Property Council New Zealand

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Submission on Auckland Council's Draft Contributions Policy 2025

15 November 2024

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Submission on Auckland Council's Draft Contributions Policy 2025

1. Summary

1.1. Property Council New Zealand ("Property Council") welcomes the opportunity to submit a response to Auckland Council on their Draft Contributions Policy 2025 ("the Draft Policy").

1.2. The Draft Policy applies to the four Investment Priority Areas ("IPAs"): Mount Roskill, Māngere, Tāmaki and the Inner Northwest (Red Hills, Westgate and Whenuapai) and adds additional costs to the Drury Investment Programme. All IPAs have been identified for significant future growth by Auckland Council.

1.3. To enable this growth, the Draft Policy proposes how Auckland Council will apply a 30-year funding and financing strategy and use Development Contributions ("DCs") to fund future transport, stormwater, parks, and community infrastructure.

1.4. We acknowledge the challenges of funding and financing future infrastructure. However, we call for a robust and fair approach which will enable the industry to make well-informed long-term investment choices.

1.5. Property Council is alarmed that the proposed increases in the average DC per household is up to 289 percent increase. This will have direct effects on reducing housing affordability, limiting intensification, and decreasing the number of homes developed, including first-time buyer homes and those built by social and affordable providers.

1.6. Property Council's past submissions on Drury DC Policy outline our serious reservations about Auckland Council's 30-year funding and financing model. Our past submissions cite concerns around complexity, uncertainty, accuracy, fairness, inequity, and transparency.

1.7. At a high level, we recommend Auckland Council pause the DC Policy and review Auckland Council's Schedule of Assets with the private sector. Once a pause and review are completed, if DCs are still a significant increase, we recommend Auckland Council phase in charges over a three-year period. We further recommend Auckland Council adopts a 30-year strategic vision, funded in 10-year intervals with an investigation into funding from Crown Infrastructure Partners (soon to be the National Infrastructure Agency) under the Infrastructure Funding and Financing framework.

2. Recommendations

2.1. At a high level, Property Council recommends that Auckland Council:

- Collaborate with the private sector to better understand the implications of DC increases on the housing system and housing prices in particular;
- Does not increase development contributions by the amount proposed and instead reduces the rate of increase;

- Pause the DC policy and review the schedule of assets with the private sector. Once a pause and review are complete, phase in any changes to development contributions over a three-year period;
- Does not adopt a 30-year infrastructure funding and financing strategy using DCs. Instead, Auckland Council should create a 30-year strategic vision, with funding and financing structured in 10-year increments;
- Seek to incorporate funding from Crown Infrastructure Partners (soon to be the National Infrastructure Agency) under the Infrastructure Funding and Financing framework;
- Consider shifting some of the burden for growth onto existing rate payers who also benefit from new and upgraded amenities and a better functioning urban environment;
- Consider targeted rates to defer and shift some of the payment for growth from developers to subsequent owners of new housing;
- Introduce independent auditing of its costing assumptions and plans for infrastructure delivery. In particular, more detailed costings for stormwater provisioning is required;
- Collaborate closely with developers already undertaking infrastructure investment in the IPAs to avoid the possibility of overcharging;
- Ringfence DCs paid in an area to ensure they are used in that area; and
- Continued engagement with the Property Council in order to arrive at a suitable solution to funding and financing Auckland's future infrastructure needs.

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. We aim to unlock opportunities for growth, urban development, and productivity to improve New Zealand's prosperity.

3.3. Property is Auckland's largest industry. There are around $997.8 billion in property assets across Auckland, with property providing a direct contribution to GDP of $13 billion and employment for 87,080 Auckland residents.

3.4. We connect property professionals and represent the interests of 388 Auckland based member companies across the private, public, and charitable sectors.

3.5. This document provides Property Council's feedback on Auckland Council's Draft Development Contributions Policy 2025. Comments and recommendations are provided on issues relevant to Property Council's members.

4. Negative impacts of DC increases on our housing system

4.1. Property Council is concerned at the negative outcomes DC increases will have on the housing system. In particular: housing affordability.

4.2. According to Auckland Council, the proposed weighted average Auckland-wide DC charge is $50,000. Tāmaki ($119,000) and the Inner Northwest ($98,000) both have significantly higher proposed DCs. In the Inner Northwest, developers are undertaking their own stormwater mitigation measures, which is another cost on top of already high DC charges (which are proposed to increase by 289 per cent). Stormwater costs must still be added to Mt Roskill and Māngere, so their DC charge will be revised even further upwards. (See Table 1).

