Property Council New Zealand

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Submission on "Testing our thinking: Developing an enduring National Infrastructure Plan" discussion paper

10 December 2024

For more information and further queries, please contact
Terry Jones terry@propertynz.co.nz 027 338 0694

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The Infrastructure Commission - Te Waihanga
Via Email: info@tewaihanga.govt.nz

Submission on Testing our thinking: Developing an enduring National Infrastructure Plan

1. Summary

1.1. Property Council New Zealand ("Property Council") welcomes the opportunity to submit a response to The Infrastructure Commission Te Waihanga ("the Commission") on the National Infrastructure Plan Discussion Document ("Discussion Document").

1.2. Property Council supports the Commission's intention to stimulate discussion and inform future government action on implementing a 30-year National Infrastructure Plan and what planned investment is needed over the next 5-10 years. If the National Infrastructure Plan is appropriately supported, it will create greater pipeline certainty for the infrastructure sector.

1.3. The Discussion Document covers big long-term strategic issues and challenges facing the country. These include:

- a discussion on assessing and selecting infrastructure priorities;
- evaluating existing infrastructure and addressing current and future gaps;
- options for funding and financing infrastructure; and
- efficiency reforms to provide value for money.

1.4. We welcome the Minister for Infrastructure (Hon. Chris Bishop) intention to create Parliamentary bipartisan for the National Infrastructure Plan. Given the long-term nature of infrastructure investment, building political consensus will help reduce uncertainty.

2. Recommendations

2.1 At a high level, Property Council recommends that the Commission:

- Adopts a robust, sustainable, and forward-thinking approach to infrastructure investments that strategically aligns with urban development needs and responds to population growth;
- Establish a position to maximise infrastructure investment that supports urban development;
- Supports amending the Local Government (Community Well-being) Act to ring-fence the collection of development contribution fees;
- Considers the impact on the property industry when designing an infrastructure funding and financing model; and
- Involve the property sector at the initial stages of infrastructure delivery to see how it can add value.

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. We connect over 10,000 property professionals and represent the interests of over 550 members organisations across the commercial, industrial, retail, and residential sectors. Our members are from the private, public, and charitable sectors.

3.4. This document provides Property Council's feedback on Testing our thinking: Developing an enduring National Infrastructure Plan. Comments and recommendations are provided on issues relevant to Property Council's members and how and why infrastructure investment should consider property.

4. New Zealand's Property Industry

4.1. Property Council's recent Property Industry Impact Report 2024[1], highlights the economic benefits that property contributes to the New Zealand economy. For example:

- Property provides a direct contribution to GDP of $50.2 billion (15 percent), an indirect economic impact of $48.7 billion and an induced economic impact of $43.7 billion to GDP.
- Property is New Zealand's largest industry with nearly $2.2 trillion in property assets nationwide;
- Property is the fastest growing source of employment, supporting jobs for around 235,030 New Zealanders every year; and
- New Zealanders are unconscious property investors, with $3.6 billion invested into property via KiwiSaver schemes.

4.2. Investment in property makes a positive return. For every $1 contribution by the property industry to national GDP, this results in an additional $1.80 of flow-on economic impacts.[2] Similarly, a PwC report in 2016 showed that for every $1 invested in construction, this produces between $2.51 and $3.11 in economic activity.[3]

4.3. Infrastructure provides the foundational building blocks which supports the property industry and the economic and social activity that takes place within these properties. Given the benefits, we recommend that the Commission adopts a robust, sustainable, and forward-

[1] Property Council New Zealand. (2024) Property Industry Impact Report 2024 https://www.propertynz.co.nz/industryimpact.

[2] Property Council New Zealand. (2021) New Zealand 2021 Property Industry Impact https://www.propertynz.co.nz/wp-content/uploads/2021/07/PCNZ_PropertyIndustryImpact_FullReport.pdf.

[3] PWC. (2016) Valuing the role of construction in the New Zealand economy

thinking approach to infrastructure investments that strategically aligns with urban development needs and responds to population growth.

5. Maximising the efficiency of infrastructure investment to support urban development

5.1. Property Council agrees with the Commission that in simplistic terms, undersupply of housing has resulted in increased demand and therefore increased house prices over the last 15 years. This has particularly occurred in concentrated areas such as our largest and most populated cities across New Zealand.

5.2. We also agree that infrastructure costs to support new housing tends to be cheaper in areas with existing infrastructure/urban development. To benefit from this efficiency, we recommend increased intensification in existing urban areas and development of greenfield sites surrounding urban areas. The Government also supports this "up and out" approach in its proposed "Going for Housing Growth Policy" ("GfHG") which is due to be implemented in 2025.

5.3. The Commission notes that urban intensification requires all kinds of infrastructure (e.g. roads, public transport, water and wastewater networks, and community facilities etc.). To unlock the potential of urban intensification, transport and water and wastewater networks are key.

5.4. Property Council supports the approach outlined in the Government's GfHG policy which proposes good urban form through transport-oriented higher density housing concentrated at future or existing strategic transport infrastructure such as train stations, bus routes, main roads and in CBDs. This should be combined with appropriate mixed-use zoning to integrate residential, commercial, and industrial spaces.

5.5. As well as an efficient use of infrastructure, the positive impacts include a reduction in car dependency, greater use of public transport, and less emissions. Also, the economy would positively benefit from the agglomeration of people, industry, and services in urban centres.

5.6. Property Council recommends the Commission has a position to maximise infrastructure investment that supports urban development. In particular, we would like to see greater connections between infrastructure (transport) and urban development planning.

