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NEW ZEALAND – December 2017

Hamilton mayor's rate hike proposal now 15.5 per cent, full budget released

Mayor Andrew King has backed down marginally on his rates rise proposal - from 16.5 to 15.5 per cent - but has added a user-pays rubbish charge.

King floated the 16.5 per cent rate in November.

His budget proposal for the coming decade, publicly released on Friday, is based on a 15.5 per cent jump in rates.

Hamilton city councillors will debate his choices for the long-term plan on Wednesday, but first they have to wade through the 1000 pages of the budget and staff reports.

The increase would add about $340 to the rates for an average Hamilton house, council papers said, taking the bill to $2530.

"I'm a businessman and what's driving me is balancing our books," King said.

"If we don't fix this, what we're doing is we're leaving it for the next generation of ratepayers and we're leaving it for the next mayor and the next council to address.

"I'm not here to try to be a popular mayor at the expense of running our books in an unbalanced manner."

Council isn't meeting day-to-day costs through rates, so money is being borrowed for that purpose, chief executive Richard Briggs said.

That's like paying for a power bill on a credit card and just paying off interest for the next decade.

The rates rise is to stop that. It will not be for money to put into developing the Peacocke area, Briggs said

"Let's say we closed the city down today and there was no growth. We would still need fifteen and a half per cent."

However, extra income will give the city more borrowing power - and it can use some of that for Peacocke.

"The rates provide the [debt] capacity and it's council's choice what they spend that capacity on."

Two other rate rise options are in the council papers, the first being a 9 per cent increase the first year, a 6 per cent increase the next, and 3.8 per cent a year after that.

The other is for a 12 per cent rate rise, followed by a return to annual 3.8 per cent rises.

King has also suggested changes to the way council rates: an immediate switch to full capital value and a $500 uniform annual general charge.

The city is three years into what was going to be a decade-long, gradual shift from land- to capital-value.

Average rates in Hamilton are $2191, King wrote in a council report, and that's $400 to $950 a year lower than in other growing and neighbouring areas.

Ratepayers would also be putting their hand in their pocket for rubbish and recycling collection under King's proposal.

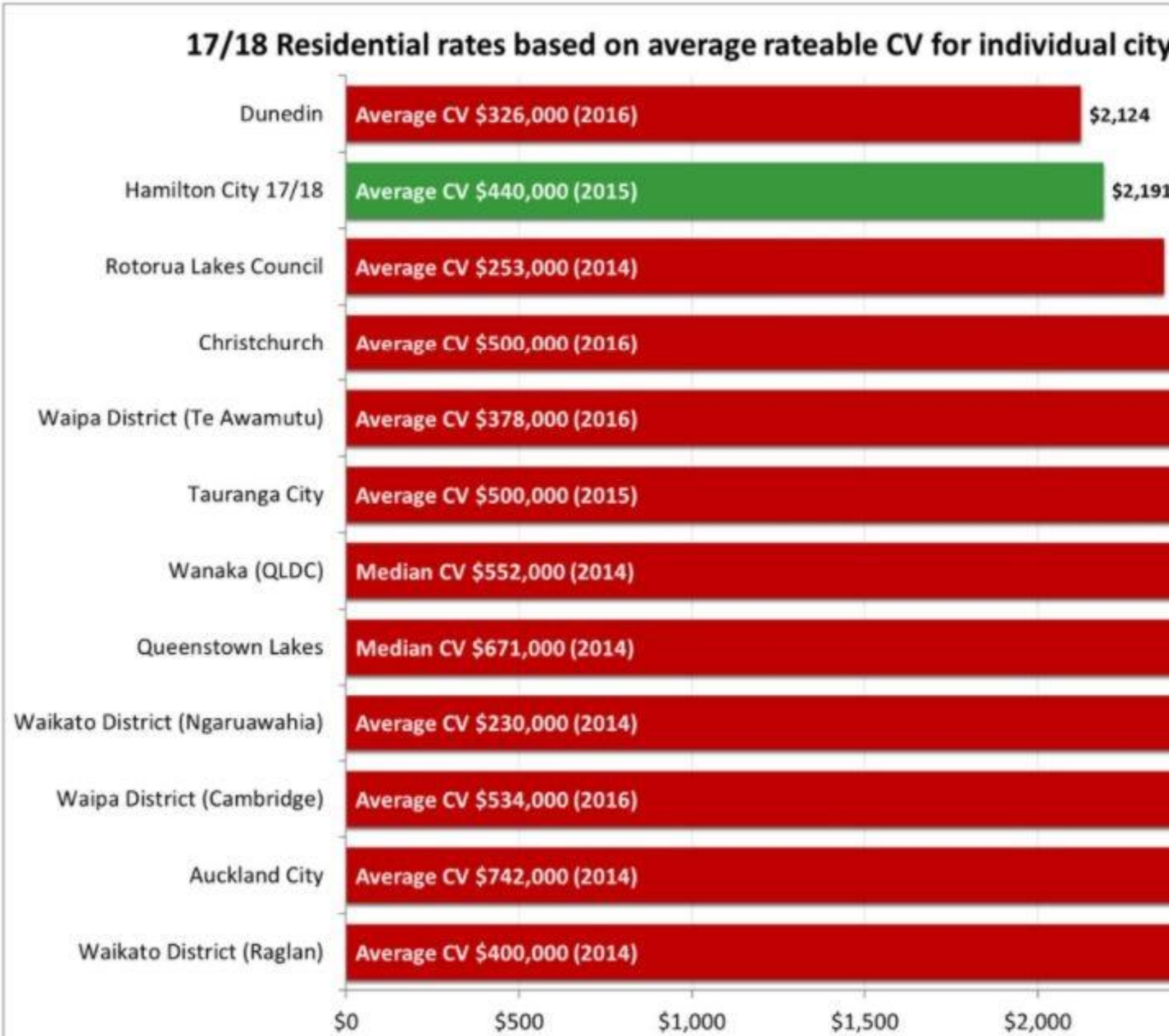
He recommends that council shift to a three wheelie-bin system with a $5 user charge for weekly collections, although further detail is still to come on how that would work.

