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Your submission

LTCCP Submission

If you wish, you can present your submission at a hearing. If that is the case, please tick the appropriate box below. The hearings will be held from 28 May 2007 to 5 June 2007. Ten minutes will be allocated for speaking to your submission, including time for questions from the Councillors. The Council will confirm the date and time of your hearing in writing, by email or by a telephone call.

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Tick  I do NOT wish to present my submission at the hearing, and ask that this written submission be considered  
one  OR

I wish to talk to the main points in my written submission at the hearings to be held between Monday 28 May 2007 and Tuesday 5 June 2007

Are you completing this submission: For yourself  On behalf of a group or organisation

If you are representing a group or organisation, how many people do you represent?

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*CPJ*

Date

11 May 2007

Send any correspondence by normal mail as well.

Long-Term Council Plan 2006-2016

# **SUBMISSION ON CHRISTCHURCH CITY COUNCIL 2007 AMENDMENTS TO THE LONG-TERM COUNCIL COMMUNITY PLAN.**

**FROM CHRISTIAN JORDAN**

The submission primarily questions the fairness of the draft Development Contributions Policy (DCP).

The submission also brings to the Council's attention the lack of independent economic review since fundamental changes were made to the DCP and the disregard of recommendations made by the LECG report.

This submission does not seek a reduction in the overall level of revenue that the Council requires from development contributions but does request that the Council adopt a fair and equitable DCP.

## **Executive Summary**

The Local Government Act (LGA) 2002 allows councils to take fair contributions from developers. This submission demonstrates that the draft DCP is grossly unfair and will produce outcomes that are opposite to the Council's objectives for inner city growth and urban sprawl.

The draft DCP will create financial incentives to develop certain types of properties. Fundamental changes made since the DCP was analysed in the LECG report will have the following consequences:

- All sections over \$184,000 will pay roughly the same DC. This will encourage the development of more expensive sections and will limit future revenue growth from reserve contributions as values rise over time.
- Sections valued at above \$340,000 will cost less to develop under the new scheme than they do at present, while the lowest value developments will cost twice as much to develop than they do now. This will discourage the development of affordable housing in favour of developing more expensive real estate.

The design of the draft DCP will also have the following negative consequences:

- The development of larger units will be encouraged, as most units will pay the same DC regardless of size. This will limit the construction of smaller affordable units, particularly in the inner city where developers will construct large multi bedroom rental units rather than the smaller individual apartments that young professionals desire. This will limit positive residential developments in the inner city. This outcome was identified as an area for possible review in the LECG report.
- The lack of a targeted transport contribution will encourage urban sprawl as all new units will pay the same contribution regardless of location. This is despite the positive impact that inner city residential development would have on the council's ongoing transport costs as opposed to green-field developments on the periphery of the city. Again the LECG report recommended that the Council consider amending this policy.
- The charge for surface water management also encourages green-fields developments and provides no incentives to improve design outcomes which

would reduce councils ongoing costs. Again this point was raised in the LECG report. Developers of residential inner city buildings would be required to pay perhaps 30 times (see later example) the contribution that an identical building used for commercial purposes would. This situation would possibly breach Section 199 (1) of the LGA 2002 where the Council is required to demonstrate a casual nexus.

- Developers who replace a small older house with a substantially larger new property will pay no DC despite the increase number of potential occupants.

### **Recommendations being sought by this submission**

That the council adopt a development contribution schedule for residential units based on the following levies: (This would replace the current schedule listed on page 41 of the LTCCP)

Reserves	Based on a percentage of land value for subdivisions. <b>This would be charged prior to the 224 certificate being issued.</b> Or for multi-unit developments: based on the land value of 10% of the gross floor area excluding garaging (GFA) up to 20m <sup>2</sup> for each unit.
Water/Wastewater	Based on the GFA excluding garaging. Credit would be given for existing GFA excluding garaging. <b>This levy would be charged before the building consent code compliance is issued.</b>
Transport	Based on the GFA excluding garaging with the rate dependant on the properties physical location. Credit would be given for existing GFA excluding garaging. Residential properties within the four avenues would attract a zero rate, those within say 500m of the four avenues would incur the next lowest rate and those on the periphery of the city would incur the highest rate. Areas in close proximity to major suburban centres could also be subject to a lower rate than those in locations an equivalent distance from the CBD. <b>This levy would be charged before the building consent code compliance is issued.</b>
Surface Water	Based on the impervious surface area (ISA). Credit would also be given for the ISA of any existing buildings on the site, credits could be obtained for on site water detention and other mitigation works. Any driveways or parking would be included in the ISA unless they were constructed of permanent porous materials. Any paved landscaped areas will also contribute to the ISA, the minimum ISA for paving for each unit would be 40% of the ground level outdoor living space for that unit, unless at least this area was provided in permanent porous materials (eg. Decking). <b>This levy would be charged before the building consent code compliance is issued.</b> Developers of vacant lots would be required to pay a contribution for the ISA of roads and driveways. (Although credits could be obtained as above). <b>This would be charged prior to the 224 certificate being issued.</b>