6. Sources of uncertainty when planning infrastructure investment to support urban development

6.1. The Discussion Document considers how uncertainty is a significant issue when it comes to planning investment. For example, estimating population growth is one of the biggest uncertainties that impacts future infrastructure, investment, and urban development.

6.2. We agree with the Commission that the best solution is to model long-term trends when planning infrastructure investment. The Commission acknowledges that investment planning needs to balance certainty with flexibility. Census data and other sources should be used to sense check expected trends. A long-term population strategy could help in understanding how many people a 30-year National Infrastructure Plan might serve. Migrants tend to settle in urban centres due to cultural/social connections and employment, this supports a continued focus on our urban areas when considering present and future infrastructure investment.

6.3. Another significant barrier to infrastructure planning is political uncertainty. Currently, we have either seen significant changes and/or holding patterns for local government plan changes that create uncertainty to future urban developments. We are also expecting amendments to central government direction on local government plan changes and national direction. Collaboration between central and local government as well as the private sector is critical to enable more certainty.

6.4. Property Council welcomes the Discussion Document's acknowledgement that flip-flopping and uncoordinated government policies have created uncertainty and unintended consequences. Uncertainty of future infrastructure pipelines negatively impact infrastructure delivery. Going forward, long term bi-partisan planning and financing should be prioritised to maximise the benefit from infrastructure spend.

7. Funding and financing infrastructure investment to support urban development

7.1. Property Council recognises New Zealand's constrained financial position when it comes to infrastructure investment.

7.2. In the Discussion Document, the Commission highlighted this issue and in particular, the pressures local councils face in delivering infrastructure. Councils have significant responsibilities in providing infrastructure, but over the last 20 years central government has reduced assistance for this. Furthermore, councils are nearing their debt limits and rates (their main source of income) is not sufficient to pay for infrastructure investment.

7.3. Councils also use development contributions to fund and finance growth infrastructure. The property industry is not opposed to paying its fair share of development contributions costs. However, rather than being ringfenced to pay for growth infrastructure there are concerns contributions are being used in part to fulfil general funding gaps. Property Council would like to see the Local Government (Community Well-being) Act amended to ring-fence the collection of development contribution fees.

7.4. To help bridge the investment gap, Property Council recommends using a mix of funding and financing models including public and private investment and partnerships (such as Regional Deals), value capture, infrastructure bonds, user pays systems, general and targeted rates, development contributions, debt and asset recycling and Special Purpose Vehicles ("SPVs") as enabled under the Infrastructure Funding and Financing Act. For example, Tauranga City Council (Transport System Plan and Civic Precinct) and Wellington City Council (Sludge Minimisation Plan), have implemented SPVs.

7.5. Many of these funding models are used overseas but are less widely applied in New Zealand. They can be challenging to set-up and involve risks and complexity for example financing structures, partnership working, long time frames, construction challenges and changing political priorities. Property Council recognises the important work the Commission does in analysing, educating, and advocating how these models can be adapted and applied in New Zealand.

7.6. We are also involving our members in thinking about different approaches to fund and finance infrastructure to support urban development. For example, we developed five principles that we advocate should guide the application of value capture in New Zealand:

1. *As a funding tool, Value Capture must only be applied to large scale infrastructure projects, that unlock significant new development opportunities and housing supply.*
2. *Value Capture must only apply to properties with a clear geographic link to the new infrastructure and be applied to properties that have seen an increase in value and/or their development capacity (e.g., zoning).*
3. *Value Capture must differentiate between property types (e.g., commercial, office, industrial and residential) to reflect value received.*
4. *Value Capture should not detrimentally impact the financial feasibility of future developments and should not be used to wholly fund any particular project.*
5. *To prevent unintended and perverse outcomes, Value Capture should be the result of meaningful engagement with all sectors (including the private sector), signalled well in advance, and not be retrospectively applied.*

7.7. When designing an infrastructure funding and financing model we recommend that the impact on the property industry is considered.

8. Reforms to increase the efficiency of infrastructure investment to support urban development

8.1. Property Council have raised concerns about excessive regulatory complexity, inefficient planning processes and slow resource consenting that adds unnecessary costs and time to infrastructure projects.

8.2. It is important for all New Zealanders that our planning and consenting system operates effectively to deliver infrastructure in the right place at the right time in order to unlock development opportunities.

8.3. Property Council agrees with the Commission that reforming the planning and building system is urgently needed to improve the efficiency of infrastructure investment to support urban development. We need central and local government to better plan and collaborate with each other and the private stakeholders in order to deliver the infrastructure required to meet population growth.

8.4. We want a more a holistic approach focusing on outcomes with better coordination between government agencies, local councils, and private stakeholders with the aim of reducing fragmentation and delays. Importantly, we recommend that the property industry must be involved at an early stage to see how it can add value when infrastructure is being planned and delivered. Zoning must allow developers to respond to local demand which then optimises the value of infrastructure. Collaboration between central and local government and the private sector is critical to get a return on investment.

8.5. Property Council has been closely involved with Ministry for the Environment officials as they develop policy proposals for Phase 3 of RMA reforms and National Policy Statements. We hope to see these reforms being finalised and used as the basis for the development of an enduring National Infrastructure Plan.

9. Conclusion

9.1. Property Council thanks the Commission for the opportunity to submit on their discussion paper.

9.2. We support the Commission's intention to stimulate discussion and inform future government action on infrastructure delivery and will continue to engage with the Commission on these matters.

9.3. Property Council members invest, own, and develop property across New Zealand. We advocate that the Commission adopts a robust, sustainable, and forward-thinking approach to infrastructure investments that strategically aligns with urban development needs and responds to population growth.

9.4. 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,

Leonie Freeman
CEO Property Council New Zealand