

7. HOUSING PORTFOLIO- 2005 RENT REVIEW

General Manager responsible:	General Manager Community and Recreation
Officer Responsible:	Unit Manager Facility Assets
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PURPOSE OF REPORT

1. The purpose of this report is to assess the required rentals for the housing portfolio for the 2005/06 financial year, and to seek Council approval for a proposed 3% rent increase in response to inflationary pressures.

EXECUTIVE SUMMARY

2. The 2005 rent review has been undertaken in order to ensure that the funding requirements for the sustainability of the Housing Development Fund are achieved. This is required to ensure that all future maintenance, renewal and capital requirements are met in a sustainable way ie without rates subsidisation. Rents are set at cost of consumption levels (the rent level needed to meet future maintenance, renewal and capital costs). This is balanced by assessing the affordability for tenants.
3. In 2003 rents were increased for the first time for some years and in view of the significant increase required to achieve cost of consumption, rents for studio and bed-sit units were not increased to the full required level but instead were stepped for existing tenants, with a view to achieving a cost of consumption rental over three years. These rentals have now reached cost of consumption levels and accordingly no further stepped increases are required. Rental adjustments are accordingly now applied at a flat rate across the board in line with identified requirements.
4. A rent review mechanism and policy has been developed and was approved by the Council in 2003, whereby rents are to be reviewed annually and increased in accordance with cost of consumption methodology. Any Council approved changes to levels of service also affect rent levels through the cost of consumption methodology.
5. The recommendation of this report is to apply an across the board 3% increase to rentals based on the Council's previously resolved policy to annually adjust rentals in line with inflation.

FINANCIAL AND LEGAL CONSIDERATIONS

6. The housing portfolio is a self funded standalone portfolio, which has no impact on rates set by council. The Housing Development Fund (HDF) is designed to assist replacement costs and maintain agreed upon levels of service. Ongoing renewal costs are predominately supported by rental charges, while replacement costs are funded through a combination of cash flows and drawdowns from the HDF.

Relevant Current Policy

7. The asset management policy requires the Council to ensure that the housing fund is financially self supporting, (allowing for all costs including depreciation, loan servicing, administration and maintenance).

The Housing Tenancy Services Policy states:

- "1. That the Council, in fulfilling its role as housing provider, seek to offer security of tenure to tenants, as appropriate.
2. That, from July 1991, equivalent properties attract the same level of rent for the same level of occupancy.
3. That differential rents between single and double occupancy remain.
4. That the annual rent review date for all tenancies be the first rental period in July."

9. The Council resolved on 24 April 2003:

That all housing rentals be annually reviewed, increased and reported to the Council prior to implementation in accordance with the 'Future Rent Review Mechanism' as follows:

$$\frac{N = R \times CPI(t)}{CPI(t-1)}$$

N = new annual rent

R = previous annual rent

CPI (t) = Consumers' Price Index (All Groups) for the nearest date, either preceding or following the date of review.

CPI (t - 1) = Consumers' Price Index (All Groups) for the nearest date, either preceding or following the Commencement Date

10. An inflationary increase of 3% has been included in the 2005/06 budget process, which would generate an extra \$460,000 of revenue for the portfolio. An inflationary adjustment is in line with the above Council resolution to keep rentals tagged to the Consumers Price Index movements.
11. There has been significant pressure on expenditure on the housing portfolio in the current financial year. This has partly come about through identification of a greater amount of maintenance requirements than was anticipated. A report has been prepared identifying expenditure requirements and has outlined the process required in order to meet agreed upon levels of service without impacting on the sustainability of the Housing portfolio.
12. It is an implicit assumption for the long term viability of the Housing Development Fund that inflation adjustments occur annually in order to protect the housing portfolio from the need to apply large lump sum rental increases. Such an annual adjustment buffers the Housing Development Fund from unexpected dramatic increases.
13. The Council as a landlord is required to supply tenants with a 60 day notification of rent increases under the Residential Tenancies Act 1986. Therefore it is necessary for written confirmation of any rental increase to be received by tenants by the end of April 2005 in order for it to be effective for the first rental period in July 2005. The effective date of the first rental period in July is specified in the Councils' residential tenancy agreements.
14. The majority of City Housing tenants are entitled to the Accommodation Supplement through WINZ. This supplement may be increased depending on the tenants' individual circumstances and consequently it is understood an increase in rental may trigger an increase in the accommodation supplement paid to these tenants.