Leisure

Based on the GFA excluding garaging. Credit would be given for existing GFA excluding garaging. **This levy would be charged before the building consent code compliance is issued.**

This policy would make the small unit adjustment in Section 3.2.1 redundant. Any title existing as at 1 July 2007 or subdivision application made before this date shall have a minimum GFA credit of 150m<sup>2</sup> and an ISA credit of 375m<sup>2</sup>. Any dwelling existing prior to this date shall have a credit of 10% of the GFA and ISA existing at this date. (This allows minor additions without additional DC charges).

Below is an indication of the levies that I believe could be charged for the council to achieve the same overall revenue from development contributions. (At this stage the following are guesstimates as I have not been able to obtain the necessary data-set from the Council to produce accurate numbers for the calculation).

		Incl GST	
Reserves	City-Wide	5%	of land value
Water Supply	City-Wide	\$ 14.32	/m <sup>2</sup> GFA
Wastewater Collection	City-Wide	\$ 15.08	/m <sup>2</sup> GFA
Wastewater Treatment and Disposal	City-Wide	\$ 27.68	/m <sup>2</sup> GFA
Surface water Management	Avon	\$ 4.30	/m <sup>2</sup> GFA
	Heathcote	\$ 6.80	/m <sup>2</sup> ISA
	Estuary	\$ 5.38	/m <sup>2</sup> ISA
	Halswell	\$ 5.33	/m <sup>2</sup> ISA
	Otukaikino	\$ 1.05	/m <sup>2</sup> ISA
	Styx	\$ 1.27	/m <sup>2</sup> ISA
	Akaroa	\$ -	/m <sup>2</sup> ISA
	Lyttleton	\$ -	/m <sup>2</sup> ISA
	Northern Bays	\$ -	/m <sup>2</sup> ISA
	Southern Bays	\$ -	/m <sup>2</sup> ISA
	Transport	Four Avenues	\$ -
City Fringe		\$ 5.30	/m <sup>2</sup> GFA
Inner Suburban		\$ 10.61	/m <sup>2</sup> GFA
Outer Suburban		\$ 15.91	/m <sup>2</sup> GFA
Rural		\$ 10.61	/m <sup>2</sup> GFA
Leisure Facilities	East	\$ 4.20	/m <sup>2</sup> GFA
	North	\$ 6.74	/m <sup>2</sup> GFA
	West	\$ 10.89	/m <sup>2</sup> GFA
	South	\$ 2.90	/m <sup>2</sup> GFA
	Lyttleton	\$ -	/m <sup>2</sup> GFA
	Akaroa	\$ -	/m <sup>2</sup> GFA

## Analysis of draft DCP

In each of the following areas this submission will demonstrate how the Draft DCP is grossly unfair:

- Reserve contribution
- Water supply, wastewater and leisure charges
- Surface water management
- Transport

This analysis will also include a review of recommendations made by the LECG report.

The LECG report outlines a number of negative outcomes of the 2006 DCP proposal and made several recommendations to improve the policy. The following have not been addressed by the 2007 amendments:

Minimising negative impacts on inner city residential development. (Section 1.4 and 6.5.14)

Incentives for developers to make design improvements of a type that imposes lower costs on council. (Section 5.2 LECG report)

### Reserve contribution cap

*Most properties will pay the same reserve contribution irrespective of the value of the land.*

The following example demonstrates how the DCP is grossly unfair:

*If a developer subdivides a 1000m<sup>2</sup> section (of value \$1,000,000) in Fendalton and builds a 400m<sup>2</sup> luxury home (costing \$800,000) under the draft DCP the developer will pay \$29,142. This is 1.62% of the project cost. Another developer subdivides a 500m<sup>2</sup> in Spreydon (worth \$185,000) and builds a 120m<sup>2</sup> house (costing \$135,000) under the draft DCP this developer will pay \$29,574. This is 9.24% of the total house cost.*

