Assets, if development contributions fees continue to have large increases, we recommend phasing these across a three-year period. This would better enable alternative funding and financing tools to be urgently implemented to reduce the cost pressure associated with development contributions. These could include the use of Special Purpose Vehicles, a city and regional deal or additional funding through the Government's proposed Housing for Growth policy.

2. Recommendations

2.1 Property Council recommend that Hamilton City Council:

- Pause the Development Contributions Policy and review Hamilton City Council's Schedule of Assets with the private sector;
- Does not increase development contributions by the amount proposed and instead reduces the rate of increase;
- Once a pause and review is complete, phase in any changes to development contributions over a three-year period;
- Supplements development contributions with alternative funding and financing tools to reduce cost pressures;
- Specifies the trigger for development contribution payments, rather than leave it to Council discretion on when to levy;
- Extends the 100 per cent central city remission for all eligible developments of six or more stories (until 30 June 2027);
- Adopts a 50 per cent remissions for all eligible developments in the central city (until 30 June 2027);
- Retain non-residential capped charges; and
- Adopt a standardised stormwater charge of one Household Unit Equivalent.

3. Introduction

3.1 Property Council is the leading not-for-profit advocate for New Zealand's most significant industry, property. Our organisational purpose is, "Together, shaping cities where communities thrive".

3.2 The property sector shapes New Zealand's social, economic and environmental fabric. Property Council advocates for the creation and retention of a well-designed, functional and sustainable built environment, in order to contribute to the overall prosperity and well-being of New Zealand.

3.3 Property is the second largest industry in the Waikato. There are around $130.4 billion in property assets across the Waikato, with property providing a direct contribution to GDP of $2.8 billion (12 percent) and employment for 18,030 Waikato residents.

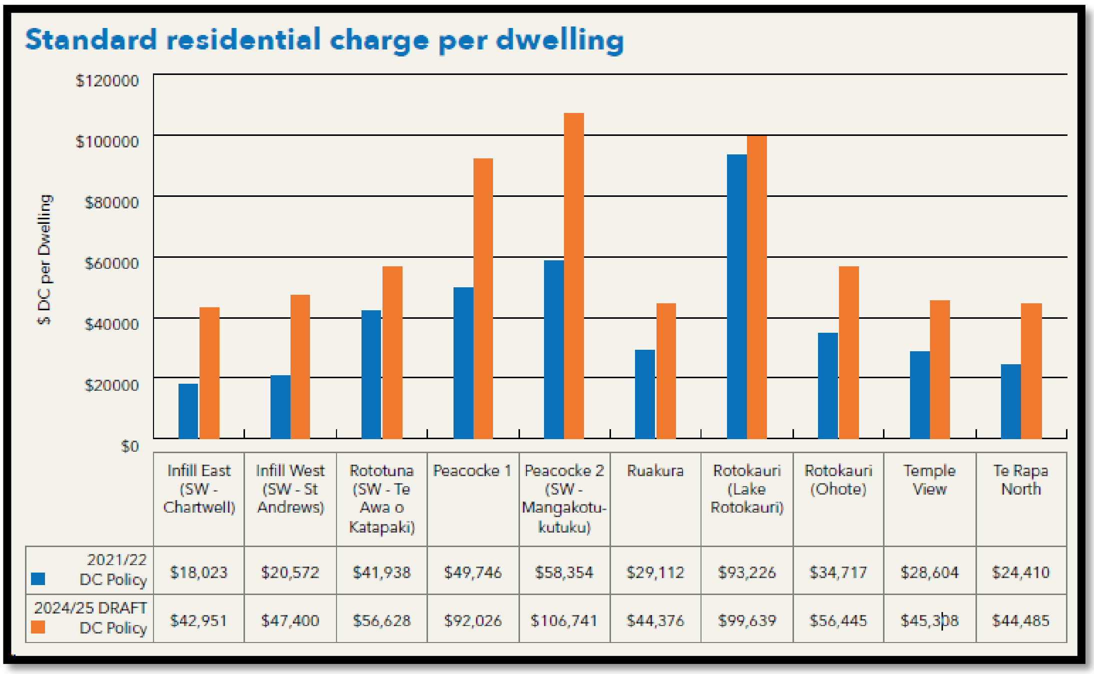
3.4 Property Council is the collective voice of the property industry. We connect property professionals and represent the interests of 86 Waikato based member companies across the private, public, and charitable sectors.

