LTCCP 2006-16 Submission - Received by Email

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CC:	dave.hinman@cc.govt.nz
Sent:	Thu 20/04/2006 16:20
Your Submission:	**Submission on development contributions under the LTCC**

To the Committee.

My name and contact details are located at the end of this submission.

I do not intend to submit my submissions orally but would be happy to answer any questions the committee may have and to expand on any items they felt were relevant and to discuss any aspects of the submission with them at a mutually convenient time.

I represent a development company based in Christchurch as well as Equity Trust Pacific which is and has been the owner of a number of inner city retail/ commercial properties in the CBD for over 20 years. Our organization was responsible for developing the Cathedral Junction site which remained derelict for over seven years as well as a number of other projects. This was an integrated project including hotels, serviced apartments, retail and parking. Our organization was also responsible for the restoration of the award winning Coachman hotel in Gloucester st.

The writer was a founding member of the Inner City East revitalization Association (now effectively taken over by the Central City promotion group) which was formed in the mid 1990's in response to the decline the inner city began to experience .

These submissions follow on from an earlier submission already made directly to Dave Hinman which I will also forward to be appended to this. I wish to confine my remarks to the Contributions policy and wish to further limit my comments to developments within the CBD of Christchurch, an area where we have specialist interest and expertise. I would also like to further restrict my comments to inner city high density new hotel/serviced apartment type projects. For the purposes of this submission I believe serviced apartments are in effect an extension of hotel rooms as they allow an easier sell down process for developers in the pre sale phase (as opposed to hotel rooms which are difficult to sell). They are often equipped with rudimentary kitchen facilities simply to make them more attractive to investors. They are in effect hotel rooms and function very much the same way with frequent short term over night occupation with the cooking facilities rarely being used.

Our group developed the 'Fino Casementi' project in Kilmore st in the mid nineties and an inspection of these serviced apartments will reveal that after over 10 years virtually none are permanently occupied and the kitchens remain in pristine condition through lack of use. This is because guests must be out by 10am and are not permitted in before 4pm. Visitors generally do not travel to NZ and then want to start cooking for themselves and washing dishes etc. Average occupancy rates also result in the units being unused for many weeks of the year.

I would like to proceed with comments in seriatim with the contributions policy beginning on page 6 under;

	Introduction. The second sentence refers to the background details of continuing growth and specifically refers to areas of growth being; N & SW periphery, outer central city infill and Banks peninsula. The inner city has been omitted due to very limited growth occurring in this area. It seems apparent that much of the basis for increasing the level of contribution is being driven by residential growth in the areas referred to above and as evidenced by the numerous new residential sub divisions being developed together with attendant shopping centres much to the detriment of the inner city which is struggling to attract significant capital investment. This point needs to be borne in mind when considering the application of the contributions in the context of inner city development. I believe the inner city represents a unique and special category for reasons expanded on below. The third paragraph refers to the empowering provisions under the Local Government act 2002 (LGA) which allows Councils to take 'fair contributions' from developers to fund new or upgraded infrastructure requirements caused by growth. The operative words are 'fair' and 'contributions' which have a financial and ethical connotation underlying the basis of all contributions contained in the policy. 'Fair' has a number of meanings including; impartial, equal, even handed, moderate, open, reasonable, proper and temperate. In my view the increase in contributions must be in accord with the LGA and therefore be 'fair' otherwise the policy is ultra vires the LGA. 'Fair' refers to a reasonable level of contribution, if the LGA wanted to say Councils may take 'all' or a disproportionate share of the funds required to pay for growth then it could have said this. The use of the word 'fair and contribution' clearly were designed to convey the understanding that a developer would pay something reasonable towards the provision of infrastructure etc but not all of it nor a greater proportion .If I purchase at item at a shop, I do not contribute to it but pay the full amount, I contribute towards a fund raising appeal but this does not mean I pay all. The council may therefore take a contribution (which by definition is less than the whole) and that contribution must be fair which by definition must be moderate. There is therefore no basis to collect an unreasonable level of contribution. **1.1 1.1 1.2 Enabling statutory Options for Contributions.** 1.2 1.2 The collection of contributions must be directly related to growth that the additional development is creating under the LGA. If a development is not causing demand for certain infrastructure then the council Policy Objective (p6.), cannot charge the developer for this. For instance a new inner city medical centre or hotel may not create demand for another reserve in the suburbs. Similarly if there is existing capacity and existing infrastructure in place that can service a new development then where is the additional growth coming from? The new or upgraded infrastructure must be real and demonstrable. 1.3 1.3 As it states in S 102 (4) d of the LGA etc must have a transparent consistent and equitable basis for the collections of contributions. The second dot point on p7 refers to the placement of additional 'demands on the council's provision of infrastructure..', this again does not refer to where there is existing infrastructure that has the capacity to cope. By definition if there is existing infrastructure with spare capacity then this must first be utilized before a contribution for expansion can be sought. The second dot point on p7 also recites that the level of contribution should not discourage development and goes on the record that this is influenced by the complexities of site developments etc. This provision allows scope for council to moderate charge where they may discourage development. Please refer to my appended comments relating to development costs under my first stage one submission.