*The developer of the smaller, cheaper house will pay more in actual dollar terms, and in relative (percentage) terms will pay 5.7 times more development contributions than the that of the luxury home.*

*Under the present policy the developer of the luxury home would pay around \$78,000 whereas the developer of the cheaper townhouse would pay about \$16,900.*

*The draft DCP will give the developer of the luxury home a **discount of nearly \$50,000**, at the same time nearly **doubling the cost** to develop the cheaper townhouse.*

At present the average section price in Christchurch is about \$250,000 and the cheapest sections sell for around \$135,000 (for 330m<sup>2</sup> in Linwood), therefore the majority of fee-simple subdivided sections will be above the \$184,000 cut-off for the reserve contribution fee cap.

The current price of L3 land gives a reserve contribution that is close to or above the fee cap for most unit developments (the cheapest L3 land is now above \$500 per square metre which equates to \$10,000 reserve contribution).

Therefore the Draft DCP is **essentially proposing a flat fee** for the majority of household units in Christchurch. This is regardless of the unit's size (except for a small discount for units under 82m<sup>2</sup> under section 3.2.1 of the draft DCP). This policy takes no consideration of the number of persons that would live in each unit and it largely disregards the value of the property – which is the way both development contributions and rates have been traditionally levied in New Zealand.

**An Analogy:**

*If Central Government proposed to change income tax laws so that we all paid a flat fee – say \$20,000 per year – on the face of it, the policy may seem fair and equitable (to an extreme right-winger) but those who earned \$25,000 per annum might rightly feel aggrieved, while those on \$150,000 per annum wouldn't complain at all.*

This analogy goes well beyond any much-derided flat tax policy and will certainly appear to most as blatantly bad policy.

In the same way **the Draft DCP is blatantly bad policy.**

It appears that no one has stepped back from the DCP and thought clearly about any implications.

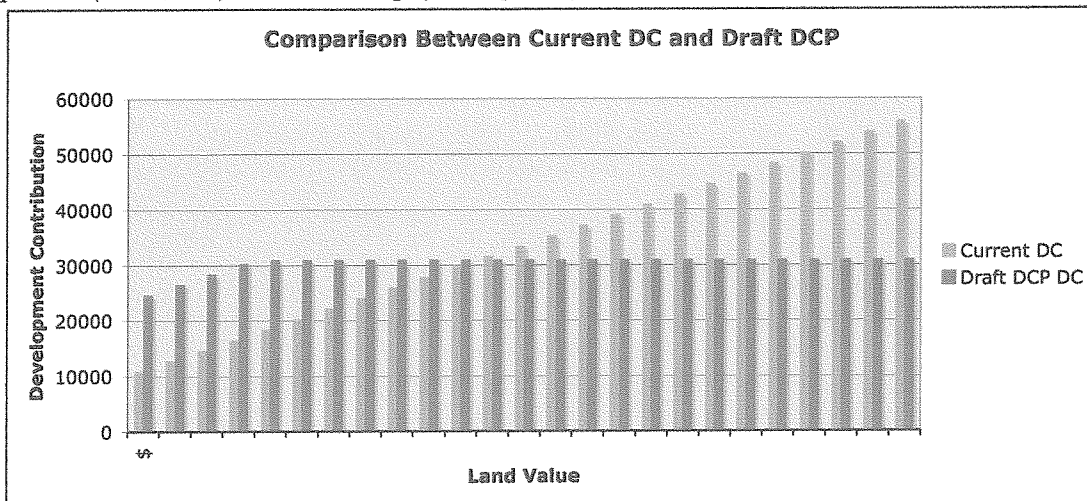
The current draft DCP is fundamentally different from the one that LECG analysed in 2006, yet the Council has not had any further independent analysis completed.

Section 6.5.7 of the LECG report details that:

*“Properties in ‘low improvement’ suburbs (those areas more likely to be the site of cheap, residential housing) do tend to have lower total DC charges than those in ‘medium improvement’ and ‘high improvement’ suburbs, largely due to the 7.5% reserves component of the total DC charge.”*

This point was critical in the report's analysis of the impact on housing affordability, the report's conclusions are therefore no longer valid and should have been reviewed. The report does not recommend the change proposed in the 2007 draft DCP but infers in section 6.5.7 that 'progressive' charges (ie a percentage based levy) would improve outcomes for housing affordability.