4. Impact of proposed fee increases

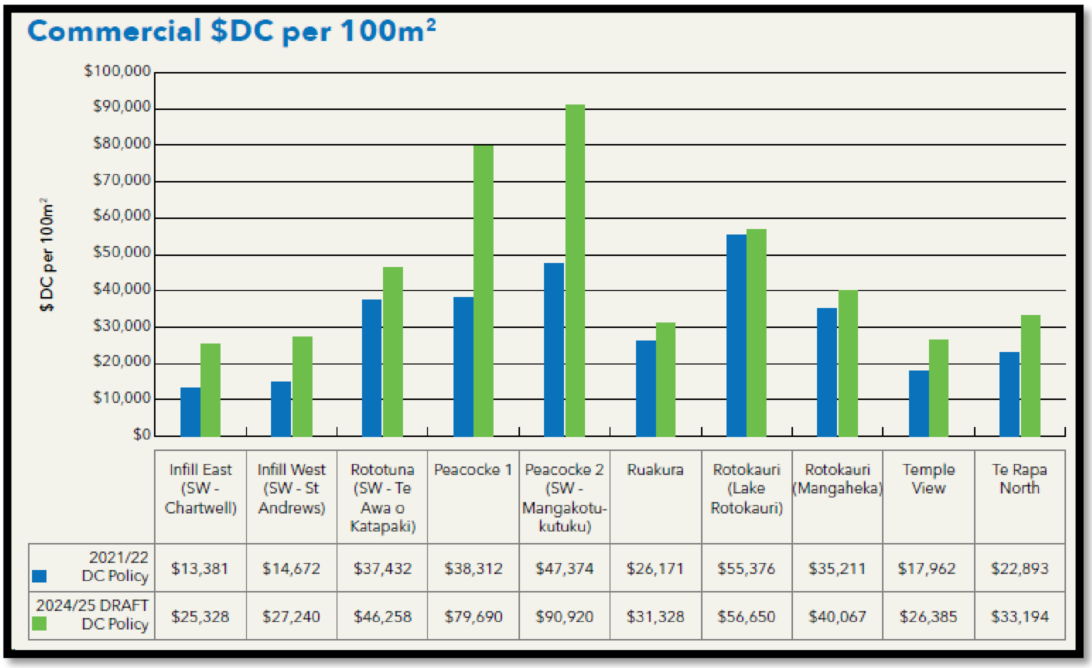
4.1 Development contributions can either enable or stifle growth. This is evident in Hamilton City Council's own remission policy to encourage development within the Central Business District. Thus, increasing fees by up to 131 per cent is a strong deterrent for development in Hamilton and introduce a huge amount of uncertainty into the market.

4.2 Hamilton City Council has proposed staggering increases to development contributions fees across Hamilton. Graphs one, two and three show the respective increases to development contributions fees for residential, commercial, and industrial developments.

Graph one: Increase to residential development contributions:



Graph two: Increase to commercial development contributions:



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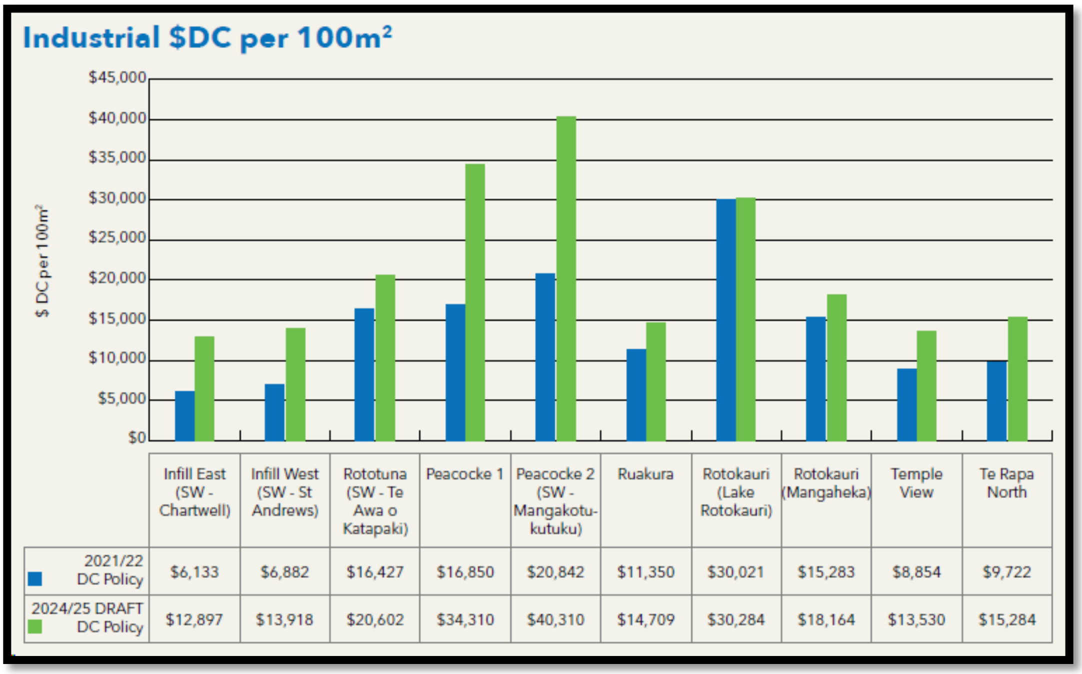
Graph three: Increase to industrial development contributions:



	Infill East (SW - Chartwell)	Infill West (SW - St Andrews)	Rototuna (SW - Te Awa o Katapaki)	Peacocke 1	Peacocke 2 (SW - Mangakotu-kutuku)	Ruakura	Rotokauri (Lake Rotokauri)	Rotokauri (Mangaheka)	Temple View	Te Rapa North
2021/22 DC Policy	$6,133	$6,882	$16,427	$16,850	$20,842	$11,350	$30,021	$15,283	$8,854	$9,722
2024/25 DRAFT DC Policy	$12,897	$13,918	$20,602	$34,310	$40,310	$14,709	$30,284	$18,164	$13,530	$15,284

4.3 Property Council strongly opposes the proposed increase in development contribution fees. We are deeply concerned that the increase in development contributions will have negative implications on new development across Hamilton.

Impact on housing affordability

4.4 It’s easy to look at an increase and expect that it will have minimal impact, but collectively these increases could significantly increase the cost and risk of development. At a time when we desperately need to be increasing Hamilton’s housing supply, particularly of affordable housing, and streamlining development, we are potentially creating a ‘perfect storm’ that could have the opposite effect.

4.5 For example, Peacocke 2 residential developments are increasing by $48,387 making a standard development contribution fee for a residential property **$106,741**. Peacocke developers have informed us that they will halt developments as an increase of this scale will result in the new build house being unaffordable for purchasers.

4.6 Increased development contribution fees across Hamilton will likely result in the following outcomes:

- Additional costs being passed onto the eventual buyer or occupier, making housing and occupancy costs more expensive; and/or
- Planned developments being postponed, re-evaluated, or cancelled, due to increased costs reducing the overall affordability of the development or project; and
- Less affordable typologies of housing being built.

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Impact on housing typology in Hamilton:

4.7 High development contribution fees will impact housing typologies. There is a tipping point where developers cannot feasibly provide town houses or apartments at any level of affordability, creating incentives for larger standalone housing.

4.8 For example, medium density housing is an important type of housing within the housing continuum that is at risk of not advancing under the draft DC policy. Medium density housing provides for smaller scale of dwellings, more efficiency use of land and can be delivered to the market at lower price points than larger standalone housing. Medium density housing relies on efficiencies of scale, repetition, and lower overall development costs per dwelling to deliver affordable homes to the market.

4.9 The proposed increase in development contributions will have a significant, and negative, impact on the ability of medium density housing to be delivered. It will increase the required sale price to levels that will materially reduce the competitiveness and affordability of medium density housing. This will force greater development of standalone housing and reduce the delivery of affordable housing across Hamilton. This will have a material impact on the housing crisis and lead to greater housing supply challenges.

Impact on business and employment

4.10 Furthermore, Property Council's Property Impact report[1], shows that the property sector provides employment for 18,030 Waikato residents. A significant portion of these workers will be employed and/or live in Hamilton. Having a development contribution policy that makes development unfeasible will have direct implications for employment, with numerous flow-on effects to the multitude of professional services and sub-contractors (such as plumbers or electricians) that work on new developments.