Table 1: Average Current and Proposed DCs per household*

IPA	Current DC	Average Proposed DC	Percent Increase	Additional Charges/Comments
Inner Northwest	$25,167	$98,000	289%	Stormwater to be covered by developer mitigation – therefore an additional development cost
Tāmaki	$31,157	$119,000	282%	
Mt Roskill	$20,406	$52,000	155%	Stormwater to be added in 2025
Māngere	$18,123	$29,000	60%	Stormwater to be added in 2025
Drury**	$70,000	$83,000	19%	In March 2023, Drury had a 268 per cent increase in DCs (from $22,564 to $83,251). This new DC increases are on top of this.
Auckland-wide weighted average	$21,000	$50,000	138%	

**GST to be added*
***Data supplied by Auckland Council Rates Team at an online information session on 9/10/24*

4.3. Property Council is concerned that increased DCs will hinder investment and delay much-needed housing so potentially exacerbating disparities in regional housing availability. Developers will be assessing opportunities/viability across Auckland and even nationally. DC charges form part of this analysis, and the proposed increases will significantly impact viability.

4.4. We believe that increasing DCs will diminish supply, increase prices for existing homes and burdening new housing stock with higher development costs.

4.5. Auckland Council also claims that increasing DCs will lower land values, and therefore reduce development costs. In 2018, Insight Economics completed an independent study for Hamilton City Council on Likely Developer Reactions to Increased DC Charges. They noted several 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 landowners 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**." [1]

4.6. As an example, developers who have already bought land and signed contracts to build would then be straddled with significant unexpected DC increases. They would be forced to try and recoup costs, which includes increasing the prices for homes.

4.7. Direction 3 of the Auckland Plan aims to transform the housing system to "ensure secure and affordable homes for all."[2] We believe that the scale of proposed DC increases will have the opposite outcome.

4.8. First-time buyer homes and those built by social and affordable providers must still pay the increased DC charges. Since the charges make up a higher proportion of the overall development cost, it will make viability harder to achieve. Community housing providers have limited budgets, and this will eat into their delivery programmes. In particular, this is an issue in Tāmaki which has been earmarked for more of these homes.

4.9. Intensification can maximise the benefit from infrastructure spend and is a more efficient way to boost new housing supply, especially the delivery of social, affordable, and first-time buyer homes. Since each new home has a DC charge, this will disincentivise intensification and so reduce overall supply.

4.10. To address our housing affordability concerns, we strongly recommend that Auckland Council pauses their DC 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 Auckland Council's balance sheet.

4.11. Following a pause and review of Auckland Council's Schedule of Assets, if DC fees continue to have large increases, we recommend phasing these across a three-year period. This would better enable alternative funding and financing tools (i.e. Special Purpose Vehicles, Regional Deals, or additional funding through the Government's proposed Housing for Growth policy) to be urgently implemented to reduce the cost pressures associated with DCs.

4.12. We recommend that Auckland Council works closely with the private sector to better understand the implications of DC increases on the housing system and housing affordability.

5. Negative impacts of 30-year funding periods

5.1. We are alarmed that Auckland Council is continuing to propose a 30-year period for funding and financing infrastructure. This creates an adverse precedent for future development in Auckland and is a significant departure from 10-year timelines used in other Councils' Long-Term Plans.

[1] Hamilton City Council, Ordinary Council Meeting, Council 10 Year Plan Agenda: Item 5- Attachment 6, Tuesday 27 March 2018 https://hamilton.govt.nz/your-council/meetings/calendar/detail/ordinary-council-201803270930.

[2] https://www.aucklandcouncil.govt.nz/plans-projects-policies-reports-bylaws/our-plans-strategies/auckland-plan/homes-places/Pages/direction-shift-housing-system-ensures-secure-affordable-homes.aspx

5.2. Section 197AA of the Local Government Act, requires Auckland Council to ensure that a 30-year approach is fair, equitable, and proportionate to the overall costs of capital expenditure required for long-term growth. We consider that the complexities with a 30-year approach creates significant issues in meeting this.

5.3. In the draft policy document, Auckland Council acknowledges that "capital expenditure over a 30-year horizon inevitably involves a higher degree of uncertainty than over the 10-year horizon of the Long-term Plan 2024-2034."[3]

Accuracy concerns

5.4. DCs are determined by long-term projections of population growth and infrastructure costs, which are difficult to accurately predict. For example, accurately calculating inflation, interest rates, delivery risks, construction costs, and projected future demand for infrastructure is extremely challenging over a 30-year period.

5.5. Furthermore, it makes it difficult for developers to verify if charges are correct and demonstrates the need for an independent auditor. We have received member feedback that perceptions of a lack of transparency and accountability is reducing trust in the system.

5.6. This is best exemplified in Drury. DCs were increased by 268 percent in only 2023, but Auckland Council is now demanding an additional 19 percent due to upward revised assumptions. This demonstrates that circumstances often change, or assumptions were not accurate, even over a brief period.

5.7. The uncertainty created from a 30-year approach makes it difficult for developers to predict costs, so increasing development risk and reducing their willingness to invest. To achieve its growth aims, we recommend Auckland Council collaborates with developers to understand and act on their concerns.