Relevant to these comments is the Christchurch District plan as it pertains to the central city.

The Central City zone is described in the plan as "the principal focus for commercial. Cultural, administrative and tourist activities and the most significant scale and intensity of activities.." (p 3/3). The frame area is "typified by taller buildings.."

The District Plan recites as part of its objectives as follows;

Objective 4.1: Form
Objective 4.1 recognises that with the city's tallest buildings and density of development, the central city is the prominent focal point in the geographical centre of the city. Due to the diversity of its built environment and the intensity of the inner city, it is also recognized that it has the greatest potential for change

Business
Objective 12:1 Role of the central City.

"To maintain and enhance the central city as a focus for the city, to provide for the greatest diversity, scale and intensity of activities and to avoid remedy or mitigate the adverse effects of such activity on the city as a whole."

Under this objective area there are a number of policies relevant to this submission.

Policy 12.1.2 Consolidation.

"To encourage intensification of activities and development of sites within the existing area of the central city."

This policy confirms there is no plan to allow expansion of the existing area of the central city, instead recognizing the scope for "…substantially increased density of development…" By inference new development on existing sites is encouraged to be of greater density and larger buildings to be consistent with the plan.

Policy 12.1.3 Building Density.

"To provide for the greatest concentration and scale of buildings to occur in the central city."

The plan explains that this is to "..encourage efficient utilization of existing services and infrastructure and assist the establishment of activities requiring a central location."

The policy seeks to achieve a distinctive urban form promoting a strong physical focus for the central city and encouraging the concentration of large buildings. It should be noted at this stage that to align developments with what is anticipated in the central city therefore involves the development of large ad therefore more complex structures which be definition take long lead in periods to commence. It should be noted that in Christchurch it is very difficult to create a single large building that has just one use. In general to achieve the objectives of the District Plan such a development will be integrated and may have a percentage of retail, car parking, tourist accommodation and residential which when combined allow the best utilization of the high cost of the land. The market place in Christchurch is often not large enough to warrant a single activity on the one site. I will touch on this point in more detail later.

Policy 12.1.5. Residential Activity.

"To encourage residential activity within the central city."

	Policy 12.1.8 Visitor Accommodation "To encourage visitor accommodation within the central city." Within the explanation and reasons for Policy 12.1.8, the plan states. "Incentives for the development of tourist and visitor accommodation within the central city include reduced car parking standards…" This policy clearly encourages the development of high density tourist accommodation, hotels etc in the area. **Policy 12.3.6 Urban Form.** Again this policy makes reference to the 'Frame' "…as an area where taller, bulkier buildings are located." It is clear from a summary of the above that the inner city is intended to house the tallest, most dense buildings with the greatest bulk height and scale. By extension these buildings are the most complex to develop and take the most time in planning etc, The plan wants to see this activity happen and the Development Contributions policy statement recites "..To ensure that the level of such contribution does not generally act to discourage development, recognizing that the contribution will be influenced by the complexity of site works and that this may act to discourage development of a particular area." I would submit that the new proposed level of contributions will precisely discourage development in the inner city of these large, tall and complex buildings and that a special case should be permitted to allow the terms of the District plan to be achieved. It is not possible to develop such buildings with the added costs associated with the increased levies. The District plan also makes reference to the desire to utilize existing in place infrastructure for better efficiency (Policy 12.1.3). This does not involve the provision of new infrastructure such as with new green fields sites and so consideration should be taken of this factor when assessing contributions. The imposition of increased contributions should be moderated to allow the objectives of the District Plan to be achieved in relation to the inner city to benefit of the wider city and its inhabitants. The Contributions policy statement and council are in no position to determine at what point additional contributions discourage development until a meeting is had with the developers team , as such a determination involves understanding the feasibility/ risks and financials for a project. The contributions policy therefore contemplates such a meeting and therefore flexibility in adjusting the level of contributions so as not to discourage development but to see it proceed. I believe there should be a policy of rebates put in place that allows reductions on contributions where identifiable benefits are being provided to the inner city. This could be for instance where - retail space is being provided, which is something the inner city wants. Where residential accommodation is being provided as this is one of the stated policies of the council to increase the numbers living in the central city. Where the project achieves the objectives of the district plan as this is something the community wants. A system of rebates will allow revitalization of the inner city to occur and could target this renewal which is something Christchurch as a whole both needs and desires. There is no need to encourage the spread of residential sub divisions in the city as this occurs through normal population growth, but there should be incentives to encourage inner city renewal.

