1. FUTURE DEMAND AND GEOGRAPHICAL ALLOCATION OF CITY HOUSING UNITS

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The purpose of this report is to summarise research into a theoretical allocation of City Housing stock throughout the city and likely demand requirements in the future for new housing stock; and to seek Council approval to develop a 24 plus unit development in 2004, subject to a successful capital funding application to the Local Government Housing Fund.

EXECUTIVE SUMMARY

Early in 2003 the Housing Asset Management Plan (AMP) for City Housing was approved by the Council. The development provision allowed for in the financial projections was for a modest 1% growth of housing stock after five years. At the time there was recognition that this provision needed to be reviewed by conducting more research into the likely future demand requirements. This acknowledgement was recorded in the Improvement Plan section of the Housing AMP as was the need to review the geographic spread of housing across the city. With the announcement of Central Government's Local Government Housing Fund this work has been prioritised in anticipation that applications to this fund would need to be well supported by an appropriate needs analysis study.

The report (Future Demand and Geographic Allocation of City Housing Units – a Blueprint for Future Development), laid on the table, details this work. The report provides a blueprint for where, when and how much new "Council" social housing should be built in the future. In summary, the likely demand for new Council social housing is anticipated to be 61 units from January 2004 to December 2006. On the basis that 50/50 capital funding is shared between Central Government and City Housing this level of development is achievable. The 61 units take into account Housing New Zealand's Christchurch development programme of approximately 418 two bedroom units of social housing over the next four years. After four years the Christchurch demand requirements for social housing are likely to be substantially increased due primarily to the disproportionate growth rate and level of need that will emerge from a growing elderly population.

An opportunity that currently exists, to expand and meet demand, is in Gowerton Place, Richmond. This site would suit a 24 unit plus development and is viable on the basis of 50% of capital costs being met by Housing New Zealand's Local Government Housing Fund.

LOCAL GOVERNMENT ACT 2002 CONSIDERATIONS

Section 90(ii) 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 <u>whole</u> owned by the Council for its public rental housing provision, as a strategic asset.

Section 97 of the Act requires that decisions to transfer the ownership or control of a strategic asset to or from the Council, or a decision to construct, replace or abandon a strategic asset can only be taken if the decision has been explicitly provided for by a statement of proposal in the Council's Long Term Council Community Plan (LTCCP).

Developing new units is an integral part of managing a housing portfolio, as is replacement and rationalisation of old housing stock. Over the next four years the demand analysis indicates a likely demand requirement of 61 units. Adding 61 new units to the current stock of 2,600 units is insignificant (2.3%). The policy on significance relating to housing land and buildings states that the <u>whole</u> is a significant asset not separate elements. Clearly a small addition to the housing portfolio does not fall within the strategic asset definition. Therefore the requirements of s97 are not applicable to this decision.

ISSUES FOR CONSIDERATION

Sections 77-82 of the Local Government Act 2002 requires all decisions of the Council to consider all practicable options. In this instance the options considered are to do nothing, lease units, build units or purchase existing units.

Option 1 - Do Nothing

Advantages	Disadvantages
• Cost saving ($1.35 million) on capital.	• Demand not met. • Increased waiting lists • No affordable housing stock addition.

Present Value (PV) of option $0
Internal Rate of Return (IRR) $0

Option 2 - Lease Units

Advantages	Disadvantages
• Rental stock obtained more quickly than building. • Cost saving on capital ($1.35 million).	• Tenure less secure. • Doesn't add to numbers of "owned" rental properties. • High subsidisation cost between market lease paid by the Council and social rent paid by Council tenants. (over 20 years est $1.7 m PV). • Subject to private landlords maintenance. • Finding suitable units and suitable location.

PV of option $-948,540
IRR $N/A - negative

Option 3 - Build Units

Advantages	Disadvantages
• Opportunity to save 50% of capital cost. • 24 plus new units can be built to suitable design. • Financially self-sustaining. • Proposed location matches demand assessment.	• Capital cost $1.35 million (cost of capital foregone $81,250 pa). • Length of time to build. • Ongoing operational costs.

PV of option $817,996
IRR of option 11.73%

Option 4 - Buy Existing

Advantages	Disadvantages
• Timing of supply may be faster than building. • More location possibilities.	• Suitability of design, availability and location. • Capital costs ($1.6 million estimate based on 50/50 funding). • Additional costs to redecorate and provide chattels (est $120,000). • Ongoing operational costs.

PV of option $660,204
IRR of option 10.38%

CONCLUSION

Option 1 (Do Nothing) is cost neutral (present value = 0) but it does not address the demand for new rental units and will result in an increasing waiting list and longer wait periods for prospective tenants.

Option 2 (lease units) is not financially self-sustaining, nor does it provide the same level of tenure security for tenants.

Option 3 is financially self sustainable and allows control of the design and specifications of units to meet tenants' expectations. The proposed site in Gowerton Place, Richmond is a good location relative to surrounding amenities and the location matches the geographic demand assessment. The present value of this option is the highest, indicating that it is preferred from a financial viability perspective ie, to obtain a 6.5% rate of return (cost of capital) a higher value would be paid for this option than for options 1-2 and 4.

Option 4 may allow an earlier supply time for new housing but it may prove difficult to find suitably located and quality housing in five to eight unit blocks. Enquiries with real estate agents to date have yielded no opportunities to assess.

Options 2, 3 and 4 allow for modest 2% pa inflation growth in expenses and rents over 10 years. Rents are assumed to be current A grade quality rents for one and two bedroom units. Sixteen one bedroom units and eight two bedroom units are assumed in the analysis. The rents for A grade quality one bedroom units are $95/week and for two bedroom units are $120/week. This compares favourably to market rents for better quality units in Richmond estimated to be $150 and $200 per week for one and two bedroom units respectively (Tenancy Services Bond data). The Council's cost of capital rate of 6.5% per annum has been adopted as the discounting rate.

Options 3 and 4 assume units are held in City Housing ownership for the long term and that any conditions relating to repayment of the suspensory loans would lapse.

On 12 February 2004 the Community and Leisure Committee at its Annual Plan meeting recommended including in new capital initiatives $1,350,000 for the Gowerton Place development to be funded from the Housing Development Fund.

Recommendation:

1. That the report entitled "Future Demand and Geographic Allocation of City Housing Units – a Blueprint for Future Development" be endorsed as a guideline for future development.

2. That a 24 plus unit 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 Housing Fund.