STAFF RECOMMENDATIONS

It is recommended that the Council:

1. Adopt an across the board rental increase of 3% for the housing portfolio from 1 July 2005, with rents increased to the levels set out in Table 1 below.

Table 1:

Type of Unit	2004/ 2005 Rental	Proposed 2005/06 Rental
Bedsit	\$59-\$68	\$61-\$70
Studio	\$72.00	\$74.00
1 Bedroom	\$81.00	\$83.50
2 Bedroom	\$110.00	\$113.50
3 Bedroom	\$137.00	\$141.00
4 bedroom	\$180.00	\$185.50

Note: That these rents are the weighted average rent for each unit type so actual rents will vary depending on their quality and attributes.

2. Increase future rents automatically in accordance with the following formula, with a report to Council only being required in the event that a rent increase is proposed at a level other than that of the Rent Review mechanism.

The 'Future Rent Review Mechanism' is described as follows:

$$\frac{N}{CPI(t-1)} = \frac{R \times CPI(t)}{CPI(t-1)}$$

N = new annual rent

R = previous annual rent

CPI (t) = Consumers' Price Index (All Groups) for the nearest date, either preceding or following the date of review.

CPI (t - 1) = Consumers' Price Index (All Groups) for the nearest date, either preceding or following the Commencement Date

BACKGROUND

15. The Housing Portfolio is a self-funding asset, which relies on annual surpluses generated by the net outcomes of rental revenue, operational expenditure and capital expenditure. Surpluses are applied to the growth of the Housing Development Fund, which is required in order to maintain the long term sustainability of the housing portfolio.
16. The purpose of the HDF is to ensure the sustainability of the portfolio at the current agreed upon levels of service. The HDF will be utilised in order to ensure sufficient funds are available to operate the service and to meet the current and future needs of maintaining and replacing the ageing housing stock. This involves optimisation of limited resources to realise the greatest level of desired outputs achievable. The viability of the fund has been evaluated over a lifecycle of 90 years (which is identified in the Housing Asset Management Plan as the average life of a dwelling in New Zealand), with all assets being replaced at the end of their economic life.
17. The HDF is constructed taking into account provision for the long-term costs of consumption. There are several assumptions implicit in this theory, which is designed to ensure that the Housing portfolio is managed on a sustainable basis over a 90-year life cycle of the average dwelling. The key assumptions are as follows:
 - Annual inflationary adjustment of rentals to allow for increased costs.
 - Annual surpluses accrue to grow the HDF to levels required to sustain the housing stock at current agreed upon levels of service.
 - Improvements to levels of service are to be investigated through specific projects to optimise existing stock.
 - Expansion of the housing stock implies sourcing alternative funding, such as that currently available upon application to central government. The Christchurch City Council is currently progressing two such applications, namely the Gowerton Place new development, and assistance for funding to reconfigure bedsit units in the existing stock.
 - A focus of improvement plans currently being developed is to provide opportunities to spread the effect of the forthcoming cyclical maintenance related to the 51% of the stock that was built in the 1970's and early 1980's.
 - Improvement plans may also provide the opportunity to expand the stock in correlation with the HDF should it reach a 'supernormal' growth phase. The Asset Management Plan states that some limited expansion of the stock is possible under this scenario.
 - Renewal of existing stock is important. Currently poorly performing sites are being analysed in order to ascertain what the best approach is to improve performance. Possible resultant action includes upgrading, reconfiguration or replacement of these sites.

18. The following table outlines the rentals that were agreed upon in the 2004 rent review process. This included a stepped increase for studio and bedsit units, which has now been applied to its full extent. Stepped increases in the future are not identified as being required.

Table 2: 2005/05 Rentals

Bedsit	\$59-\$68
Studio	\$72.00
1 Bedroom	A Category \$97
	B Category \$81
	C Category \$66
2 Bedroom	A Category \$123
	B Category \$111
	C Category \$97
3 Bedroom	A Category \$163
	B Category \$135
	C Category \$114
4 Bedroom	A Category \$180