	<u>Development Lead in Times for Inner City re development.- need for a transition period for developments in progress</u> I would like to briefly comment on lead in times which are relevant to the imposition of increased contributions. The District Plan contemplates large scale developments and encourages hotels etc. These projects can take several years to put in place prior to construction commencing. The process runs as follows; Market conditions in relation to occupancy have to be suitable for a hotel to be built, this is an operator driven requirement. The selling market must also be suitable from the developers side to enable him to sell the project down. 1.A suitable site needs to be identified that has the characteristics suitable for a hotel and is attractive to purchasers. 2.Arrangements must be made to remove existing tenancies through expiration, termination or buy out. 3.Management arrangements need to be put in place with a suitable hotel operator most of whom are based overseas. This will of necessity involve developing a level of architectural detail to ensure they are happy with room sizes, layout, circulation, car parking, catering etc. and can take several years to agree and put in place. These arrangements are then cemented in place to provide security to move to the next level. 4.A feasibility can only be completed after 3. is complete as '3' generates the level of FF&E and overall build costs. The feasibility is based on the then present level of contributions and not a future rate that becomes known down the track. 5.A resource consent needs to be put in place and obtained. 6.Construction issue drawings need to be prepared and consented to. 7.The construction undertaken. The above process up to construction takes 2-4 years with the building taking another 1-2 years. I believe that with the introduction of greatly increased developer contributions, a transition period needs to be put in place that allows parties that are well advanced through the above process to complete their project based on the rules that they made their arrangements under. It is both unfair and unreasonable to impose additional charges after a developer has, upon reliance of the rules in force at the time, made his arrangements and is committed to them for the simple reason that the commercial arrangements already in place are irreversible . If there is no transition period, the project could be abandoned which is not what the contributions policy says it wants. I would suggest that the transition period be governed by how far down the track a project is on the date of implementation. It would, in my view, be unreasonable to impose the increased contributions where a resource consent had just issued for a project as this would be at the end of a lengthy set up phase where arrangements were already set in place. It is in effect changing the goal posts. There should be some discretion in council to allow some latitude depending on how advanced a particular project was at the new contributions implementation date. The effective date for the introduction of the new contributions favours smaller developers and developments but punishes the larger projects which arguably are more beneficial because the smaller projects can squeeze through faster and have shorter lead in times. Had a developer been aware of the new rules then the commercial arrangements at the time would have been negotiated to reflect that. The long lead in times are necessary to put very complex arrangements in place for larger more complex hotel structures contemplated under the District Plan. The contributions policy statement alludes to not wanting to stifle growth where complex projects are involved and where this is in certain areas (second dot [point p7) I would submit that this element of the submission relates to exactly the type of projects referred to ie hotels in the inner city.

	Transparency of Contributions Proposed increases in contributions need to be clear and unequivocal in their determination without any confusion or doubt. The reason for this is that a developer needs to know precisely these costs at the feasibility stage to determine whether the project is viable or not. The feasibility stage occurs early on in the lead in phase and enables the developer to move to the next stage. The sequence is : Market place conditions- create demand- feasibility- if Ok- identify site and hold it-identify negotiate with operator-RC application & approval- pre selling of the project – prepare building plans – obtain building consent -and start building. Its too late at the RC stage to know the contributions or to start having discussions over quantum of contributions. The council needs to be able to define precisely to a developer without any doubt what the contribution will be as early as possible. To have confirmed contributions at the Resource consent stage is too late. (p10 contributions policy para 2.3) It is also a significant financial burden on projects to have to fund additional contributions at the beginning of a project as this locks in a level of debt for the duration of the project which increases the total interest burden for the development as the developer then has to finance the additional amount throughout and for the longest period. It would be better for the contribution to be required at the end of the project when the funding process is relatively short and the developer can obtain some relief with the benefit of his sales settlements occurring. Having to fund a large up front contribution increases the quantum of interest and the application fees associated . Whilst there is a twelve month time frame proposed, I do not think this is either fair or realistic for the following reasons: With many projects the working drawings will only commence once the resource consent application has been approved and in many cases even later after a period of marketing has occurred to generate pre sales required by a bank to trigger the development. A funding bank will often require this as a ‘take out’ for its funding exposure. With a complex project (the type contemplated under the District scheme for the CBD) the construction issue drawings can easily take 3-5 months to complete before being lodged with council for a building consent which can then take several months to process especially with peer reviews, requisitions and requests for further information. The totality of this process can comfortably take 6-12 months out of the 12 months payment period contemplated. This means that a developer then has the burden of having to raise substantial sums mid way through the project which further exacerbates the interest burden. I would propose that whatever the payment agreed between the parties, that it be payable 12 months from the commencent of actual building. It is not realistic to commence the construction issue drawings until you are comfortable with the level of pre sales and know that you can obtain bank funding otherwise you may be expending several hundred thousand dollars on drawings only to find you cannot get the level of pre sales required by a lender to give you your development funding. My submission is that a process be put in place to determine and negotiate contributions earlier than at the resource consent phase and where a developer is contemplating a development and wants to know for certain what the costs will be. He must be able to negotiate a binding agreement with council before embarking upon his feasibility. I also feel the payment of the final contribution needs to be deferred to the end of the project when it is easier to fund. The council could still retain its security by withholding the issue of code compliance etc until the amount was paid. The policy needs to have sufficient flexibility to be able to consider other positive factors such as support for the inner city as the key hub for the region as a whole and to allow for credits where benefits are being provided from the development and where the development is assisting the community in achieving its goals of inner revitalization and renewal.

