



Registered Master Builders Association of New Zealand Incorporated

Submission

on the Tauranga City Council: Draft 2022–23 Development Contributions Policy

April 2022

The Registered Master Builders Association submission on the Tauranga City Council: Draft 2022-23 Development Contributions Policy

The Registered Master Builders Association (*RMBA*) welcomes the opportunity to provide this submission on the Tauranga City Council (referred to as TCC throughout this document): Draft 2022-23 Development Contributions Policy.

About RMBA

The RMBA represents over 3,000 commercial and residential builders and are the leading sector advocates on the built environment. Our sector is a key contributor to the New Zealand economy, with every \$1 million spent on house building supporting \$2.6 million across the wider economy.

We are working hard to lead the change our sector needs. Ensuring we have the regulatory systems and processes which will enable us to build faster and better. We are supporting our members to grow their capability and business acumen to ensure a strong and healthy sector; to innovate and make the most of new technologies so we meet the climate change challenge; and to attract, train and retain skilled talent. We are proud to be New Zealand's best builders.

At Master Builders we are committed to transforming the sector and rebuilding our economy. We are focused on building better homes, communities and workplaces, and ultimately better lives for all New Zealanders. We are building a better New Zealand.

Summary of the Tauranga City Council (TCC): Draft 2022-23 Development Contributions Policy

The citywide development contribution for a dwelling of three or more bedrooms has increased to \$19,708 from 1 August 2021, and then to \$28,557 on 1 February 2022. For commercial development, the fee increased to \$5089 per 100m² of gross floor area on 1 August 2021, and to \$7077 on 1 February 2022.

As publicly announced, the main reason for this increase is to fund the Waiāri Water Supply Scheme and trunk water mains to ensure the city has a reliable and adequate water supply to meet current and future needs of households and businesses. The Waiāri water supply scheme received financing from central government in the form of a 10-year interest-free loan through the Housing Infrastructure Fund. The development contributions collected will be used to repay this loan. If development contributions were not used, this cost would have to be funded from rates, by all ratepayers.

Further increases are to apply from 1 July 2022, to reflect the escalating cost of delivering infrastructure, and in time to fund new community facilities like pools, libraries, and community centres. This is proposed to be a 15% increase in citywide development contributions for residential developments. This increase will only affect residential developments as it relates to charges for community infrastructure which non-residential developments do not pay. As an example, for a three-bedroom house the fee would increase from \$28,557 to \$32,754 (including GST).

RMBA's position on Tauranga City Council (TCC): Draft 2022-23 Development Contributions Policy

Overarching View

Registered Master Builders Association (RMBA) understands the size of the challenge facing the Tauranga City Council (TCC) regarding sustainable infrastructure development for the region. However, we are of the strong view the proposed increases to development contributions for July 2022 place a disproportionate and unfair impost on residential developers and require further review. The sheer increase in cost is just too high at a time when the building industry is facing severe pressure and stress, a housing crisis, and battling with increasing costs and disruption in the supply of materials outside their control. These further increases are going to result in damage to the already high cost of building, hamper consumer confidence, and result in a significant reduction in the number of developers and builders from working in the TCC area. We are of the view that TCC is choosing to put its infrastructure costs on development contributions as a default, rather than properly considering other available options. This is simply untenable and unsustainable, especially during a time when TCC needs to be encouraging the building of homes to solve New Zealand's housing crisis.

Housing Affordability and Housing Availability

New Zealand is in a housing crisis, due to the collision of low housing availability and housing affordability. House prices have increased dramatically in Tauranga over the last two years, with the QV House Price Index March 2022 average house price being \$1,209,869.¹ As a result, Tauranga City needs more homes to satisfy current demand and to stabilise the housing market. Further increases to development contributions will only discourage building activity in the city, as consumers weigh up the cost of building in TCC compared with cheaper parts of country. Without increased building activity in Tauranga, the housing situation the city is currently facing will worsen. In 2021, the New Zealand Institute of Economic Research report advised Tauranga would be short of nearly 1000 houses by 2022, projected to grow to 5000 by 2025.² TCC itself has acknowledged housing affordability is a significant issue, reasoning this to the declining stock of entrant level homes, changing demographic profile, land value increasing and a lack affordable housing supply overall.³ Rapidly increasing development contributions such as we've seen over the last 12 months, is counter intuitive, especially as TCC recognises housing costs is an issue that needs tackling. RMBA understands that a greater number of homes and population growth requires better infrastructure, however if TCC intends to improve housing affordability in Tauranga City, then increasing development contributions so exponentially should not be the leading solution.

Additionally, as TCC is Tier 1 area, it is required to have a city plan which enables higher density housing as part of the solution to New Zealand's housing crisis. Whilst RMBA recognises development contributions are lower if a new build is one or two bedrooms, medium density housing does not automatically equal homes built under the new city plan to be of a certain bedroom number. There are plenty of homes in New Zealand which would be defined as medium density, however, are three or four bedrooms. Tauranga itself has existing stock of such homes.

¹ [QV House Price Index](#)

² [Tauranga housing squeeze: 'It can be desperate if you're a tenant' | RNZ News](#)

³ [Tauranga City Plan > 2-Issues Overview > 2A-The Context of the Plan > 2A2-Significant Resource Management Issues](#)

TCC's housing bottom line states 16,500 homes are needed between 2020-2030, however if fixed costs such as development contributions continue to increase at the rate they have been over the last 12 months, then the cost of building, even for medium density builds, will be harder for consumers to face.⁴ Again, this is counter intuitive to what Tauranga needs, a solution to housing affordability and availability. Consumers who are looking to add to the housing stock in Tauranga, especially those building medium density homes, should be welcomed, and not punished by soaring development contributions.