Significance

19. Section 90 of the Local Government Act 2002 requires the Council to identify and list the assets it considers to be strategic.
20. The Christchurch City Council's policy on significance, lists land and buildings as a whole owned by the Council for its public housing provision, as a strategic asset.
21. Clearly this rent review does not affect the assets. However, the rent review needs to be assessed as to whether it qualifies as a significant matter. Specifically this matter needs to be assessed as to whether it:
- (a) Affects all or a large portion of the community in a way that is consequential
 - (b) Has a potential impact or consequence on the affected persons (being a number of persons that is substantial)
 - (c) Has financial implications on the Council's resources that would be substantial
 - (d) Is likely to generate a high degree of controversy
22. On face value the answer to points 2 and 4 could be yes. However, the degree of controversy and impact on affected persons is likely to depend on the size of the rent increase. For example an increase in rents equivalent to inflation is likely to have little impact or controversy especially if income benefit rates are reviewed upwards by inflation. By comparison, an increase in rents to full market is likely to have a substantial impact and high degree of controversy.
23. The accommodation supplement will also adjust to cover a percentage of the increase for those tenants who are eligible. The level of subsidy provided by Work and Income for the accommodation supplement varies according to individual tenant circumstances. The rates vary from \$45 - \$160 per week, depending on individual circumstances.
24. Regardless of whether this matter is significant or not, sections 76-82 of the Local Government Act must be followed. The following sections deal with assessing all practical options.

OPTIONS

25. Given that the cost of consumption methodology assumes that rents and expenses keep pace with inflation and that at this level of rent the Housing Development Fund is sustainable, then as a minimum rents should be increased at the rate of inflation. This is entrenched in the rent review mechanism described above.
26. There are effectively three options available to the Council:

Option 1

To apply the previously resolved annual inflationary adjustment as at 1 July 2005

27. The Department of Statistics announced December Quarter Consumer Price Index figures on 19 January 2005, with the following accompanying statement:

“Over the 12 months to the December 2004 quarter, the CPI rose 2.7 percent. Significant upward contributions to the annual change came from purchase and construction of new dwellings (up 7.3 percent) and petrol (up 13.5 percent). Significant downward contributions were made by used cars (down 4.3 percent), and household appliances and equipment (down 5.9 percent).”

28. In its draft 2005/06 budget the Council has allowed for a 3% increase in rents in order to ensure sufficient revenue is raised to cover costs of maintenance work required across the portfolio. While this is slightly higher than the confirmed December CPI figures, a rounding to 3% is recommended in order to assist the completion of required maintenance programmes. The 2005/06 draft budget also more accurately reflects actual operational charges including rates and insurance, which in the current financial year have been under-budgeted for.

Option 2

Do not increase rentals

29. Option Two is for the Council to rescind its previous resolution and apply no increase in rentals for the 2005/06 financial year. While this course of action would likely be preferable to tenants, it would impact in the ability of the Council to attain its agreed upon levels of service for the portfolio, and put pressure on the viability of the Housing Development Fund. This would have a negative impact on the living standards of some tenants as sufficient funding would not be available to meet maintenance requests.
30. By not applying an annual inflationary adjustment there will be greater pressure for increases in the future of a more significant nature. This would be more damaging in terms of tenants' ability to pay.
31. Option two is not identified by staff as the recommended course of action.

Option 3

Increase rentals by greater than the Consumer Price Index increase

32. Although annual inflation has been recorded as 2.7% as at December 2004, there is anecdotal evidence that building materials and labour are facing much higher pricing pressure. While no formal figures can be provided it is estimated that construction costs are running at approximately 10-15% higher than last year. Should this trend be confirmed, and indeed continue to rise at such a rate then inflationary pressures in the future are likely to be much higher than those outlined in option 1.
33. However, in the absence of formal data or indeed a long-term trend, it is recommended that the situation be monitored and reviewed in the 2006 rent review process. It may be necessary to review costs of consumption analysis that underscores the Housing Development Fund growth and apply a greater long term inflation component. Further research is required in this area when more information is available and at this time it is not deemed necessary to step outside the recommendations of Option 1.

Preferred Option

34. It is recommended that Option 1 be adopted by the Council, with tenants advised of an across the board rental increase of 3% effective 1 July 2005, as required by current Council policy.
35. Furthermore it is recommended that the Council agree to an automatic annual rental increase based on the formal Consumer Price Index movement each year.