The system would involve one wheelie bin for rubbish, a second for recycling and a third for food waste.

Projects retained in King's budget include the Waikato Regional Theatre, Hamilton Gardens development, a town centre for Rototuna, and a central city park between Victoria on the River and Embassy Park.

"Without a vision, the people perish," King said.

"They can't just be pouring money into infrastructure, infrastructure, infrastructure.
"I'm a mayor who wants to deliver. I want to deliver Peacocke, I want to deliver what Rototuna [residents] have paid their rates for for years and years ... I want to connect the city to the river."
The budget also contains provisions for maintaining and replacing assets the city already has, King says.
He's recommending that the Hamilton iSite close in July 2018, that council lift the minimum wage for direct employees to $20, and that council spend $3m on "re-imagining local government".
He has also asked Briggs to find $5m in savings in the next financial year and more in the two after that - part of the re-imagining local government programme the pair say will have a net cost of $1m.
"I can't go out to my ratepayers and expect them to pay a rates increase in the teens and not challenge the chief executive to find ... better ways of doing business through our organisation," King said.
Councillors will meet on Wednesday to formally debate what should and shouldn't be in the long-term plan budget - which Briggs has described as the most significant decision council will make this term.
The next step is turning councillors' thoughts into a draft long-term plan, which will be released for public consultation.



Rates comparison table included in a report on the mayor's budget. The original graph supplied for this article was incorrect and has been amended.

A brief market update – Christchurch commercial property

The Christchurch commercial property market experienced disruption following the Canterbury Earthquakes. Prior to the earthquakes, increasing vacancy rates and shorter lease terms evidenced what was effectively a 'tenant's market'. Tenancy inducements were on offer to attract quality tenants whilst rental growth and investment demand remained relatively flat.

Post-earthquakes we have seen significant changes in the market. Limited supply resulted in fewer vacancies, longer lease terms, and limited inducement offers by landlords.

As the rebuild progresses the central city is starting to take shape with many private sector developments either completed or nearing completion. The BNZ Centre and The Crossing opened earlier this year and The Terrace is due to open before the year ends. In the government sector, the Justice and Emergency Services Precinct opened with a public viewing in September 2017 and other anchor projects including the East Frame and Convention Centre are under construction.