	Clarification of growth modeling- Residential growth- Hotel room growth. I do not believe it can be argued that hotel development in the inner city causes growth but rather is a response to it. The provision of hotel rooms is a consequence of the growth in tourism and visitor numbers to the city which is caused by a number of other factors driven by airlines, New Zealand government tourism promotions etc. This is quite distinct from growth identified from population growth through births and immigration which directly creates demand for housing , sections, reserves, suburban shopping centres etc. Inner city hotels use existing land and infrastructure already in place and place little or no demands on many community services which the normal population fully use. An average hotel room varies from 22-40 sqm and generally lacks extensive food preparation facilities, a laundry, outside space, green areas, separate living areas, storage areas etc. A hotel room is intended for overnight stays and departure and has no ability to provide for long term accommodation. The level of apportionment against the HUE unit should reasonably reflect this taking into account an average hotel room remains vacant for approximately one third of the year and most of the day. (ie 66% occupancy and out by 10am and in after 4pm). A hotel room is effectively a bedroom. My submission is that for this reason the application of the development contribution to inner city hotel developments/serviced apartments/apartments should be moderated to equitably reflect this and credits be provided as a way of targeting inner city renewal. **Community benefits from replacement of aging building stock in the Central City.** The District Plan identifies benefits in concentrating taller and larger buildings in the central city and thus encourages their creation. The existing stock of buildings in the central city is many and varied with some heritage listed structures but many older dysfunctional properties also. As a community we should be moving to replace many of the older redundant structures for the following reasons. 1.Better utilization of the same amount of land by creating more floor plates 2.Improvement of occupiers amenity through views, aspect etc. 3.Creation of more efficient structures. 4.Removal of unsafe and unhealthy building which lack adequate fire safety, earthquake protection, that are dusty, drafty etc. 5.Removal of structures that have reached the end of their viable lifespan and are now requiring high levels of maintenance. 6.Creation of structures that better reflect the current needs of the community and population. 7.Improvement of the visual amenity and streetscape aspect. Further benefits can be identified in the form of; 8.Job creation. 9.Significant rates enhancement on a permanent basis for little additional expenditure on infrastructure. 10.Complimenting related activities such as tourism etc. 11. Improvements to inner city security. 12.Increasing the tax base for the community and country. 13.Better utilization of existing infrastructure without having to create more eg street lighting, raoding, water/sewerage, etc. 14.Creation of multiple business platforms such as hotel operation, restaurant, café, retail etc from the one location. 15.Inner city renewal. 16Achievment of community objectives under the District Plan. 17.Improvements to inner city crime prevention and security.

	18.Assisting in achieving the councils objectives of seeing more people living in the inner city. Sight should not be lost of these factors and the restraining effect of increased contributions. Increased developer contributions will be detrimental to our community if the above benefits are lost. I have previously touched on a number of these points in the stage one submission appended hereto. I therefore submit that for these reasons the developer contributions in relation to hotel development/serviced apartments in the inner city should be moderated as they produce substantial collateral and ongoing benefits and that a system of credits should be put in place to encourage these positive activities to occur. **<u>Adjustment of Contributions and relevancy to contribute to some cost areas not applicable to the inner city.</u>** Where development occurs in the inner city there may be a remote or tenuous connection to some services and reserves located distant to the inner city. It is arguable that when a new hotel is constructed for visitors in the inner city, that their presence will not have any impact on a suburban/city library or the creation of new suburban reserves. It is also arguable that development contributions for surface water run off, inner city roading , street lighting and existing infrastructure remain unaffected . On p7 of the development contributions policy , it says "The council is required to use development contributions only for the activity for which they are collected." My submission in relation to this area is that no contribution can or should be charged for areas that currently exist or where there will be no use of services/facilities remote to the inner city or where the principal use of the new development will not create demands on services. For instance visitors will not become members of the local library when the average stay time in Christchurch is two days, so this activity shouldn't be required to contribute to the provision of libraries etc. Hotels do not create new demand for suburban reserves as their guests are CBD based. **<u>Transition option for larger scale Inner City Projects.</u>** By way of allowing existing projects to be completed in the manner in which they have begun. If the project has a value of say$10m then a twelve month transition period should be allowed for these projects to be completed. If the value was $20m then a 24 month transition period would be reasonable given the additional complexity associated with larger projects and finally any project over say $30m , there should be a 36 month transition. This would be fair and reasonable and allow time for new projects to be started mindful of the new rules. This may even encourage larger and more beneficial projects for the inner city. It offends the rules of natural justice and fairness to bring down a new regime with little notice (the notice period is relative to the complexity and time frames associated with a project). It's a little like a contractor providing someone with a fixed price quotation and then having a major cost component increased for him with no ability to adjust his fixed price. He cannot go to the other party and require them to pay more when they have agreed a fixed price. This is the same as a developer negotiating a complex contract with an operator over a long lead in time based on known costs to be subsequently told some of his costs will be increasing by several hundred percent and where he has calculated his feasibility on those known costs only to be subsequently told they are all going up.