ASSESSMENT OF OPTIONS

The Preferred Option

36. To apply the previously resolved annual inflationary adjustment as at 1 July 2005

	Benefits (current and future)	Costs (current and future)
Social	<ul style="list-style-type: none">• An adequate standard of housing is met.• Allows agreed upon levels of service for the housing portfolio to be met.• Maintenance requirements are met and units are looked after to an acceptable standard.	None identified in this option
Cultural	As above.	As above.
Environmental	There are no identified environmental impacts.	There are no identified environmental impacts.
Economic	Ensures the long term viability of the Housing Development fund is protected.	<ul style="list-style-type: none">• An inflationary adjusted rental is set, with a 3% increase for tenants.• The cost of the rental increase will be offset to some degree by adjustment to the accommodation supplement for those tenants who are eligible.
<p>Extent to which community outcomes are achieved: Primary alignment with community outcome Healthy and Active People. Also contributes to a liveable city and a safe city.</p> <p>Impact on Council's capacity and responsibilities: As the Housing Portfolio is a self funding activity there is no impact on rates. This option recommends an inflationary adjusted rent increase, which ensures the long term viability of the Housing Development Fund, This fund ensures the housing stock is maintained in a sustainable manner.</p> <p>Effects on Maori: There are no specific impacts on Maori that are different to those to be experienced by other ethnic groups.</p> <p>Consistency with existing Council policies: The Council has resolved to apply an annual inflation related increase for City Housing rental effective 1 July each year. This option is consistent with Council policy.</p> <p>Views and preferences of persons affected or likely to have an interest: This report has been prepared based on Council Policy, along with information from previous rent reviews, and detail provided by City Housing.</p> <p>Other relevant matters: There are no other relevant matters identified.</p>		

Maintain The Status Quo (If Not Preferred Option)

37. Do not increase rentals

	Benefits (current and future)	Costs (current and future)
Social	There is no increased rental delivered to tenants.	Agreed upon Levels of Service may not be delivered. This may compromise the ability of the Council to provide an adequate standard of housing to all of it's tenants.
Cultural	As above.	As above.
Environmental	There are no identified environmental impacts.	There are no identified environmental impacts.
Economic	There is no economic benefit identified.	The self sufficiency of the Housing Portfolio and the viability of the Housing Development fund is compromised.
<p>Extent to which community outcomes are achieved: Primary alignment with community outcome Healthy and Active People. Also contributes to a liveable city and a safe city.</p> <p>Impact on Council's capacity and responsibilities: As the Housing Portfolio is a self funding activity there is no impact on rates. This option recommends no inflationary adjusted rent increase, which puts pressure on the long term viability of the Housing Development Fund. Accordingly the agreed upon levels of service for housing may not be attainable within budget constraints should insufficient income be realised through rentals.</p> <p>Effects on Maori: There are no specific impacts on Maori that are different to those to be experienced by other ethnic groups.</p> <p>Consistency with existing Council policies: The Council has resolved to apply an annual inflation related increase for City Housing rental effective 1 July each year. This option is consistent with Council policy.</p> <p>Views and preferences of persons affected or likely to have an interest: This report has been prepared based on Council Policy, along with information from previous rent reviews, and detail provided by City Housing.</p> <p>Other relevant matters: There are no other relevant matters identified.</p>		

Option 3

38. Increase rentals by greater than the Consumer Price Index increase

	Benefits (current and future)	Costs (current and future)
Social	<ul style="list-style-type: none">• An adequate standard of housing is met.• Allows agreed upon levels of service for the housing portfolio to be met.• Maintenance requirements are met and units are looked after to an acceptable standard.	It would be harder for tenants to absorb a higher than inflation rental increase.
Cultural	As above.	As above.
Environmental	There are no identified environmental impacts.	There are no identified environmental impacts.
Economic	The long term viability of the Housing Development Fund may be better protected should inflationary pressures in the construction industry continue to grow.	<ul style="list-style-type: none">• Increased rental will be chargeable to tenants.• The cost of the rental increase will be offset to some degree by adjustment to the accommodation supplement for those tenants who are eligible.
<p>Extent to which community outcomes are achieved: Primary alignment with community outcome Healthy and Active People. Also contributes to a liveable city and a safe city.</p> <p>Impact on Council's capacity and responsibilities: As the Housing Portfolio is a self funding activity there is no impact on rates. This option recommends a cautionary approach be taken in the event that annual inflation adjustments in line with the Consumer Price Index are not sufficient owing to construction industry costs rising at a greater rate, thus protecting the long term viability of the Housing Development Fund. This fund ensures the housing stock is maintained in a sustainable manner.</p> <p>Effects on Maori: There are no specific impacts on Maori that are different to those to be experienced by other ethnic groups.</p> <p>Consistency with existing Council policies: The Council has resolved to apply an annual inflation related increase for City Housing rental effective 1 July each year. This option is outside the parameters of current Council policy.</p> <p>Views and preferences of persons affected or likely to have an interest: This report has been prepared based on Council Policy, along with information from previous rent reviews, and detail provided by City Housing.</p> <p>Other relevant matters: There are no other relevant matters identified.</p>		