

11. GOWERTON PLACE HOUSING DEVELOPMENT - LETTER OF OFFER



General Manager responsible:	General Manager Community Services, DDI 941-8534
Officer responsible:	Community Support Manager
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PURPOSE OF REPORT

1. The purpose of this report is to seek the Council's approval to accept, or decline to accept, a loan offer received from Housing New Zealand Corporation relating to the construction of a Council housing development in Gowerton Place, Richmond, Christchurch.

EXECUTIVE SUMMARY

2. At the Council meeting on 26 February 2004 the Council resolved:

"That a 24 unit plus development be built on land owned by City Housing at Gowerton Place subject to a successful application for 50% capital funding to Housing New Zealand's Local Government Fund."

3. In April 2004 application was made to the Housing Corporation New Zealand Local Government Fund for 50% funding, estimated at that time to be \$1.7m (total cost of project, excluding the land value, estimated at \$3.4m). Since the application was made construction costs have increased considerably and a revised estimate has been calculated at \$4,884,976 with HNZC and the Council's 50% shares being \$2,442,488 each. (Note: These figures are GST inclusive.) The application has been approved by the HNZC Board and a letter of offer received in May 2006.
4. Since receiving the letter of offer (attached), negotiations have been proceeding with HNZC over some of the conditions attached to the offer and whilst a number of concerns have been satisfactorily resolved there are still three issues Council needs to consider.
5. Housing New Zealand has established a deadline of 30 June 2006 for the Council to accept the offer. If it is not accepted by that date it is understood the offer will lapse.

FINANCIAL AND LEGAL CONSIDERATIONS

6. The Council's contribution to this project is estimated at \$2,442,488 GST inclusive and funding is available from the Housing Development Fund. This cost has been provided for in the 2006/07 budget.
7. Advice on the legal issues associated with this report has been obtained from the Council's Legal Services Unit, and incorporated into the negotiations with Housing New Zealand Corporation.

STAFF RECOMMENDATION

It is recommended that the Council authorise the General Manager Community Services to sign the letter of offer received from Housing New Zealand Corporation accepting the loan facility of \$2,442,488 for the construction of Council housing units at Gowerton Place, provided that the Council is satisfied with the conditions.

BACKGROUND ON GOWERTON PLACE DEVELOPMENT- LETTER OF OFFER

8. The proposal to construct additional Council housing in Gowerton Place was in response to an identified need and presented as an opportunity to obtain partial funding from central government. The original proposal was to construct 24 or more units on the site but it has been determined that without developing the site intensively the most practicable number of units to construct is 21. This provides for the majority of construction to be single storey which will facilitate greatest flexibility in terms of tenanting the units and enhance ease of access for older people.
9. Planning of the project is well advanced with appropriate consultation occurring with HNZA architects. Incorporated in the design is ease of access and manoeuvrability for physically disabled people. Working drawings are completed and resource and building consents have been applied for. Registrations of interest have been sought and a good response received from which a schedule of contractors to be invited to tender for the project is being developed. However the tendering process will not occur until the letter of offer from HNZA has been signed.
10. Consultation has occurred with existing Gowerton Place tenants, residential property owners and business owners in the neighbourhood. In addition other community agencies, including the Community Board and Councillors, have been involved in the consultation process as considered appropriate. The response from the consultation has been highly supportive.
11. The funding available from the Local Government Housing Fund administered by Housing New Zealand Corporation is in the form of a suspensory loan. The terms of the loan are:

Term of Loan: Term of the loan is 20 years.

Interest Free Period: 20 years (subject to the repayment conditions expressed below).

Repayment: The loan documentation will record a repayment condition to the effect that the loan shall become repayable, together with interest calculated as set out below, if at any time, within 20 years of the date on which the loan is drawn down by the Council, the Council either abandons the housing project or elects not to complete it and does not re-apply the funds for another social housing project approved by HNZA, or the Council makes a decision pursuant to the relevant provisions of the Local Government Act 2002 to alter its long-term council community plan in a manner that affects the provision by the Council of social housing, or to otherwise withdraw or significantly alter its investment in joint funded social housing ("**repayment events**"). If any of these repayment events occurs, the Council will upon written demand by HNZA, pay to HNZA on the date specified in the demand the aggregate of:

- The principal amount of the loan; and
- An amount, as interest on the loan, calculated at an interest rate reasonably determined by HNZA, for the period from that event up to, and including, the date which is 20 years from the date on which the loan was drawn down.

If any of the repayment events occurs after 20 years of the date on which the loan is drawn down by the Council the amount of the loan, together with any interest calculated, shall not be recoverable.

If the Council intends at any time to sell the relevant land or any of the residential dwellings refurbished with this funding or any replacement project approved by HNZA (whether before or after 20 years from the date on which the loan is drawn down), then the Council will first offer to sell those dwellings or that land to HNZA or to a social housing provider approved by HNZA at market value.

12. A number of relatively minor concerns around the letter of offer, relationship agreement and loan agreement have been successfully negotiated with HNZC and negotiations are continuing to finalise agreement on some further concerns. In addition, however, there are three significant issues which the Council needs to be aware of as follows:

- Term of Loan : The offer imposes an obligation on the Council to use the Gowerton Place property for social housing purposes for twenty years irrespective of whether the Council shall repay the loan or not. The concern with this clause is that at some stage during the twenty year period of the loan the Council may decide it is in the best interests of the Christchurch community for the loan to be repaid and the agreement terminated.
- Right of Assignment : In accordance with the Government appropriation for the Local Government Housing Fund, HNZC is not permitted to transfer the benefits of a Local Government Housing Fund loan to another organisation. This appears to effectively prohibit the Council transferring the Gowerton Place property internally to a Council controlled organisation, or charitable trust etc should it wish to do so at some point during the twenty year period of the loan.
- Event of Default : A further concern is that an Event of Default occurs under the Loan Letter of Offer and the loan becomes repayable in the event that the Council makes a decision pursuant to the relevant provisions of the Local Government Act 2002 to alter its LTCCP in a manner that affects the provision by the Council of social housing, or to otherwise withdraw or significantly alter its investment in joint funded social housing. In accordance with this, if the Council should decide to withdraw from or alter its provision of social housing generally, not just at Gowerton Place, then the loan would become repayable.

This provision potentially restricts the Council's ability to restructure its social housing portfolio to meet the needs of the Christchurch community. For any number of reasons the Council may wish at some future time to better utilise some sites which could involve the sale of others which no longer meet the needs of our community. In such a circumstance, the above provision could easily be interpreted to mean that an Event of Default has occurred.

OPTIONS

13. There are basically two options available to the Council as all avenues for negotiation have been, or are in the process of being, explored. These options, based on the original approval of the Council to construct a development on the Gowerton Place site subject to a successful application for 50% capital funding to Housing New Zealand's Local Government Housing Fund, are :

- (i) Authorise the General Manager Community Services to sign the letter of offer received from Housing New Zealand Corporation accepting the loan facility of \$2,442,488 for the construction of Council housing units at Gowerton Place, such authorisation to be subject to a response being received to the Mayor's letter to the Minister of Housing which is acceptable to the General Manager Community Services and General Manager Corporate Services.

or

- (ii) Decline the Housing New Zealand Corporation offer.

PREFERRED OPTION

14. That the Council accept the offer clearly understanding the implications of the conditions of offer.