	The financial modeling for larger more time consuming projects are based on the present known costs and all factors relating to the project are premised on those costs. It is therefore not possible to redo the modeling subsequent to determining the project is viable where you are already committed to third parties The provision of a contingency relates only to unforeseen construction issues and cannot be used as a 'catch all' for other costs as this would not allow you sufficient construction contingency when you start to build. The provision of an escalation provision also relates to increases in trade rates which can change. It is not a reasonably foreseeable event that known contributions would be likely to go up and certainly not by hundreds and in some cases thousands of percent. **<u>Inner City Rates differentials.</u>** The inner city already pays a rating differential to the residential part of the city which it effectively subsidizes. Inner city development should not be further penalized when through the action of rates enhancement that differential is magnified even further. For this reason the contribution policy should be moderated when applied to the inner city or the rates differential removed. It is unfair and unethical to double dip. **<u>Present need for hotel accommodation</u>** There is a immediate and growing need for additional hotel rooms which needs to be commenced immediately to satiate future demand. The lead in and construction times mean that the creation of a hotel can take several years. Notwithstanding demand for hotel rooms, hotels can only be created if the development dynamics are satisfied which means that the development is financially feasible. A distinction should be drawn between a hotel operator profitably operating a hotel and the developer profitably building it. The operator is not the developer and without the development being profitable then even if there is demand for extra rooms the new hotel wont be built. **<u>Present and growing need for better quality office accommodation.</u>** There is a growing need for superior quality office accommodation which will only continue to increase with time. 'A' grade accommodation vacancy rates have been progressively falling (down from 8.1% to 7.6%) whilst inferior 'C' grade vacancy rates have been rising.(now over 14%) (see CB Richard Ellis Office Occupancy Survey – Feb 2006). The areas of greatest vacancy are in the CBD which adds to the general decline of business in the CBD as a whole. It is therefore important to encourage sustained development of better quality office space in the CBD as a means of underscoring the importance of the city to the region at large. By imposing significantly increased developer contributions, it will slow this process to the detriment of both business and the people of Christchurch. **<u>Extraordinary Circumstances Cl 4.4 P 21</u>** Many of the issues referred to above could be accommodated under this provision which affords the council some flexibility in determining developer contributions in the light of existing infrastructure as well as real and obvious benefits for the city. I propose that in order to avoid conflict with the provisions of the District plan and to create fairness and compatibility with its objectives and the LTCC contributions policy, that this provisions be applied to allowing moderation of the levy in respect of certain CBD projects.

	<u>A case study on the impact of the increased contributions based on a project that has been underway for two and half years.</u> Location Address 166 Gloucester st Central Christchurch. Land Cost 800 sqm @ $3125 psm. Comparables: $2,500,000 + GST (137 Armagh 2986 psm, without buildings- actual sale) (106 Gloucester st $4,527 psm without buildings- valuation) Initial planning, Resource consent fees and building consent fees Costs to secure a hotel operator (actual) $170,000 Marketing costs $180-300,000 + GST Includes web site, On site hoardings and banner. Model Display unit. Heavy brochure and supplementary information sheets. Light give away flyers etc DVD and copies. Print advertising, media advertising. Associated expenses Real estate agents selling fees @ 3.75% on gross realization $1,312,000 Accountant $20,000 Lawyer (Banks) $40,000 Lawyer (developer) conveyancing 188 @ $500 $94,000 Mortgages and other work $60,000 QS feasibility $10,000 Construction costs. Actual estimate from Builder includes. Site prep and demo, structural, architectural costs, services, parking equipment, External works, carnage , pre lims, contractors margin, construction contingency $20,538,415 (rate of $2,294 psm) Fees and project management (builders actual estimate) $1,792,300 Escalation (builders actual estimate) $750,000 Project contingency (builders actual estimate) $750,000

