

Crown Infrastructure Partners – Milldale development bulk housing infrastructure – Questions and Answers

Who is Crown Infrastructure Partners?

Crown Infrastructure Partners (CIP, previously Crown Fibre Holdings) is a Crown-owned company tasked with developing and implementing new alternative commercial models for financing bulk housing infrastructure.

This is in addition to CIP's existing responsibilities relating to the rollout of broadband and mobile networks under the Ultra-Fast Broadband and Rural Broadband Initiative phase two/Mobile Black Spots Fund programmes.

Since September 2017, CIP has worked closely with high-growth Councils to develop a commercial model enabling Government and private sector financing of bulk housing infrastructure, to support housing developments coming onto the market at larger scale and sooner than they otherwise would have under the status quo. This in turn supports a timely increase in housing supply. CIP has worked alongside Treasury officials and Ministers in developing the model.

What is being delivered in the Wainui area?

The Milldale project is Fulton Hogan Land Development's greenfield development at Milldale, in Wainui, North of Auckland. The project will provide funding for the delivery of five bulk housing infrastructure roading and wastewater projects (see table below) that will connect the Milldale development into Auckland city's existing networks as well as provide for future growth.

The bulk housing infrastructure is required to support the approximately 4,000 sections in the Milldale development. The infrastructure will also support up to an additional 5,000 dwellings in the surrounding area, currently zoned 'Future Urban Zone'.

Projects	Description
Weiti Stream to Silverdale Interchange	Two lane arterial road and bridge connecting the development to the Dairy Flat Highway and Silverdale Interchange
Wainui Road Argent Lane Intersection Upgrade	Upgrade of intersection for two arterial roads
Milldale to Millwater Wastewater Tunnel	Wastewater tunnel and pumping equipment to service a total catchment of 9,000 dwellings
Milldale to Millwater Wastewater Tunnel stage 2	Stage 2 connection to Milldale Development through private land
Bridge to Highgate Parkway Ave	Connects Milldale Development via a new bridge over the motorway to Highgate Parkway, on the east side of the motorway

What is the benefit of CIP's involvement?

CIP's new commercial model provides the developer and the Council with access to the financing, funding and facilitation support to accelerate the five bulk housing infrastructure projects required to unlock the development at once (rather than at incremental stages).

The project alleviates the delays to housing supply created by the lag in investment in bulk housing infrastructure.

CIP's financing model provides the developer with a long term fixed-rate debt facility (the longest ever raised in the New Zealand market) which is suitable for infrastructure funding.

When will houses become available?

The bulk housing infrastructure that CIP is funding will be constructed over a 3 – 4 year period, with housing development and sales to occur over the next 10 - 12 years.

Who is involved in the project?

CIP is partnering with the following parties to fund and construct the bulk housing infrastructure:

- Auckland Council;
- Fulton Hogan Land Development;
- Accident Compensation Corporation;
- Auckland Transport; and
- Watercare.

Who is funding the bulk housing infrastructure in Wainui?

The estimated total cost of the bulk housing infrastructure in Wainui is \$91.3 million.

Auckland Council Group will contribute \$33.5 million of the costs. This will later be recouped through developer contributions charged on the surrounding Future Urban Zone land as it is developed.

\$48.9 million will be financed by a Special Purpose Vehicle (**SPV**) established by CIP for the purposes of this project. The SPV will raise \$3.7 million of equity capital from CIP (which is Crown funding).

The debt finance and CIP equity will be repaid over the next 30 years by section owners, initially Fulton Hogan Land Development and subsequently the section owners who choose to buy property within the Milldale development. The developer, Fulton Hogan Land Development, will fund the remainder of the bulk housing infrastructure costs (plus any cost overruns).

A summary of the funding for the Milldale bulk housing infrastructure follows:

Source of funding	Amount	Details
CIP SPV	\$48.9m	CIP has run a competitive debt process and raised a 35-year long-term debt from Accident Compensation Corporation at a fixed interest rate. CIP will make a \$3.7 million equity investment on behalf of the Crown which is expected to be fully repaid plus a return on capital.
Auckland Council Group contribution	\$33.5m	Auckland Council Group will contribute \$33.5m that will be met by future developer contributions charged in the surrounding areas.
Total bulk housing infrastructure cost	\$91.3m*	

*Fulton Hogan Land Development will fund the remainder of the project costs (plus any cost over-runs).

What is not being paid for by the CIP SPV?

The CIP SPV will not finance the earthworks, internal roads, or waste and water pipes that make up the Milldale development’s internal networks – for example the services to each individual section and other development works. Fulton Hogan Land Development is responsible for this work.

How is the cost of the bulk housing infrastructure passed on to the home owner?

