

2. 2004 RENT REVIEW

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The purpose of this report is to summarise information gathered to assess the 2004 housing rent review and to seek Council approval of rent increases. This report has been considered by the Housing Subcommittee.

EXECUTIVE SUMMARY

The 2003 rent review was actioned to address, among other things, funding issues that were limiting the ability of the Housing Development Fund to ensure that all future maintenance, renewal and capital requirements were met in a sustainable way ie without rates subsidisation. Rents were set at cost of consumption levels (the rent level needed to meet future maintenance, renewal and capital costs). This was balanced by assessing the affordability for tenants. Rents for studio and bedsit units were not increased to the full cost of consumption rates, instead these were to be stepped up to these levels for existing tenants, over three years.

In addition, a rent review mechanism and policy was developed whereby rents were to be reviewed annually by revising the cost of consumption rents, market rents and charges to inflation. Changes to levels of service also affects rent levels through the cost of consumption methodology.

From last year's report the cost of consumption rents was as follows:

Current rents following actioning of the review are also reported.

Table 1.0

Unit Type	Cost of Consumption Rents	Current Rents (Average)
Bedsit	\$68.00	\$53.50
Studio	\$72.00	\$57.50
One Bedroom	\$79.00	\$79.00
Two Bedroom	\$108.00	\$108.00
Three Bedroom	\$132.00	\$132.00

These rents are the weighted average rent for each unit type so actual rents will vary depending on their quality and attributes, the exception being bedsit and studio units that have one cost of consumption rate.

New tenants after 1 July 2003 have been charged the full cost of consumption rates.

RELEVANT CURRENT POLICY

"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."*

The following recommendations were adopted by the Council on 24 April 2003:

- "1. That the proposed new rentals, as detailed in Table 1.7, be adopted effective from the first rental payment date in July 2003, with the exception of the studio and bedsit proposed rentals that are instead to be increased by way of a stepped rental over three years as detailed in option 2, Appendix 1 (attached).

Table 1.7 and the stepped increase in Appendix 1 from last year rent review report are detailed below:

Table 1.7

Bedsit	\$68.00
Studio	\$72.00
1 Bedroom	A Category \$95
	B Category \$79
	C Category \$65
2 Bedroom	A Category \$120
	B Category \$108
	C Category \$95
3 Bedroom	A Category \$160
	B Category \$132
	C Category \$112
4 Bedroom	A Category \$176

Appendix 1

			Old Rent	New Rent
Stepped Increase	July 03	Bedsit Units	\$48	\$53.50
		Studio Units	\$52	\$57.50
	July 04	Bedsit Units	\$53.50	\$59.00
		Studio Units	\$57.50	\$72.00
	July 05	Bedsit Units	\$59.00	\$68.00
		Studio Units	\$72.00	\$72.00

* Proposed that inflation be charged in arrears in the third year for bedsit and studio units.

2. 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:

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

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 (in this case 1 July 2003).

3. That the current dual occupancy rent policy (Housing Tenancy Services Policy Clause 3) be discontinued.
4. That the Property Manager address the need for extra funds if required to assist tenants to access the accommodation supplement."

Section 90 of the Local Government Act 2002 requires the Council to identify and list the assets it considers to be strategic.

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.

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 does:

1. Affect all or a large portion of the community in a way that is consequential.
2. Have a potential impact or consequence on the affected persons (being a number of persons that is substantial).
3. Have financial implications on the Council's resources that would be substantial.
4. Likely to generate a high degree of controversy.

On face value the answer to points 2 and 4 could be yes. However, the degree of controversy and impact of affected persons is likely to depend on the size of rent review 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 substantial impact and high degree of controversy.

Regardless, of whether this matter is significant or not sections 76-82 of the Local Government Act must be followed, these sections deal with assessing all practical options.

The rent review options are to do nothing, increase rents by CPI, increase rents by market change, increase rents in line with revised lost of consumption estimates. These options are detailed below:

Option 1 - Do nothing

Advantage	Disadvantages
<ul style="list-style-type: none"> ➤ Tenant's rent does not change. ➤ Less administration for the Housing Team. 	<ul style="list-style-type: none"> ➤ Sustainability of City Housing compromised. ➤ Accommodation supplement funding not taken advantage of. ➤ Eventual big increase in rents when funding issues pressurise service. ➤ Inequity between current and future tenants.

Option 2 – CPI Increase

Advantage	Disadvantages
<ul style="list-style-type: none"> ➤ Small increase expected. ➤ Generally wages/salaries and benefits adjust annually with CPI. ➤ Ensures sustainability of fund. ➤ CPI increases are assumed in all cost of consumption forecasting. ➤ Relatively easy to determine and budget. ➤ Reflects cost increases of running City Housing Services. ➤ In accordance with Council policy. 	<ul style="list-style-type: none"> ➤ Tenants faced with small increase. ➤ Administration for City Housing Team.