	Aircon, apartment/office floor fit out, adverse ground conditions (actual figure provided by builder) $2,605,000 FF&E 144 rooms @ $7000 plus lobby etc $1,200,000 Interest and financing $33m @ 8.5% X 1.25 div by 2 = $1,753,000 Application fee @ .5% $150,000 Unit title fees for survey costs for unit plan etc (actual) LINZ lodgment $600 CCC Sub division fee $12,800 Resource consent fee $375 Consultant RC fee $25,000 Consultant unit title scheme/plan sub division fee $30,000 Consultant unit title survey $40,000 $108,755 Revised council fees under LTCC. for 2006 $1,485,767.25 2004 fees $237,640.50 (increase of $1,248,126.75) Total estimated expenses $34,092,000 approx excluding the $1,485,767 in 2006 contributions. Gross realizations from Sales; 112 hotel rooms @ $140,000 each = $15,680,000 NB these rooms are smaller than the adjacent Cathedral Junction rooms but are priced $28,000 more! 32 " " $170,000 = $5,440,000 " " slightly larger than the above rooms by 12 sqm, 10 sqm larger than a CJ room but $58,000 more! 16 one bedrooms @ $275,000 =$4,400,000 NB smaller than CJ one bedrooms and also without FF&E, also $55,000 per unit more expensive. 16 two bedrooms @ $350,000 =$5,600,000 NB smaller than the CJ units, with no furniture and $20,000 per unit more expensive. Ground Floor = $2,000,000 based on 8% cap rate on rentals for this area. Office space = $1,500,000 " $4500 psm shell with minimal partitioning. Car parks 90 @ $25,000 pp = $2,250,000 This is slightly lower than in CJ but there is not title available as it's a mechanical stacker. Other/back of house etc = $1,000,000 Total $37.87m perhaps another $1m if the market is good. This assumes **ALL** property is sold and nothing remains unsold. Comment: The gross realization assumes the market will accept some robust prices that are significantly above recent sales in an adjacent project and there would be an expectation from the funding bank that a minimum level of pre sales was achieved to trigger the project. This will require a period of pre marketing before the project can commence.

It is clear form the above that the market will not sustain higher sales prices and the best margin attainable in this project is around 10-15% assuming all the variables remain constant. Whilst this is lower margin than other types of developments, it does highlight the inherent difficulties with the development of inner city high rise buildings as opposed to say tilt slab, low level peripheral city construction where there are lower construction and land costs with shorter construction horizons. A margin of 10-15% is fundable providing the level of pre sales is very high in order to provide security for the lending institution.

The case study illustrates why high rise inner city development occurs infrequently and takes a long time to set up. Given the encouragement under the District plan to renew the inner city, the imposition of significantly greater contributions will have a punitive effect on inner development and inner city life in general. In a larger city it may well be possible to sell the end product for appreciably higher amounts and thus absorb additional costs but it is more difficult in Christchurch which has a smaller population and poorer demographic.

<u>The impact of the extra levies on this projects viability.</u>

Assume a margin of 10% or $3.45m on existing costs excluding the new contributions of approx $1.5m. The new contributions will reduce the margin to $1.95m or about 6% on the project. This level would be unacceptably low for a funding bank which wants to see a high margin to cover it in case there are problems. It should be further noted that from the remaining margin the developer would need to address his income tax issues which will range from 33-39%, this would effectively leave him with approximately $1.2 net in the hand for the exercise. This would be insufficient incentive to carry out the project as even the council would be making more than him. The increased LTCC contributions would defeat the objects of the District Plan and the project would not proceed.

At a 15% margin or $5.175m, the extra contributions would reduce this to $3.675 or 10.8%, marginally acceptable to a bank. The tax would reduce the final result to $2.24m which would be marginal for a developer given the level of debt required and the risk associated.

It would be a tragedy for beneficial projects such as this to be lost to the city and community for want of moderation in implementing the contributions policy. The call for certain types of developments especially hotels occurs on a cyclical basis when the circumstances are rightly aligned which is now with tourism numbers looking sound. It will be too late if we impose the increased contributions with the result of stifling this type of development and then attempt to reverse them later down the track when the circumstances may not be favourable. Even without the increased contributions this type of development is difficult, hence why we do not see much of it happening when there should be a lot of it occurring.

I would urge the committee to focus on the many flow on benefits stemming from this type of activity and the need we have as a city for additional rooms to compliment our many other infrastructure investments thus enabling them to be better and more profitably uitilised.

I would be happy to provide all the supporting material for the above figures should the committee so desire and provide any further information.

Thank you.

