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## Submissions on the Long Term Council Community Plan 2006-2016 Draft Policy on Development Contributions

### Introduction

I have been developing residential houses and apartments in Christchurch since 1991 and have completed 10 houses and 4 apartment blocks (2 in Sumner and 2 in the central city) comprising a further 36 residences. Each of these is in use today as a family home.

In addition I have a 5<sup>th</sup> apartment complex, the Gallery Apartments, currently under construction at 62 Gloucester Street, between COCA and the Christchurch Art Gallery, which comprises 17 apartments in two 14 level towers. This is one of the most significant residential developments currently underway in the central city.

I have no hesitation, given the severity of the impact that the implementation of this policy will have, in claiming to have knowledge of what it takes to undertake residential development in Christchurch that is on a par with any other person in Christchurch.

The medium and long term effects of this policy will be to lower the quality of Christchurch's housing stock. Each family will live in a house that is smaller, colder, and less healthy.

### I wish to be heard

I wish to talk to my submissions at the hearings to be held between 25<sup>th</sup> May and 7<sup>th</sup> June 2006 and require approximately 30 minutes.

## A certain level of passion

Given the direct and punch-between-the-eyes impact that this policy will have on my business and family it has aroused a certain level of emotion. This is reflected in the manner in which some of the following submissions are drafted. Please note however that these are not directed at any Council Officers or other people whatsoever. I have got to know many Officers over the last 15 years – they are very good people who are always helpful and work hard under a system that always seems to be under-resourced and stretched. The emotion is due to the effect on my family and it is directed at the foolishness of much of this policy.

### 1. Submission One

- 1.1 **That the fundamental foundation block of the policy, namely “... that the total growth component of the capital expenditure budget will be funded by development contributions ... because the Council wants the (developers) and not the ratepayers to fund the growth arising out of development as a fair reflection of the benefit distribution...” is flawed in the extreme.**

There are two points in this policy foundation block, both of which require examination in attempting to establish a “fair contribution”, which is all the Council is able to take from developers under the Local Government Act 2002 (“LGA”).

They are firstly, that developers get the sole benefit. This is ludicrous. The entire community benefits from growth – there is the huge amount of work generated in construction for a start. Ask yourself what proportion of the community works in construction, in fact even within the Council itself how many are involved in construction – what will they do if development simply stops? There is the increased vibrancy for the city. There is the fact that the quality of the city’s housing stock is increased constantly. It goes on and on.

If it could be framed in another way to expose the policy statement’s naivety: If the existing community sees no benefit to them in growth (in the Council’s own words) then that’s fine - pull in the welcome mat, tell families to stop having children greater in number than that needed for population replacement, and close the immigration doors. Imagine for a minute a community such as that – no new life. It would stagnate or die. The benefit of growth to the entire community is of such a scale that without it the community stagnates or dies.

Further, both the current Labour government and the People’s Republic of Christchurch constantly cry out about how growth is good for the country and good for the city. The Council cannot say on one hand that growth is good for the city and on the other that only developers get the benefit. Both cannot be correct. Statements such as these go to credibility – and it is the foundation statement. It is fundamentally flawed.

**The benefits from growth are spread across the entire community.**

Secondly, Council wishes that those who benefit from growth should pay for it. Fine - as we have already seen Council actually acknowledges on a regular basis that growth is good for the city, i.e. the entire community benefits. Therefore the entire community should contribute as well – *“as a fair reflection of the benefit distribution”* (in the Council’s own words again).

To require only one part of the community, the developer, to pay is clearly contrary to what the Council is able to require developers to pay under the LGA.

- 1.2 **The action that should be taken by the Council on this issue is to rescind the decision to apply all costs for growth to one sector of the community, namely the developer, and, in accordance with both the LGA and the policy’s own foundation statement apply those costs fairly across all of those who benefit, namely the entire community, including the developer.**

## **2. Submission Two**

- 2.1 **That the Council should in the words of its own policy *“obtain from those responsible for development that places additional demands on the Council’s provision of infrastructure, reserves and community facilities a fair and reasonable contribution towards the expansion of those services”*. (Council’s policy objective, page 7)**
- 2.2 Those responsible for development and growth include;
  - a. The Council, by its current Central City campaign. It is responsible for encouraging inner city development and by its own policy must contribute.
  - b. Central government by its immigration policies. They are responsible for bringing more people into Christchurch and so the Council, by its own policy, must require a contribution from central government.
  - c. Large families. They are responsible for placing additional demands, often without even requiring a new home or section, and so by the Council’s own policy they must contribute.
- 2.3 In trying to make the developer the sole contributor to growth costs the Council is not following its own stated policy. Once the again the policy is exposed as poorly considered, naïve, riddled with contrary statements and actions, and simply not “fair”.
- 2.4 **The action that should be taken is that the Council should follow its own stated policy and require a contribution towards costs from those that are responsible for additional demands including the Council themselves, central government and large families.**