Increased costs in Construction need to be considered

Costs of construction have increased at unprecedented rates over the last 18 months, and we expect the volatility in material cost to continue for at least the next 12 months. Some in the industry are now estimating the cost of building the average home is up to \$3,500 per m².⁵ The cost of building increases is due to strain in the material supply chain. An EBOSS survey from late 2021 stated 79% of builders are experiencing issues with supply. This in turn, effects the cost of available material supply. We do expect TCC to be aware of the state of the construction market, especially regarding construction costs. TCC's own policy stipulates *development contributions and financial contributions are reviewed on an annual basis, having regard to changes that affect the provision of services by Council, including cost estimates and construction costs.*⁶ If TCC is seeing increased costs to their own construction projects resulting in the need to increase development contributions, then TCC should assume these cost constraints are occurring in other parts of construction, including residential building. RMBA strongly encourages TCC to reconsider the impact of increased costs to the consumer. Consumers are already battling increased costs of building, and this should be considered when TCC is deciding their development contributions policy.

The current policy of reviewing annually, and finalising development contribution increases up to a year in advance should also be reviewed. As the cost of building continues to be volatile for the foreseeable future, we do believe the market will look different again to what it does now in as little as six months' time. There needs to be provisions in place to ensure development contribution costs can be reviewed within the annual period if there are changes to the market compared to when they were first finalised. We do not believe the planned July 2022 increase, on top of the recent increase in August 2021 and February 2022 in the current market will have the desired effect to Tauranga's housing or growth.

Improved infrastructure benefits all community

The Tauranga City Council's Draft 2022-23 Development Contributions Policy states:
*Option 1: Charge Development Contributions under the Local Government Act 2002 Population and urban growth of the city is the reason much of Council's capital expenditure needs to be undertaken. As the cause of this expenditure, it is fair that a significant portion of this cost is recovered directly from the development community through the collection of development contributions. While this does create a significant upfront cost for development, if these costs were not funded by development, the main alternative would be to increase rates by a substantial amount. Council's view is that this would impose an unfair financial burden on the ratepayers of the city.*⁷

⁴ [2A.3 Housing Bottom Lines – Tauranga City](#)

⁵ [Cost Of Building A House NZ: What's The Average Cost? | Canstar](#)

⁶ [draft-2022-23-development-contributions-policy.pdf \(tauranga.govt.nz\)](#)

⁷ [statement-proposal.pdf \(tauranga.govt.nz\)](#)

RMBA notes TCC has not stated why it is their view that increasing rates to pay for city development would be an unfair burden. City development, including the cost of city services such as pools, libraries, and community centres, which is the reason why TCC proposes the July 2022 increase to development contributions, benefits all residents of Tauranga, including existing ratepayers. It is unjust for the cost of funding new infrastructure be put solely on those building new homes, and for existing residents to reap the benefits of new and improved TCC services. People building in Tauranga City are funding new infrastructure, improving the local economy, and driving growth, however, are being punished for simply not being there first. This is unfair and goes against TCC's own policy where it states: *development contributions and financial contributions should be applied in a fair and equitable manner and have due regard to Council's other financial management policies. This includes assessing the benefits that may accrue to the whole or parts of the community.*⁸

Increasing development contributions whilst the norm when funding new city infrastructure should not be the default decision and all options, including increasing rates should be properly considered. If an increase to development contributions is the preferred option by TCC, then it needs to be justified to the public, rather than only stating that it is unfair to increase rates.

Declining Consumer confidence impacts Building Activity

If development contributions continue to increase at the current pace, the local Tauranga building industry will suffer. There are over 60 Building Council Authorities (BCAs) in New Zealand, with many building businesses working across multiple BCA and BCA processes. Builders are aware of how different BCAs operate and the cost of building. If TCC continues to choose increasing development contributions as the default option for funding local infrastructure, builders will lose consumers and confidence and therefore will consider shifting their business to other parts of the country that are profitable and efficient. In the long term, this will hamper residential construction in Tauranga City, which needs to be supported if TCC intends to solve its housing crisis. Housing availability and housing affordability will continue to be an issue for the region, as builders will struggle to encourage consumers to choose Tauranga City as a desirable place to build. This will have a flow on effect towards consumers, whose confidence is already impacted by the current residential building market. Due to high demand, and lack of building supplies, we are predicting a further decline in consumer confidence towards the end of this year. We have heard from members around the country, including Tauranga, who are expecting a decrease in productivity, especially for larger homes who are the most effected by construction cost increases and disruption in the material supply chain. Current lending rules have also lowered attractiveness to new builds for some consumers. If TCC plans to continue to fund future infrastructure projects through development contributions, then it needs to encourage a stable residential building market and encourage consumer confidence to ensure continued growth of the city.

Conclusion

RMBA believes that the proposed additional increases to development contributions in July 2022 are far too high of an impost on residential developers and builders and will further damage the housing crisis facing the region. TCC has not properly justified the third increase to development contributions over the last 12 months and seems to have favoured it over raising rates, despite the funds going towards infrastructure which will benefit all Tauranga City residents. TCC has not considered the current state of the residential construction market, including construction costs and constraints to building supplies, which is expected to have flow on effects to on consumer confidence. Increasing development contributions at this time will discourage building activity in

⁸ [draft-2022-23-development-contributions-policy.pdf \(tauranga.govt.nz\)](#)

Tauranga City, which is not desirable during a housing crisis, an issue TCC itself has admitted to being significant. RMBA strongly suggests TCC review its planned July 2022 development contributions increase and reconsider its process for any future increases to development contributions.

RMBA thanks you for the opportunity to contribute on the Draft 2022-23 Development Contributions Policy.

We are keen to remain involved in this important strategy for Tauranga and are available to appear in person to talk to our submission if required.

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