The following graph illustrates the change the DCP proposes over a land values ranging from \$100,000 to \$700,000. Properties with land values below \$184,000 pay significantly more while those above \$340,000 pay less. Those with the an average priced (\$250,000) section will pay marginally more:



Clearly the reserve cap will significantly lower the current revenue from reserve contributions and as land values rise, the revenue will relatively diminish. As it is clear that less revenue is required from reserve contributions the best solution is to reduce the 7.5% levy to a lower rate for subdivisions. This could be calculated (based on current land values) so that the total revenue remained unchanged. Without access to the appropriate data, I would guesstimate that **the levy could be reduced to around 5%.**

### **Reserve Contributions for unit developments.**

Under the Draft DCP unit developers will pay the same reserve contribution per unit irrespective for any unit over 82m<sup>2</sup>. The following example demonstrates how this is grossly unfair:

*Two neighbouring L3 developments are built. One consists of 82m<sup>2</sup> (excluding garage) two bedroom flats; the other consists of 240m<sup>2</sup> six bedroom student flats. Both pay the same reserve contribution per unit even though one unit is three times as big and will house three times as many people.*

Clearly this makes smaller units, particularly those built for the elderly, less affordable.

The same problem has created artificial restrictions on inner city residential development.

Section 6.5.15 of the LECG report notes that:

*"apartment developments in Auckland and Wellington are charged significantly less (could be up to 70% less) in levies than similar developments in Christchurch."*

The report's author also notes that:

*"the number of new units being added in the city centre has fallen off dramatically. In the year ended June 2006, 66 new units were added in the city centre but the vast majority were in the living zone areas...only one residential development occurred in the CBD"*

This is primarily due to the high reserve contributions paid on unit developments. With CBD land values well above \$1000 per square metre, the current 20m<sup>2</sup> reserve requirement irrespective of unit size promotes the development of only large luxury apartments. The current \$20,000 per unit contribution has prevented any development of smaller unit in Christchurch. The LECG report notes that only one development occurred in the CBD in the year ended June 2006 and this was for a luxury development in Armagh St. There is the potential for a wide range of apartments to be developed in central Christchurch ranging upwards from \$175,000 per unit. The comparison with financial contributions levied for such developments in Auckland and Wellington together with the lack of development must indicate that the current policy is hindering the market. The draft DCP exacerbates the problem by having a flat fee regime.

A progressive levy charged in the same way as the DC proposed for commercial activities would remove the artificial barriers to inner city development that the draft DCP and current DC regime has created.

This point was clearly made in section 6 of the LECG report, yet no substantive effort was made to address this issue and improve outcomes for the city in general, other than minor change noted in section 3.2.1 of the draft DCP.

A simple change in the draft DCP to the calculation of reserve contributions for unit developments would resolve this situation.

**Reserve contribution could be calculated at 10% of the gross floor area excluding garaging up to the maximum 20m<sup>2</sup> of land allowed under the LGA 2002.**

This change would not affect the scale of developments, but may promote the construction of more smaller household units which are both more affordable and in higher demand.

### **Water supply, wastewater and leisure charges**

*All properties over 82m<sup>2</sup> will pay the same charge irrespective of the size of the household or number of occupants of the household.*

As with reserve contributions for unit developments, larger households place more demand on the services yet under the draft DCP will not be charged any more than smaller units.

*A 300m<sup>2</sup> family home with two adults and four children residents will pay the same contribution as a single retiree in an 82m<sup>2</sup> flat.*

Again the Draft DCP does not reflect a fair and equitable distribution of the cost of development and for the same reasons as identified above in the reserve contribution calculation for unit developments this policy will also discourage inner city residential development.

**The solution is to base water supply, wastewater and leisure charges on the gross floor area excluding garaging, in a similar way to the charges proposed for commercial development.**



## **Surface water management**

*In each catchment all properties over 82m<sup>2</sup> will pay the same charge irrespective of the actual impervious surface area for that development.*

The actual charge is based on 427.5m<sup>2</sup> of impervious surface area per unit. Yet this is larger than the sections of most townhouse and unit developments.

**Developers of inner city and infill housing will in fact be subsidising green-fields developments.**

Most green-field developments include large paved road areas which will contribute significantly more impervious surface area (ISA) per unit than in any infill development.