### 3. Submission Three

- 3.1 That the implementation of this policy is again contrary to the policy's own stated policy objective *"to ensure that the level of such contribution does not generally act to discourage development ..."* (Council's policy objective, page 7).
- 3.2 The seemingly blasé manner in which the decision to lump all costs onto the developer has been made would indicate a determination or attitude that the developer has 'plenty of money' – that 'they're rich, they can afford it'. There is the smell of an approach along the lines of – 'they're an easy target and they will swallow the pain', or 'there is plenty of fat in it for them'. If so, this is the attitude of the ignorant and the fool. It is the attitude of the person who has clearly never been exposed to the workings of the subject about which they are addressing. I hope I am wrong.
- 3.3 There is no doubt that increases in costs of this degree will discourage development. In fact I will go further and state that it will virtually stop all further development for an unknown period of time.

The reason for stating this can be illustrated by describing my own experiences in developing apartments and houses in Christchurch, and in particular the development currently under construction, the Gallery Apartments. The Gallery Apartments finally got 'the green light' in early March this year, after 18 months of heavy expense and time and, prior to that, several years of door knocking to get the site needed. The actual sums are private business and not for public consumption. I can confidently state however that an increase to the development contribution of this scale would have tipped the balance and the development would almost certainly not have proceeded. That is how finely tuned profit margins on residential developments in Christchurch are. Do you ever wonder why there is so little development in Christchurch? – because there is no money in it for the risks undertaken. There are better returns elsewhere and that is why business people avoid it like the plague. It is only people like myself who enjoy dreaming and building who do it – and we are few and far between. Ask successful business people – you will be surprised at the answers.

- 3.4 There is a straight forward way of describing the effect that such an increase in development costs will have which goes like this. Developments only proceed if there is a profit margin, generally 20 to 25%, depending on all other circumstances of the development such as location, buyer, market conditions, etc. That profit margin must remain. If it does not then the banks will not fund it and the development does not proceed. It is as simple as that. It is also essential to understand that the vast majority of developments only proceed on bank funding because no person in their right mind would fund a development with cash where the return is 20% over 2 to 3 years (7 to 10% p.a.) with the associated risks.

Given that the margin must stay the same then when costs increase people have to pay more for their new home. However, they do not simply have more money so what it means is that for the same money they get less. They get a smaller

home, stay in their older home, have a colder home, a less healthy home, a smaller back yard. The current housing stock has to be used for a longer period of time before it is replaced – i.e. it has to get further rundown before it is justified in knocking it over. **This is not opinion, this is fact.**

There is no doubt that the people who will end up paying for the implementation of this policy are the ratepayers themselves – **the entire community will pay by having a standard of housing lower than that which needs to be. The developer will not pay** because, as explained, the banks will not allow a development to proceed unless there is that same level of proven profit margin.

- 3.5 It should be a fundamental policy of the Council to do all it can to improve the quality of housing in the city. The provision of shelter is, alongside food, a base human requirement. The best way to do that is to lower costs where it can. If it lowers costs then, as explained above, the developer will not get the windfall because of the competitive nature of the industry. The profit margins will still remain at the level required by the banks. The windfall will go to the homeowner. And that is as it should be.

That windfall can be described in the following manner - It is generally accepted that this policy will add approximately \$12-15,000 to the cost of every new home. That is the equivalent of;

- a. Two additional small rooms or one large room on a new home.
- b. An alternative / sustainable energy supply such as a solar power system.
- c. An additional 100 – 150m<sup>2</sup> of land for the kids to run around on.
- d. Improved insulation, for example double glazing and additional insulation.
- e. Improved and 'clean' heating.
- f. \$12-15,000 less on the mortgage, i.e. at 10% p.a. an extra \$25-30 on the weekly income.

This is a fact. It applies right across the community. It is hugely significant. It disappoints me that the People's Republic of Christchurch does not appreciate this and try to help its citizens in this way. It does not surprise me though, given that most People's Republics have lower standards of housing.