4.11 A typical land development subdivision project might employ around 130 people over the life of the project. A typical 100-unit apartment development project might employ around 300 people over the life of the project. If development goes elsewhere, the flow on effects for Hamilton are enormous.

4.12 For example, in 2020 as part of Hamilton City Council's application for Shovel Ready Project funding, it was estimated that the Amberfield development and associated infrastructure will provide 1,580 full time jobs per annum for the construction period. The Ambertfield construction activity alone estimated an average spend of c.$50mil per annum for the construction period, further stimulating the economy.

4.13 Unaffordable development contribution fees will result in less activity, less employment and less spend in Hamilton City.

Hamilton City Council's development contribution fees comparable to other councils:

4.14 Property Council is also concerned that the economic advice provided to Hamilton City Council by Insight Economics is inadequate and based on flawed assumptions. Our members are clear that there is a significant risk that the proposed increases to development contributions irrevocably harm development feasibilities across Hamilton and make Hamilton non-competitive with other regional destinations for housing development.

[1] Property Industry Impact Report 2021, Property Council New Zealand.

4.15 Development contributions can either enable or stifle development. Hamilton City Council's own existing use of development contribution remissions highlights the understanding that developers are sensitive to cost pressure from development contributions. There is substantial risk that housing development is pushed out of Hamilton to nearby Councils such as Waipa District or Waikato District. This is not an outcome that is desirable for Hamilton.

4.16 Table two shows the average residential development contribution for other Councils and highlights the high rate of development contribution cost pressure in Hamilton. It is alarming to see that Hamilton City Council is double Waipa District Council, Waikato District Council and Auckland Council residential development contribution fees.

Table one: Average across other Council's

Development Contribution Fees (Average) 2024		
Council:	**Residential (Standard)**	
Hamilton City Council	$	54,856.66
Tauranga City Council	$	50,025.50
Hutt City Council	$	30,507.20
Waipa District Council	$	25,410.27
Waikato District Council	$	24,447.35
Auckland Council (weighted calculation across urban Auckland - exclude Drury as data inclusive of Drury is unavailable)	$	21,500.00

4.17 It is easy to see that Hamilton will become an unappealing place to develop. Lower development contributions in the Waikato and Waipa Districts will mean more development moves there instead, creating regional sprawl.

4.18 Overall, Property Council strongly recommends that Hamilton City Council does not increase development contributions by the amount proposed and instead pauses the process to reassess the scheduled assets and reduce the rate of increase.

5. Problems with the model

5.1 Under section 197AA of the Local Government Act 2002, Hamilton City Council must ensure that the approach taken to development contributions is fair, equitable and is proportionate of the total costs of capital expenditure to service growth over the long term. We have serious concerns over the approach proposed in this policy.

5.2 Property Council is concerned that the Schedule of Assets shows significant increases and numerous re-classifications of line items. In our view this approach lacks transparency. We are also concerned over the extent to which the development contributions policy proposes to charge for secondary infrastructure that could be delivered by a private developer.

5.3 It appears that Hamilton City Council is over-estimating the extent to which it will deliver secondary infrastructure relative to the private sector, and then charging development contributions on that flawed assumption. We recommend consulting with developers and landowners to develop a revised Schedule of Assets that reflects what needs to be delivered by Hamilton City Council.

5.4 We also are concerned that there appears to be overprovision of infrastructure in some circumstances. Sufficient infrastructure is critical for enabling development; however it is also important to balance affordability when scoping the quantum of infrastructure to provide in a given growth cell. We recommend working more closely with the private sector to peer review the Schedule of Assets.

6. Revised approach for development contributions

6.1 Alongside reduced rates of increase to development contribution fees, Property Council strongly recommends that Hamilton City Council phase in any development contribution changes over a three-year period. This would enable alternative funding and financing tools to be urgently implemented to reduce the cost pressure associated with development contributions.

Phased in approach

6.2 There is precedent for this move, with Hamilton City Council having previously phased in increased development contribution fees over a three-year period in 2021 for Peacocke 1, Peacocke 2, Rotokauri, Rototuna and Ruakura. Hastings District Council also committed to increasing development contributions over a five-year period in 2023.