Office supply is nearing pre-earthquake volumes and the construction of new offices in the CBD has dropped off sharply. Office vacancy rates in the suburbs are expected to increase as more businesses make the move back into the CBD. New industrial developments throughout Canterbury (including developments in Belfast, Rolleston, and Hornby) have created enough industrial land to keep the Canterbury market supplied for years to come.

What are we seeing and what does this mean for landlords and tenants?

As vacancy rates increase, we are seeing shorter lease terms with multiple shorter rights of renewal, instead of long initial lease terms. This works in the tenant's favour, as it means the tenant is not committed to the premises for a long period. The tenant retains the ability to remain in the premises long-term by exercising the various rights of renewal contained in the lease.

Tenancy inducements are becoming more prevalent as landlords seek to attract quality tenants for long term leases. Tenants should be considering whether an inducement is appropriate for any lease they are proposing to enter into and the quantum of the inducement. Landlords need to consider how any inducement is structured (i.e. a rent holiday, contribution to fitout etc) and the long term effect of an inducement on both the lease and the value of the property (for bank funding or in the event of a sale).

With limited projected growth in market rents in the short and medium term, consumer price index (CPI) rent reviews and fixed percentage rent increases are gaining favour among landlords. Where a lease will contain market rent reviews, landlords should consider inserting a 'ratchet clause' to prevent a lower annual rent should market rents fall.

Reinstatement and tenant fitout are more often becoming subjects of dispute in lease negotiations and on the expiry or assignment of a lease. Reinstatement disputes are easily avoided by providing for a premises condition report in the deed of lease. Relatively easy to prepare, a premises condition report for smaller premises can be by way of photos of the area being leased. Any landlord's fixtures and fittings should be clearly identified and photos showing their condition included in the report.

Properties are taking longer to lease than immediately post-earthquakes. CBD office construction is declining as stock returns to pre-earthquake levels and CBD office vacancy is expected to improve as more businesses return to the CBD. There is an abundance of industrial land produced by a number of new developments throughout Canterbury. In the retail sector, the completion of private sector developments and key tenants returning to the CBD are positive factors. New retail developments underway in the central city include the Riverside Market complex as well as the Hoyts ENTX development.

Generally, lease terms are shortening and tenancy inducements are becoming more common. More landlords are opting for CPI rent reviews or fixed rent increases in new leases, while market rent reviews are expected to work in a tenant's favour over the short to medium-term. There is still strong demand for investment properties, as evidenced by recent sales including the PwC Centre and Tait Communications.

Factors likely to affect the market going forward include Canterbury's population growth, increasing building costs, lack of short term rental growth, and supply and cost of debt.

Auckland Council's 10-year budget could deliver rates hike

Aucklanders could be slapped with an average rates rise of 6.2 percent - much more than the promised 2.5 percent increase.

The city's mayor said plans to ditch the current transport levy would bring that number down, but there's concern the introduction of a regional fuel tax will offset any savings.

"It's grossly unfair," Jo Holmes, from Auckland Ratepayers Alliance, told Newshub.

"When you promise one thing and do another, ratepayers get very upset."

It's part of the city's proposed 10-year budget that will see general rates increase, targeted rates and a regional fuel tax.

Some Aucklanders are concerned that could burn a big hole in their pockets, but Mayor Phil Goff said ratepayers actually stand to pay less than expected.

"We are removing the transport levy, which was $114 a year, even on those people who never use our public transport or roads," he said.

"A lot of people will be better off because of that."

Under the proposal, there will be a general rates rise of 2.5 percent for the next two years. An additional 2.8 percent would come in a water quality-targeted rate to clean waterways and beaches, while another 0.9 percent is a natural environment levy, to deal with problems such as kauri dieback.

It's a total increase of 6.2 percent.

However Mr Goff said ditching the interim transport levy will take that down to a 1.4 percent increase.

"I've absolutely kept my promise - 2.5 percent average rate increase, the removal of the interim transport levy and a regional fuel tax," he said.

"That's what I campaigned on, that's what I delivered."

The regional fuel tax is expected to be 11.5 cents per litre after GST and there's concern that will offset any savings made from canning the transport levy.

"They're trying to spin a 1.4 percent rise, when in reality, when you add back the fuel tax, the average household will be paying more than the transport levy," said Ms Holmes.

There's still time for Aucklanders to have their say on the proposal, with the draft 10-year plan open for public consultation next March.