When a Milldale property is developed and sold, the title will include an encumbrance which obliges the section owner to make annual infrastructure payments to CIP’s SPV.

The annual infrastructure payment will be \$650 (for an apartment +2.5% pa) or \$1,000 (for a home +2.5% pa) for a period of 30 years. There will also be an option to make a one-time full payment upon purchase.

Auckland Council will act as agent for the CIP SPV in collecting the infrastructure payments and will include those amounts as an item in the general Council rates invoice it sends to section owners each quarter.

This infrastructure payment is used by the CIP SPV to repay the money borrowed to fund the bulk housing infrastructure.

Who is responsible for the construction of the bulk housing infrastructure?

The developer, Fulton Hogan Land Development, is responsible for the construction of the bulk housing infrastructure and carries the risk of any cost overruns or timing delays associated with construction. The bulk housing infrastructure is to be built to specifications approved by Auckland Transport and Watercare.

Who will own the bulk housing infrastructure once it is complete?

Once each of the bulk housing infrastructure assets are completed, the ownership of the asset will vest in Auckland Transport and Watercare (as applicable) who will be responsible for the ongoing operation and maintenance of the assets.

Will there be further opportunities for application of this new funding model around the rest of the country?

Yes. CIP is currently working with central and local Government to identify further opportunities to bring forward housing supply.

In the first instance, CIP is focusing on high growth areas where housing supply needs have been identified as pressing by the Government and Councils.

Is the infrastructure payment a targeted rate?

No, the infrastructure payment is not a targeted rate.

The obligation on the land owner to pay the infrastructure payment arises from an encumbrance that sits over the individual land titles.

Unlike a targeted rate, a home owner who chooses to buy a property within the Milldale development is also choosing to enter into this arrangement.

Has Auckland Council approved the infrastructure payment?

The infrastructure payment was agreed between CIP and the developer, Fulton Hogan Land Development. This project is supported by Auckland Council, which will act as the collection agent for the CIP SPV.

The infrastructure payment will be shown clearly as a separate line item on the Council rates bill for properties within the Milldale Development.

What happens if the section owner doesn't pay?

If the section owner fails to meet their annual infrastructure payments, a similar collections process will be followed to the Council rates collection process.

The section owner will be reminded and provided with a warning notice before the collection is transferred to CIP SPV for debt collection action. Ultimately, the infrastructure payment is a first ranking obligation (behind general Council rates) and the land secures the repayment obligation.

Will the encumbrance impact the householders' ability to borrow?

The Reserve Bank has provided guidance to retail banks on the treatment of the encumbrance for borrowing purposes. The encumbrance (and ongoing obligation to make infrastructure payments) will be treated as an outgoing expense for LVR purposes (rather than additional debt).

Will the infrastructure payment put people off buying sections in Milldale?

This is the first model of this kind to be introduced in New Zealand and we cannot be certain how the market will react, however one of the major benefits of this model is that potential section owners who buy in Milldale will be aware upfront that their decision to buy in Milldale will include an obligation to enter into the infrastructure payment arrangement.

The model enables the costs of the infrastructure to be shared by those who benefit from it, considering that home ownership typically changes every 7-10 years.

Given the strong demand for housing and the need for additional housing supply in high growth areas, we do not expect that the infrastructure payment obligation will be a significant dampener on demand for sections in Milldale, particularly when factoring in that typically each owner will only be paying for a portion of the obligation, unless they retain the property for the full 30 years.

What happens if the lots do not sell because of the infrastructure payment obligation?

If the sections do not sell, Fulton Hogan Land Development will retain ownership and be responsible for the ongoing infrastructure payments.

Is the Government or CIP exposed to cost overruns on the bulk housing infrastructure?

No. CIP (and the Crown as 100% owner of CIP) will not be exposed to any potential construction cost or timing overruns of any of the bulk infrastructure projects. This risk sits solely with the developer, Fulton Hogan Land Development.

Is CIP exposed if the infrastructure is not up to standard?

No. CIP (and the Crown as 100% owner of CIP) will not be exposed to any potential quality issues that may arise as the projects are constructed. The projects will be built to Auckland Transport and

Watercare specifications and nominated engineers will ensure these specifications are met throughout the construction.

On completion, the projects will only be vested to Auckland Transport and Watercare when they are satisfied that the infrastructure meets the appropriate standard.

Is the CIP SPV debt on the Crown’s balance sheet?

The CIP SPV is consolidated with the Crown accounts in a similar way to 100% owned SOE debt.

However, the SPV debt is not included in “Core Crown net debt” as it is not guaranteed by the Government. It is non-recourse to the Crown debt, and is repaid from the infrastructure payments and not future tax revenues.