6.3 Phasing in changes to development contributions would give the property sector time to adjust to the new operating environment and enables emerging projects to factor in the cost of development contributions into project feasibility analysis. It would also ensure that existing projects that are underway are able to be completed on budget.

6.4 Preserving the current pipeline of projects is critical for Hamilton, not only for efforts to ensure housing supply and affordability, but also to ensuring that Hamilton City Council receives revenue from development contributions. Without revenue from existing projects, Hamilton City Council risks higher debt interest costs, which will impact on Council debt levels and negatively impact ratepayers.

6.5 Having a three-year phase in for any development contribution changes would enable Hamilton City Council to urgently investigate and implement alternative funding and financing tools to supplement development contributions. These could enable fee increases to be significantly lower than otherwise planned for and reduce debt interest costs for Hamilton City Council. Our position on these tools is discussed below.

Supplementary funding sources

6.6 Property Council champions the need for alternative funding tools to supplement development contributions. Our support for more innovative approaches to funding and financing for local government is reiterated in our submission on Hamilton City Council's proposed Long Term Plan 2024-2034. We strongly recommend supplementing development contributions with these alternative funding and financing tools, to reduce cost pressure on new developments.

Alternative funding and financing tools

6.7 Property Council strongly supports the use of alternative funding and financing tools by local government, such as targeted rates, public-private-partnerships, or Special Purpose Vehicles ("SPVs") as enabled under the Infrastructure Funding and Financing Act. We recommend that Hamilton City Council implement alternative funding and financing tools for infrastructure.

6.8 For example, SPVs are an important tool for funding and financing infrastructure in a fair and equitable manner. SPVs are advantageous as they sit off a Council's balance sheet and do not impact debt levels. Property Council has previously supported Tauranga City Council's use of SPVs for the Transport System Plan and Civic Precinct project, as well Wellington City Council's use of SPVs for the Moa Point sludge minimisation project.

6.9 All these additional tools are transparent, beneficiary pays funding models for local government, that are more equitable to ratepayers and better meet the legislative principles of transparency and objectivity for funding local government set out in both the Local Government Act 2002 and Local Governing (Rating) Act 2002.

Role of central government

6.10 We acknowledge Hamilton City Council's success to date in securing central government funding through initiatives such as the Infrastructure Acceleration Fund (IAF).

6.11 With the recent change in Government, there is increasing growing discussions regarding city and regional deals between central and local government that could unlock funding and create certainty for future infrastructure investment. City and regional deals are a long-term agreement between central and local government to establish shared infrastructure investment and an agreed pipeline of funding.

6.12 Plausibly, these arrangements could further encompass new and innovative approaches to funding and financing, such as revenue sharing measures (i.e. sharing GST with local government), public-private partnerships, value capture and/or user-charges (i.e. road-congestion charges). The new government also campaigned on a "Going for Housing Growth" policy that plans to introduce financial incentives for Council's that build greater amounts of new housing.

6.13 Having greater financial support and investment from central government will drive improved infrastructure outcomes across Hamilton. This will help unlock Hamilton as an exciting place to live, work, play and shop, as well an attractive destination for investment and development. Property Council recommends that Hamilton City Council pursue a city and regional deal for Hamilton.

7. Milestones at which development contributions are charged

7.1 Hamilton City Council is proposing to introduce a high degree of discretion to determine the milestone that development contributions will be assessed and levied at. Changes have been made to include a list of non-exhaustive factors that Hamilton City Council will consider when making that determination.

7.2 Property Council is seriously worried that this approach does not align with the requirements of with section 201 of the Local Government Act 2002. Section 201 provides that a development contributions policy must contain a schedule in accordance with section 202 of the Local Government Act 2002. This section requires that the schedule:

> *"(1) … must specify –*
>
> *…*
>
> *(b) the event that will give rise to a requirement for a development contribution under section 198, whether upon granting—*
>
> *(i) a resource consent under the Resource Management Act 1991; or*
>
> *(ii) a building consent under the Building Act 2004; or*
>
> *(iii) an authorisation for a service connection."*

7.3 Section 202(1)(b) of the Local Government Act 2002 is clear that a development contribution policy must specify the trigger for development contributions, rather than leave it to a Council discretion when to levy.

