HOUSING AFFORDABILITY

An independent housing affordability report presented to HCC by Urban Economics (27 August 2018) indicates that the current HCC forecasting methodology is fundamentally flawed and its use may result in house prices in Hamilton rising above extremely unaffordable Auckland prices. (refer to appendix)

Is the HCC housing forecasting methodology industry best practise?

a. The forecasting methodologies used by Management have consistently produced housing planning that contributes to the serious housing shortage observed in Hamilton City and significant uplift in residents and ratepayers' rates through development contribution shortfalls.

b. Attempts to inform Council management about their flawed methodology and approach to calculating Development Contributions have been ignored.

c. Average house prices in Hamilton are currently over $540,000 when international benchmarking states that average housing prices should be no more than 3 to 4 times household income. Currently Hamilton is 9.3 times household income.

d. An updated report by Urban Economics - 'Housing Construction Forecast and Development Contribution Revenue' in September 2019 states "the increase in house prices underpinning HCC current growth forecast will see Hamilton becoming more unaffordable than Auckland is presently. The current multiple of 9.3 (if the past 10 years is a reliable indicator) shows that house price to income multiple is forecast to increase to 12.1." (Refer to appendix)

2. Is the timing of Hamilton City boundary changes consistent with forecasted demand?

3. How do both developers and the community gain confidence in HCC housing growth forecast for both Greenfields and Infill development?

    a. Hamilton City Council employed an economist in 2014 to prepare a background report on the price of houses, sections and other critical points in the city. This report identified that residential sections in 2014 cost on average $203,000. The latest section evidence from mid-2018 (Telfer Young Registered Valuer) show section prices are averaging $350,000+. This is in contrast to the HCC Future Proof report to MBIE in mid-2018 that section prices range from $150,000 to $160,000. (refer appendix OIA 19175, Greenstone Report pg 14)

    b. An independent housing affordability report (Peer Review) by Urban Economics (July 2018) titled "Housing Development Capacity Assessment 2017" confirms that the modelling that HCC are using was fundamentally flawed with "potential omissions or errors" and would see house prices in Hamilton rise above the current extreme unaffordable Auckland prices.

4. Does the restricted number of developers working on Hamilton City development restrict the level of housing section competitiveness? Strategic Risk Analysis Report 2007 advised "limit new subdivisions to push up land prices " and "only approve subdivisions subject to achieving specifies densities" (refer report in appendix)

    a. It has been identified under OIA that HCC over a number of years has consistently underfunded the construction of core infrastructure for residential properties. This has resulted in approximately six major developers controlling all the development land (ie. where infrastructure is provided) in the city. HCC also changed the ratio of greenfield/infill development from 60/40 to 50/50 (in 2007)without fully assessing the impact on existing infrastructure capacity. Another concern is lack of recognition by HCC on the impact of 'Restricted

Covenants' that seriously limit the number of options for infill development. (refer appendix. OIA 19085,19108,19175,19055)

5. Who pays the cost in Hamilton when developers receive subsidies for HCC supplied infrastructure?
6. How is confidence improved for both developers and community when calculating development contributions and the management of future infrastructure debt? (refer appendix Urban Economics 8.2019)
   a. It is predicted that there will be a shortfall of Development Contributions of between $25m to $121m over 10 years. This is in contrast to the HCC 2018 10-year plan increasing development contributions by $27M from the consultation document to the final approved plan.
   b. The total rates collected due to "price elasticity" shows a revenue shortfall of between $2m and $78m over 10 years, and a total revenue shortfall of between $27m and $200m over 10 years.
   c. HCC 10-year plan indicates they expect to operate at their debt ceiling for 2021 to 2024. Overestimating revenue could result in HCC passing their debt ceiling. This could cause them to lose their AA- credit rating resulting in higher interest payments and higher rates."
   d. HCC commissioned Insight Economics in March 2018 (updated 9.2019) to consider the effect on Development Contributions. Their conclusion was **"the proposed new residential charges in most greenfield areas will probably have some material impact on development activity**". "In most cases the proposed increases are more than likely to manifest as a reduction in both raw land prices and the margins for developers. In addition, they will likely result in higher prices for completed buildings relative to the status quo".
   e. ""The situation in Rotokauri is different, however. **The proposed development charges are so much higher than any other 'competing' area that we expect to see a marked reduction in development activity relative to the status quo."**
   f. **"The same is true for non-residential development across most areas of the city**….
   g. Development contributions have reached an uneconomic level where developers are now focussed on other Councils to continue their work. Subsidies in the CBD distort the revenue collection and issues such as Christobel Circle subdivision highlights the shortfall in Council contracts.

Recommendation

Affordable Housing:

- An independent economic analysis of HCC's forecasting methodologies applied in relation to housing affordability, and including infill and greenfield sites available now and in the next 10 years, addressing housing development capacity and compliance with NPS-UDC, taking into account Urban Economics Review of August 2019 (refer appendix).

- An independent review of HCC Development Contributions, their financial recording, application to specific growth cells, legal compliance, their impact on housing affordability and future generation rate demand.
- An independent review of HCC fees and charges and their impact on housing affordability.