For example:

*A 1ha subdivision allowing ten 800m<sup>2</sup> sections has a 100m long road which is 14m wide including footpaths. Each house covers 250m<sup>2</sup> and each has 200m<sup>2</sup> of driveway and paving. This gives ISA of 590m<sup>2</sup> per unit. On the other hand a 10 unit L3 development on a 1400m<sup>2</sup> with 200m<sup>2</sup> of landscaping and gardens has an ISA of 120m<sup>2</sup> per unit.*

Both developers will pay the same surface management levy under the draft DCP despite the green-field developer creating nearly five times as much stormwater.

The current policy does not create any incentive for developers to improve design or reduce the development's impact as identified in section 5.2 of the LECG report. A credit system could be developed for schemes that created areas for on site stormwater detention.

There is also a blatantly unfair inconsistency in the draft DCP. This is best illustrated by an example:

*A developer builds a ten storey central city office tower of floor area 450m<sup>2</sup> per level. Next door a residential developer builds a ten storey apartment tower with five 90m<sup>2</sup> units per floor. The office developer pays \$2905 the residential developer pays \$86,096 for the same increase in stormwater discharge.*

Under section 199(1) of the LGA the draft DCP could become subject to judicial review as this discrepancy clearly demonstrates the lack of any causal nexus, for this part of the DCP.

**The solution is to base stormwater charges on the impervious surface area, in a similar way to the charges proposed for commercial development.**

Both residential and commercial developments should also be given credits for the site's existing ISA. My recommendations section outlines details of how the ISA should be calculated.

For consistency, commercial developments should be levied based on catchments in the same way that residential developments are levied.

## Transport

*Across the entire city, irrespective of both location and number of occupants that a dwelling houses, all properties over 82m<sup>2</sup> will pay the same charge.*

Clearly inner city and city fringe residential development will significantly reduce the ongoing transport cost to council. Urban sprawl will significantly increase the cost, yet this not recognised in the draft DCP.

Like all the previous sections transport costs depend on the number of persons in the household, which is a direct correlation to the size or GFA of the household, **therefore transport should also be calculated on a GFA basis.**

Transport zones should be created with a City Centre zone inside the four avenues, a city fringe zone, and a further 2 or 3 zones encircling the city. The outer urban zone would have the highest charge and charges would diminish incrementally towards the central city zone, which would have zero (or a very low charge). The rural and former BPDC would have a levy about the same as that proposed in the draft DCP.

## Conclusion

The changes to the draft DCP, proposed by this submission and outlined under recommendations sought, will reduce the negative impacts it causes on affordability and inner city residential development.

*At present I do not believe that the draft DCP meets the Council's objective to insure that the level of such contribution does not generally act to discourage development...or to discourage development of a particular area (section 4.1 LECG report).*

The current draft proposal does not adequately consider the recommendations made by the LECG report and significant changes to the DCP have not been adequately independently reviewed.

The draft DCP can be easily modified to provide a fair, equitable and consistent framework for charging development contributions.

The fixed charge framework must be abandoned in favour of a charge based on actual use of the proposed building. This means that most development contributions will only be levied once a building has been built. Only reserve contribution and surface water management levies (for road construction) will be levied at the time of subdivision consent.

Although this submission does not argue to reduce the level at which development contributions have been set. I do believe that the level of development contributions is far beyond what is required to account for additional development.

### *An analogy*

*Development Contributions are similar to the Government charging immigrants an 'immigration tax' of say \$100,000 per person. Instead the Government recognises the added benefit of more taxpayers.*

The additional rates revenue that new developments bring is recognised by the Dunedin City Council, who for any new unit charge a single fee of around \$300 per unit for the majority of the city.

The fact that a new, budget three bedroom home can be built in Christchurch for around \$100,000, yet building a unit like this on an infill section will incur at least a \$25,000 development contribution under the draft DCP, must question the fairness of the proposal.

The draft DCP will not only increase the cost of affordable and rental housing but also limit its supply as developer's move to more efficient development options. This will produce further price pressure on quality affordable housing.

Investor's who currently own large city fringe properties will not consider adding further rental units as the 25% levy (as in the above case) will make the proposal unviable.

Although my proposal for changes to the draft DCP will make the charges more equitable I believe that an overall reduction in the development levies of say 20% or about 2 years rates revenue for the new property will provide significantly benefit for housing affordability.

#### **About the submitter**

My name is Christian Jordan. I manage my own development trust, which has projects in Christchurch and Dunedin. I also own a number of residential and industrial investment properties. I previously worked for a multi-national investment consulting firm and performed research and analysis for major New Zealand corporate and government clients. I have a degree in mathematics and physics from the University of Canterbury.

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