- 3.6 **The action to be taken is that the Council should not implement the policy as it is written at the moment because it would be contrary to its own stated objective of not discouraging development. In fact worse, it will have a direct and significant detrimental impact on the quality of every Christchurch home.**

#### **4. Submission Four**

- 4.1 **That the time for payment of development contributions outlined in 6.1 of the policy is flawed and the reasons provided for those payment times are spurious.**

- 4.2 Payments are to be made at the time of granting of consents, be that resource consent, building consent or subdivision consent. There are 5 reasons given for this;
- i. *"It creates the legal framework for the development ... which causes the demand."* **Wrong.** I am not sure what "creating the legal framework" has to do with anything, but when I get, for example, my building consent for the Gallery Apartments the demand is clearly not there at that stage – are the people living there? No. Are they using the toilets? No. Are they driving on the roads or using the parks and reserves? No. Is there any extra stormwater? No. The demand does not come until it is finished and they have moved in and that is when it should be paid. That is obvious.
  - ii. *"Practicality of implementation"*. What does this mean? If it refers to ease of receiving a cheque then it makes no sense. I am a bit lost on this one.
  - iii. *"Economies of scale in implementation cost"*. What on earth does this mean?
  - iv. *"Fairness"*. What!? To who? To what ends? These are a bizarre set of reasons.
  - v. *"Best available knowledge for projections and allocating budgets"*. I give up.
- 4.3 I should perhaps be more diplomatic in my submissions but I have my family's entire livelihood invested in the Gallery Apartments, as I have done in each project before, and as is required to undertake projects of this nature, and when I read documents such as this it disturbs me – for their foolishness and for the effect that they have on my family. I will not bite my tongue when so much is at stake and fools are at play.
- 4.4 It is very clear that payments can be made on the successful implementation of either a building consent or subdivision consent.
- i. It can be made immediately prior to the issue of a code compliance certificate under a building consent. Section 364 of the Building Act 2004 makes it an offence for a residential property developer to transfer or permit possession of a household unit before the issue of a code compliance certificate.
  - ii. It can be made immediately prior to the issue of the Section 224 certificate under a subdivision certificate. This means that titles to the new households can be stopped until all aspects of the subdivision have been attended to.

There is absolute security of payment for the Council in both of these approaches, and in addition it coincides with the time at which the demand comes into being. It makes complete sense. The policy does not make sense.

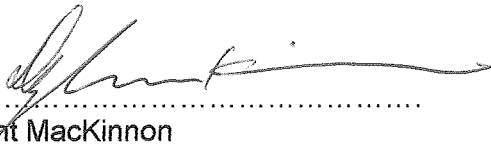
- 4.5 The cost of paying development contributions up front also adds a further funding cost to the entire development cost. Please re-read Submissions 3.4, 3.5 and 3.6 regarding the effect of increased cost of the standard of Christchurch housing.

With most developments there are two banks involved – a first tier lender and a second tier lender. The second tier lender puts all of their money in first and it is the more expensive money. As such if the payments are required up front the funding cost is at a significantly higher level. By way of example, the Gallery Apartments has two funders (this is publicly available knowledge). The second tier lender is putting their money in first at, say, 15% p.a. If the development contribution is, say, \$200,000.00, then the additional funding cost of paying that up front for 18 months is \$45,000.00. **This is a further increase in development contribution costs of approximately 25%.** Please re-read Submissions 3.4, 3.5 and 3.6 again.

- 4.6 **The action, it is submitted, that should be taken is for the Council to change the policy to require payments on the successful implementation of both building and subdivision consents.**

### **5 Submission five**

- 5.1 **That there should be a transition period to introduce any increased contribution.**
- 5.2 It is intended to introduce the new regime instantly on 1 July 2006, notwithstanding developments which are currently underway and notwithstanding that various building and subdivisions consents may have been applied for but not processed by that date. The Gallery Apartments project currently has both of these issues.
- 5.3 It is difficult to imagine a policy more unjust than this. The rules cannot be changed halfway through a process. To illustrate it more clearly – it is like asking the mechanic to replace the tyres on your car and then once they are on the mechanic unilaterally doubles the price. You would fume with anger. I fume with anger at this policy.
- 5.4 This part of the policy is the antithesis of all principles of natural justice. The Council is already exposed to judicial review on the implementation of this entire policy – this part of the policy is one limb of that exposure.
- 5.5 **The action that should be taken is that the Council must introduce a transitional period for the implementation of any increased costs, and in particular the 'old rules' must apply for projects already underway.**

  
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