Option 3 – Market Rents

Advantage	Disadvantages
<ul style="list-style-type: none"> ➤ Full market rents solves any funding problems and would allow an increased level of service. ➤ Private sector rental landlords would be in favour. 	<ul style="list-style-type: none"> ➤ Not affordable to most tenants. ➤ Would have to question reason for retaining or purpose of City Housing. ➤ Administration for City Housing. ➤ Would represent a change in philosophy from charging rents that are affordable for tenants. ➤ Not in accordance with Council policy.

Option 4 – Cost of Consumption Rents

Advantage	Disadvantages
<ul style="list-style-type: none"> ➤ Aligns cost of service with rents to ensure sustainability. ➤ Small increase expected. ➤ Increase may match annual adjustment in benefit incomes. 	<ul style="list-style-type: none"> ➤ Time and complexity of calculating appropriate levels. ➤ Administration for City Housing Team.

General Discussion Around Options

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.

Market rent information gathered from Tenancy Services Bond Data shows that for one, two and three bedroom flats, rents have increased a minimum of 3.23% over the past 12 months. The following table shows last years and this years market rents and the percentage change.

Table 2.0

Unit Type	Market Rent 2002	Market Rent 2003	% Change
1 Bedroom Flat	\$130/week	\$134.20/week	3.23
2 Bedroom Flat	\$165/week	\$190.62/week	15.52
3 Bedroom Flat	\$220/week	\$240.91/week	9.5

NOTES:

1. Rents are weighted average rents for all Christchurch suburbs.
2. Market rents for 2002 were provided by tenancy services bond data recorded from 1 July 2001 to March 2002.
3. Market rents for 2003 were provided by Tenancy Services bond data recorded from 1 June 2003 to 30 November 2003.

The New Zealand Institute of Economic Research forecast CPI at 2.1% for the period June 2003–June 2004. Statistics New Zealand has recently published actual CPI increase at 1.6% to December 2003. Within the housing group, construction prices have increased by 8.5% over the same period. The inflation component resulting from construction costs is of importance to the future sustainability of the fund as development and replacement costs are a major component part of the cost of consumption forecasts.

Westpac Trust's economists expect inflation rates to ease to 1% by the March 2004 quarter as a result of a slowing economy, a pattern of deflation in the tradeable sector due to the high New Zealand dollar and subdued inflation overseas. The non-tradeable sector has experienced inflation due to a buoyant housing market. BNZ expect housing activity (building and purchasing) to remain strong in the first half of 2004 but for activity to slow thereafter and house prices to fall through 2005.

This slowdown may affect rising construction costs. However, many builders have so much work booked up that there is likely to be a long lag between housing demand slowing and impacts on construction and construction prices. Nevertheless the 8.5% construction price rise experienced in the year to December 2003 is likely to be an exception to the rule and not an expected average. The cost of consumption forecast allows for an 8% increase in construction costs in 2004/05 and then for construction prices to fall in line with general CPI (all groups) inflation forecasts.

In March 2004 the New Zealand Institute for Economic Research forecast for CPI to July 2004 was 2.1%. The National Bank predicts CPI to be 1.9% for the same period in their November 2003 forecasts. Assuming the latest forecast of 1.9% from the National Bank the following table shows the impact on current rents.

Table 3.0

Dwelling Type	Current Rent	CPI increase	New Rent	Notes
Bedsit	\$53.50	N/A	\$59.00	1
Studio	\$57.50	N/A	\$72.00	2
1 Bedroom	\$79.00	\$1.50	\$80.50	
2 Bedroom	\$108.00	\$2.05	\$110.05	
3 Bedroom	\$132.00	\$2.50	\$134.51	

NOTES:

1. Stepped increase of \$5.50 for bedsit units. The final step in 2005 will be to \$68/week.
2. Second step increase to full cost of consumption for studio units. Accommodation supplement = \$7.70 for qualifying superannuation leaving an effective rent of \$64.30 which equates to 26.2% of the superannuation income benefit.

Benefit incomes are now annually adjusted on 1 April every year based on CPI increases. Work and Income have increased the rent threshold levels by \$1 a week, for example a superannuitant has to be paying more than \$61.00/week in rent to qualify rather than \$60.00/week last year. The accommodation supplement is now paid at a maximum rate of 70 cents in the dollar above the entry rent thresholds. This maximum rate is reduced if tenants have assets or income at certain levels. These are detailed in the following tables:

Asset Levels

The maximum value payable reduces as a person's asset levels approach the top limit. Beyond the top limit there is no accommodation supplement payable.