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LTCCP 2006-16 Submission - Received by Email

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CC:	Hinman, Dave
Sent:	Friday, 7 April 2006 10:03 AM
Your Submission (Cont'd):	FW: Car park fees- central city. Hi Dave, I am in the throws of the reviewing the LTCC and have a few initial comments. I've been speaking with a number of our retailer tenants throughout the CBD over the proposed increase to parking costs which they and we are concerned over. As you are fully aware the CBD is going through a very tough patch at present and is finding it difficult to compete with the large suburban malls with free often undercover convenient parking. There has been a number of key retail operators who have quit the CBD never to return and the rank and file retailer is feeling the impact. Retailing is interconnected and once you lose your neighbour it becomes more difficult to trade as you loose the benefit of his foot traffic and there's a little less reason for people to visit the area. There is also an undermining of confidence for the remaining retailers and landlords both of whom can become reluctant investors for the future. Everyone tends to look at the next man. By increasing the costs of visiting the inner city you simply discourage people from visiting it when they can more conveniently shop at Malls. Christchurch is defined by its CBD and if this is eroded the fabric of the city is undermined. I believe the parking should be reduced in cost, even if in the interim to get the city going again. To increase the parking rates is contrary to the promotional program to attract people back into the city and will further dissuade the citizens of ChCh from frequently visiting their inner city. Every for lease sign or vacant shop sends a message to consumers and other tenants that the area isn't working for retailers and having several vacant shops makes it extremely difficult to attract and retain new tenancies (I know this as a fact eg Cathedral Junction). Whilst I do not expect my comments to alter the councils hand, I do speak for about 40 of our own retail tenants who view this as a bad thing. I would also say with some confidence that this move whilst obtaining some additional revenue will come at a great cost to the dynamics of the inner city and even possibly reduce the desire of people to use those parking bays. Parking is an adjunct to retailing and should be a on a level playing field which it is not at present because its free in the Malls but is a penalty in the city. I have been an owner of inner city properties and developer of same for over 21 years in ChCh and understand how retailing works. I support the view held by my tenants who would be representative of all tenants in the city that we should not be considering a parking fee increase at this stage. Thank you. ***Ernest Duval*** Trust Manager - C.E.O. Equity Trust Pacific (Group) Phone +64 3 366 4829 Fax +64 3 365 3016 E-mail etp@snap.net.nz Level 1, 148 Manchester Street PO Box 13-413 Christchurch, NZ ***Equity Trust Pacific*** ***Architecture-Innovation-Development***

Your Submission (Cont'd):	**Development Contributions LTCC** Hi Dave, I received a letter concerning development contributions with attachments from Leslie McTurk on the 21st Feb this year but have been overseas for several months. I am awaiting a detailed report from a consultant on the impact of an increase in the contributions which should be available next week but wanted to comment on some of the points in the LTCC. I accept that a development contribution is reasonable providing this does not act as an impediment to reasonable and strategic growth and development. I believe if there is to be an increase in the development contribution that it should not necessarily be applied equally to all developments for reasons briefly alluded to below. I also feel there needs to be some latitude in the way the additional costs are to be applied so that developers know the costs ip front before they start expending large sums in the lead up phase. Some forms of development yield greater benefits and are of a more strategic significance to Christchurch than others. For instance; New Zealand has decided to promote itself as a tourism destination with the government comitting large sums to its' promotion. The benefits to our economy are considerable, notably enhanced tax revenues from GST, income tax etc, creation of employment opportunities, earning of hard currency etc. Tourism is a nebulous phrase which involves, transport, hospitality, entertainment and accommodation all of which need to be interconnected for it to be effective. For example, Airlines may bring more people to NZ but if there's not the extra accommodation for passengers when they arrive then we've created a problem for us all. Christchurch is the second largest entry point for tourists into NZ after Auckland. This number is growing and there is a desperate need to augment our existing accommodation stocks. If we fail to provide extra accommodation we will as a community compromise ourselves and the assets we have already heavily invested in, for example; The functioning of the convention centre could suffer (because we may not have enough rooms free to mass book a convention or the few hotels we have may charge unacceptable rates).The airport and infrastructure (because if airlines can't place their passengers into accommodation at reasonable rates they will seek alternate landing sites). Other tourist operators could suffer from reduced visitor activity, (eg restaurants, entertainment and even ChCh tramways whose passenger numbers directly reflect international inbound visitor numbers to ChCh. Each sector is reliant upon the other and no one stands alone. My focus is on the development of inner city hotels/serviced tourist apartments etc. I do not think this activity should be penalized with the imposition of greatly increased development contributions. My reasons are as follows; 1. An inner city hotel/SS development is generally on a smaller parcel of land used intensely, eg 800-1000 sqm. This in turn results in shorter pipe runs, use of existing in place infrastructure, decommissioning of an existing older property with reduction in infrastructure demand, non creation of new roads, lighting etc. It is very different from say a green fields sub division type development. More intense developments make more efficient use of the land and resources. 2. The application of enhanced development contributions is premised on the basis of 100% occupancy of a hotel etc which is never the case. The average for ChCh is about 65% meaning that it is empty for 35% of the time and thus not creating demand on infrastructure. Those staying in hotel rooms do not prepare their own food but rely upon existing in place food preparation facilities such as restaurants, cafes etc.