7.4 On a practical level, Property Council is concerned that a move towards requiring development contributions at the building consent stage will create huge uncertainty for the sector. This is particularly the case for larger commercial, or industrial projects that can take several years to complete.

7.5 Projects require certainty. For example, sudden and unexpected increases, like an additional and unplanned $50,000 to a residential development or $19,486 per sqm for an industrial development, coming through at the tail end of a project can have significant financial and feasibility impactions on a project. It will have direct flow on effects to pricing of properties for sale and/or lease.

7.6 To address our concerns, we recommend that Hamilton City Council implements a development contribution policy that specifies the trigger for development contributions, rather than leave it to discretion as to when to levy.

8. Development contributions in the City Centre

Central City High Rise Remission

8.1 Hamilton City Council is proposing to extend the current 100 per cent remission for buildings six storeys and above to encourage developers to build higher density in the central city, for a further three years (until 30 June 2027). Developments are required to engage with the Design Advisory Panel and achieve Lifemark 4-star certification for the residential components to be eligible.

8.2 Property Council supports the proposed extension of the 100 per cent remission for buildings six storeys or more. Development contribution remissions, alongside existing policy measures such as Plan Change 12, will further support intensification in the central city.

Central City Remission

8.3 Hamilton City Council is proposing to extend the development contributions remission in the central city for a further three years (until 30 June 2027) at a reduced rate of 33 per cent, down from 50 per cent. Developments are required to engage with the Design Advisory Panel and achieve Lifemark 4-star certification for the residential components to be eligible.

8.4 We support a 50 per cent remission for eligible developments in the central city.

9. Non-residential capped charges

9.1 Hamilton City Council proposes to reduce the coverage of non-residential capped charges to only include small scale retail and commercial development in neighbourhood centres.

9.2 Property Council has previously supported the implementation of capped charges and favoured their expansion for residential development as well in our 2021 submission. As such, we recommend retaining capped charges for non-residential developments of all sizes. This encourages a range of size, scale, and typologies of non-residential buildings across Hamilton. Reducing the capped charges to only include smaller buildings will likely encourage smaller developments and could have unintended design and functionality consequences of piecemeal developments.

10. Calculating stormwater changes

10.1 Hamilton City Council proposes to standardise the stormwater charge across all residential developments, regardless of their size, at one Household Unit Equivalent (HUE). Property Council supports this proposal.

10.2 We have held longstanding concerns over the use of bedrooms as a proxy for infrastructure demand. There is not a strong link between the number of bedrooms and occupancy, nor the impact on stormwater system demand. As such, we recommend adopting a standardised stormwater charge of one HUE in the development contributions policy.

11. Growth Funding Policy

11.1 Hamilton City Council is also proposing changes to the existing Growth Funding Policy, that includes changes to private development agreements (PDAs). Property Council is concerned that the wording of section 11b implies that Hamilton City Council is proposing to introduce some form of value capture scheme through PDAs.

11.2 While Property Council supports the principle of introducing value capture for significant infrastructure projects, we do not support the use of PDAs to introduce value capture into the Hamilton context. The purpose of development contributions is set out in the Local Government Act 2002 and does not include value capture.

11.3 However, we also welcome the reference in section 12b to the interests of future residents. It is important that local government plans for the needs of future generations and provides housing and infrastructure on that basis.

12. Conclusion

12.1 Property Council strongly opposes the proposed increases to development contribution fees. We are deeply concerned that the draft development contribution policy if unchanged, will have significant negative impacts, resulting in; less development, less employment, less housing and less revenue for Hamilton City Council.

12.2 We strongly recommend that Hamilton City Council **pause and revises** the development contributions policy and Schedule of Assets. Once complete, any increases should be phased in over a three-year period. This would enable the use of alternative funding and financing tools to supplement development contributions and reduce cost pressure on new development in Hamilton.

12.3 Property Council members invest, own, and develop property in Hamilton. We thank Hamilton City Council for the opportunity to submit on the draft Development Contributions Policy and Growth Funding Policy 2024. We also wish to be heard in support of our submission. Any further enquires do not hesitate to contact Logan Rainey, Advocacy Advisor, via email: Logan@propertynz.co.nz or cell: 021410787.

Yours Sincerely,

Morgan Jones
Central Committee Chair
Property Council New Zealand