Table 4.0

Client Type	Top Limit	Bottom Limit
Single, no children	\$8,100	\$2,700 or less
A couple or sole parent	\$16,200	\$5,400 or less

Table 5.0

Income levels - Yearly income levels before tax must be under these limits.

If you are...	Wellington and some other cities (including Christchurch)
Under 18 with no children	\$24,493.04
18 or over with no children	\$27,029.60
A couple with no children	\$37,976.64
Single with one child	\$33,281.56
Single with 2 or more children	\$39,771.68
A couple with children	\$43,176.64

According to Work and Income New Zealand some Council tenants did not qualify for the accommodation supplement at all. This means they had assets and income levels above the limits stated above.

CONCLUSION

The affordability ratios of net effective rent to income are contained in Appendix 1 (attached). These show that with the proposed new rents in Table 3.0, superannuitants will be paying effective rents at 19.8%-27.3% of income, invalid beneficiaries 17.4%-29% of income and sickness/unemployment beneficiaries of 25.7%-32.3% of income in rent. This analysis assumes full eligibility to the maximum rate of accommodation supplement. These percentage rates are based on current benefit income levels, which will increase to match CPI from 1 April 2004.

The affordability rates for sickness/unemployed are higher (less affordable) as a result of lower benefit levels than superannuitants and invalid beneficiaries, rather than the result of proposed rent levels. Affordability levels in the range 25%-30% are generally accepted as a benchmark by Australian, United States, United Kingdom, and Canadian social housing providers. Housing New Zealand charge rents at 25% of tenant's income.

By applying the proposed CPI increase it ensures that rents keep pace with (inflation hedge) increasing operational and capital prices. The CPI increase is assumed in the cost of consumption forecasts so to apply these new rents will ensure the sustainability of the fund is not compromised.

Recommendation: 1. That from 1 July 2004 rents be increased to the levels in the table below.

Unit Type	New Rent/Week	Notes
Bedsit	\$59.00	
Studio	\$72.00	
1 Bedroom	\$80.50	*
2 Bedroom	\$110.50	*
3 Bedroom	\$134.51	*
4 Bedroom	\$179.34	*

* Weighted average rents over A, B and C category housing units.

APPENDIX 1

CPI rate

0.019

Superannuitants

Dwelling Type	Current rent	CPI Increase	New rent	Accom. Supple.	Effective rent
Bed sit	53.5	n/a	59	0	59
Studio	57.5	n/a	72	7.7	64.3
One bedroom	79		1.501	13.6507	66.8503
Two Bedroom	108		2.052	11.2364	98.8156
Three Bedroom	132		2.508	0	134.508

Dwelling Type	Effective rent	Superannuation	Affordability ratio	Assumptions
Bed sit	\$ 59.00	\$ 245.30	24.1%	Single superannuitant
Studio	\$ 64.30	\$ 245.30	26.2%	Single superannuitant
One bedroom	\$ 66.85	\$ 245.30	27.3%	Single superannuitant
Two Bedroom	\$ 98.82	\$ 377.38	26.2%	Married couple rate
Three Bedroom	\$ 134.51	\$ 679.29	19.8%	Three single superannuitants

Invalids

Dwelling Type	Current rent	CPI Increase	New rent	Accom. Supple.	Effective rent
Bed sit	53.5	n/a	59	5.6	53.4
Studio	57.5	n/a	72	14.7	57.3
One bedroom	79		1.501	20.6507	59.8503
Two Bedroom	108		2.052	18.2364	91.8156
Three Bedroom	132		2.508	26.9556	107.5524

Dwelling Type	Effective rent	Invalid benefit	Affordability ratio	Assumptions
Bed sit	53.4	202.5	26.37%	Single Invalid
Studio	57.3	202.5	28.30%	Single Invalid
One bedroom	59.8503	202.5	29.56%	Single Invalid
Two Bedroom	91.8156	336.76	27.26%	Married couple
Three Bedroom	107.5524	607.5	17.70%	3 single invalids

Sickness/Unemployed

Dwelling Type	Current rent	CPI Increase	New rent	Accom. Supple.	Effective rent
Bed sit	53.5	n/a	59	13.3	45.7
Studio	57.5	n/a	72	22.4	49.6
One bedroom	79		1.501	28.3507	52.1503
Two Bedroom	108		2.052	30.1364	79.9156
Three Bedroom	132		2.508	10.1556	124.3524

Dwelling Type	Effective rent	Sickness/Unemployed benefit	Affordability ratio	Assumptions
Bed sit	45.7	161.25	28.3%	Single person rate
Studio	49.6	161.25	30.8%	Single person rate
One bedroom	52.1503	161.25	32.3%	Single person rate
Two Bedroom	79.9156	269.4	29.7%	Married couple rate
Three Bedroom	124.3524	483.75	25.7%	3 singles