	3. Guests in a hotel do not carry out many activities associated with normal residential life such as washing cars down, watering the garden, occupying a large parcel of land, generating garden waste and household waste, running baths, spas, swimming pools, using solid wood burners, driving everywhere from the suburbs in motorcars, etc to name but a very few. 4. Significant collateral benefits flow from this type of development such as (a) Considerable rates enhancement in perpetuity,(Cathedral Junction went from approx $9000 when the Brittens had it to about $160,000 now)This makes a permanent and ongoing contribution to our city's coffers.This type of development creates an ongoing source of revenue for the city into the future and represents one of the most profitable ways for any city to create wealth for itself compatred to other activities (b)Permanent employment is created for the people of ChCh thus providing tax revenue for our country and wealth for the community. (c) Tax revenue is provided to the state in the form of GST etc from tourist related expenditure. (d) Complimentary benefits flow for companion activities such as airlines/airport/restaurants/tram etc as referred to above making them all the more viable. (e) Life and vitality is brought into the inner city where it is now greatly needed in the form of people and activity improving security within the CBD and making it more attractive for local and overseas visitors. This also creates a platform for inner city re vitalization without having to expend so heavily on publicity in this area. 5. The development process for such an activity is extremely complex with very long lead in times, in some cases five years and is fraught with risk. Hotels are generally unit titled not by choice but of necessity because it is the only way a developer can exit his capital. There are embedded costs in doing this and it is not the way most want to proceed. In larger more prosperous cities an entire development can be sold to one institution or investor. ChCh does not command such attention and so the only way these developments can proceed is by 'breaking' them up into smaller portions and selling them off. The pre sales process is an essential requirement to obtain bank funding for the project but if there was a ready market for the entire property, it would not be strata titled as this simply adds costs to an already expensive exercise. 6. Where hotels are strata titled because of point 4, it often creates a large number of small 'units' which are not suitable for sustained residency because of; size, they are often very small, lack of amenities etc such as kitchens, laundries etc, limited aspect and an absence of outside space etc. The sell price needs to be low because the 'unit' has no alternate uses as opposed to an apartment which could be lived in or rented out. 7. We have seen very little hotel development in ChCh over the years in part because of the above which is creating problems for visitors at peak times. 8. We should be creating a landscape that encourages strategic development in ChCh because it is very easy for developers to export their capital and expertise to other growth orientated locations. Our group is undertaking a large resort development in Queensland at present and is even considering carrying out developments in Dubai (where there is 0 tax) 9. The problems associated with the inner city can only be exacerbated by the declining kiwi dollar (effectively a pay cut to all NZers and the fact that NZ is now officially in recession with -.1% growth) 10. The inner city of Christchurch desperately needs re development of many of its stock of architecturally average and non heritage buildings . 11. We should not be focused on one financial outcome to the detriment of the big picture when another approach may be more suitable eg a visitor room levy or slightly elevated rate levy for the first few years of a new properties life as it is in effect the visitor to ChCh that is placing the additional pressure on infrastructure by being here

	12. We need to recognize that we need to work as a team in ChCh in a co operative consensus approach to achieve mutually acceptable outcomes 13. The costs associated with this type and indeed any form of inner city apartment development can be briefly summarized as comprising the following; 1. Land costs plus acquisition and interest holding costs. 2. Lease payout costs 3. Marketing costs and real estate agents fees in generating pre sales 4. Architectural and concept generation costs. 5. Planning and consent costs including appeals and associated legal costs 6. Construction costs including demolition etc 7. FF&E costs 8. Professional fees including architect, engineers, QS X2, fire consultants, mechanical consultants, hydraulic consultant,interior designer etc etc 9. Bank funding costs to finance the development including their legals and brokerage fees . 10. Legal costs for settlements and associated legal work. 11. Surveyors costs for drafting unit plans etc. 12. Reserve contributions and development contributions. 13. GST at one ninth of gross realization. 14. Accountancy costs. 15. Unforseen costs covered by contingency, EOTs etc 16. Tax on any profit element at between 33-39% of the net. 17. Insurances PL,PI etc Contrary to popular belief the margins are not great and must be 10-15% to pass the credit committee of a bank. This is the final margin (if it remains in tact) that the 33-39% tax is levied on. I believe that in reviewing the development contributions we should not lose sight of the other major benefits that come about from this type of activity and that not every development should be treated the same for these reasons otherwise the increased costs will discourage such developments to the detriment of our community at large. Regards ***Ernest Duval*** Trust Manager - C.E.O. Equity Trust Pacific (Group) Phone +64 3 366 4829 Fax +64 3 365 3016 E-mail etp@snap.net.nz Level 1, 148 Manchester Street PO Box 13-413 Christchurch, NZ ***Equity Trust Pacific*** ***Architecture-Innovation-Development***