Over collection concerns

5.8. Given the complexity and regular changes to plans, we have genuine concerns that there could be an over-collection of DCs, necessitating Auckland Council to trace developers in 30 years to refund any excess charges. This scenario further complicates an already challenging approach.

5.9. For example, Property Council is aware that Auckland Council has recently provided multiple refunds for stormwater provisions based on inaccuracy and over collection.

5.10. In particular, members want more detailed costings for stormwater provisioning. This is to ensure a balance between existing population requirements (paid via rates) and future growth needs (paid via DCs). Members have raised concerns about the substantial increases in Tāmaki which will contribute towards DC's increasing by 282 percent.

5.11. The inaccuracy of recent stormwater calculations underpins the lack of trust and confidence in Auckland Council's approach and impacts on developers' ability to predict costs which in turn increases their risk and decreases investment appetite.

[3] Auckland Council, Sharing the cost of growth Contributions Policy 2025 Consultation Document September 2024

Inequity concerns

5.12. The 30-year funding period also gives rise to issues of equity. Developers (and therefore indirectly homebuyers) must pay upfront for infrastructure that will not be delivered until much later, or in a different format. In essence, homebuyers could indirectly pay for items such as a new public pool or other community amenity that they potentially may never use if they move house before it is built.

5.13. Additionally of concern is that DCs are not ringfenced. This means that DC fees could be collected in Tāmaki and spent in Drury (or elsewhere).

Alternative solution

5.14. Property Council strongly recommends a 30-year strategic vision for IPAs, coupled with funding and financing allocated in 10-year increments that can be re-forecasted over time.

5.15. The 10-year increment model also promotes a fairer cost allocation, greater transparency, and intergenerational equity by ensuring community infrastructure users contribute over time, so reducing an immediate financial strain. It has been successfully used for greenfield development in Milldale, Auckland. Both Wellington and Tauranga City Councils also use this model to finance infrastructure initiatives, plus it is utilised overseas.

5.16. Auckland Council should consider sharing costs with existing rate payers who will benefit from new and upgraded amenities and a better functioning urban environment. Also, consideration should be given to using targeted rates to defer and shift some of the growth payments from developers to subsequent owners of new housing.

6. Feedback from our members

6.1. Property Council has established a Development Contributions Taskforce with over 40 members from across Auckland, covering professions like developers, agents, planners, and lawyers etc. We surveyed this Taskforce and a wider group of our Auckland members to understand their view of the Draft Policy's implications.

6.2. Key results from our survey include:

- 75% believe that if Auckland Council applied the Draft Policy it would result in the feasibility of development projects being re-evaluated. Also, 62% felt that some development projects would be halted.
- 99% agreed that the development contributions policy must be independently audited.
- 93% agreed that Auckland Council must consider alternative funding mechanisms.
- 87% opposed the Draft Policy in its current form.
- 81% agreed the proposed increases in development contributions were unreasonable.
- Across all the IPA's, our members agreed that the Draft Policy would create uncertainty and negatively impact on housing affordability with reductions in development feasibility, intensification and new housing supply resulting in higher house prices.

6.3. Conversations with our members indicate that they genuinely believe that increased DC costs will be passed onto buyers or due to feasibility issues, lead to lower specifications, project delays or cancellations. Already we have had members confidentially informing us that projects are being reconsidered as they no longer stack up.

6.4. Our members are also telling us that landowners will hold on to land rather than sell below their expectations, which will impact on the delivery of future projects/new homes.

7. Negative impacts on Auckland Council's finances

7.1. Auckland Council’s Draft Policy will hinder development. Any decline in the development pipeline will decrease revenue from growth-related sources, including DCs and future rates. This would negatively impact Auckland Council's finances and potentially leave them unable to fund planned infrastructure. Therefore, we strongly recommend that Auckland Council reconsiders their proposed approach.

8. Conclusion

8.1. Property Council is genuinely concerned that the 30-year funding and financing model along with substantial increases in contributions is fundamentally flawed and will restrict essential development, leading to negative impacts on housing affordability and supply. It poses a risk to residential, commercial, industrial, and retail projects and will drive the sector to consider development opportunities elsewhere in New Zealand.

8.2. We strongly advocate for Auckland Council to pause the DC Policy and review Auckland Council’s Schedule of Assets with the private sector. Once a pause and review are completed, if DCs are still a significant increase, we recommend phasing in changes over a three-year period.

8.3. We also recommend a 30-year strategic vision for IPAs, coupled with funding allocated in 10-year increments that can be re-forecasted over time. This also allows for the possibility of alternative funding mechanisms, like funding from Crown Infrastructure Partners (soon to be the National Infrastructure Agency) under the Infrastructure Funding and Financing framework.

8.4. For any further enquiries, please do not hesitate to contact Terry Jones, Senior Advocacy Advisor, via email: terry@propertynz.co.nz or cell: 027 338 0694.

Yours Sincerely,

Martin Cooper
Auckland Committee Chair