

REPORT 4
(1215/52/IM)

HOUSING INNOVATION FUND DEMONSTRATION PROJECT

1 Purpose of Report

This report seeks approval to:

- proceed with a ‘demonstration’ housing redevelopment project that is part of the current discussions with Housing New Zealand Corporation
- apply to the Housing New Zealand Corporation Housing Innovation Fund for a capital grant to fund around 50% of the total cost of the project
- lodge associated resource consent and building consent applications.

2 Executive Summary

As a result of a Cabinet paper in February 2005 about the Wellington City Council housing asset issues, the Council was invited to put forward a demonstration project to upgrade part of the housing asset.

Officers have selected two developments to be part of the demonstration project - the reconfiguration and upgrade of Walden Street flats, and an in-fill development at 18-24 Strathmore Avenue. These reconfiguration projects are eligible for funding from Housing New Zealand Corporation’s Housing Innovation Fund. Redevelopment projects that increase the number of beds available for social housing are eligible for up to 50% of the total project costs to be met from the Housing Innovation Fund.

This paper outlines the proposed demonstration project and associated issues, and recommends that an application for funding from the Housing Innovation Fund be made. It is recommended that the Committee’s approval for the project is subject to securing:

- around 50% of the project costs from the Housing Innovation Fund. If the application receives materially less than 50% funding from the Housing Innovation Fund, officers will come back to the Committee for further guidance and decisions.
- the requisite resource and building consents.

3 Recommendations

It is recommended that the Committee:

1. *Receive the information.*

2. *Agree that officers make an application to the Housing New Zealand Corporation's Housing Innovation Fund for around 50% of the project costs for the redevelopment of Walden Street and infill development at Strathmore Avenue*
3. *Note that it is a condition of Housing New Zealand Corporation's funding that the housing be retained for social housing for at least 20 years or Council would be required to repay the loan with interest.*
4. *Agree that the detailed designs for the redevelopment of Walden Street and infill development at Strathmore Avenue proceed*
5. *Agree that the funds from CX_CF364 – Housing Reconfiguration be used to meet Council's share of the costs for this project and that the 2006/7 Long Term Council Community Plan be amended to reflect the grant application for a contribution from Housing New Zealand Corporation to the project*
6. *Agree that officers lodge a resource consent application for both sites and note that these applications may be publicly notified*
7. *Agree that officers lodge a building consent application for both sites*
8. *Agree that construction of the new units proceed provided that the application referred to in recommendation 2 is successful*
9. *Agree that if the application receives materially less than 50% funding from the Housing Innovation Fund, officers will come back to the Committee for further guidance and decisions*
10. *Note that officers will develop a comprehensive communications strategy to ensure affected tenants and social agencies are fully aware of these initiatives.*

4 Introduction

This project to start the modernisation of the City Housing portfolio has arisen out of the current discussions with Housing New Zealand Corporation (HNZC) around the modernisation and asset issues facing City Housing. It is intended as a demonstration project which outlines the issues faced by Wellington City Council when modernising its portfolio.

The suggestion for a demonstration project was as a result of ongoing work between the Council and HNZC on the future sustainability of the Council's housing portfolio. HNZC prepared a Cabinet paper in February 2005 and, as a result of this paper, it was suggested that the Council prepare a 'demonstration project' of the proposed asset reconfiguration and modernisation needs and apply to HNZC's Housing Innovation Fund (HIF) for a capital grant to assist with the costs of the physical improvements.

Newtown Park Flats complex was initially identified by City Housing as a possible candidate for the demonstration project as it has a number of social issues associated with it and raises all the issues faced by the Council when considering the modernisation of its larger complexes.

In particular, it was acknowledged that upgrade costs would be typical for the larger complexes and these were likely to be higher than for stand-alone units or the portfolio's smaller complexes. However, the scale and consequent cost of any upgrade to Newtown Park places it outside the anticipated budget for the demonstration project. In addition, HNZC's community architect recommended that for a site such as Newtown Park Flats, an all or nothing approach was better than staging any upgrade over a 5 to 10 year period.

Walden Street and Strathmore Avenue properties were identified as possible alternate options for upgrade and redevelopment.

This report outlines the proposed work and seeks approval for an application to the Housing Innovation Fund for a capital grant to undertake the works. No additional capex funding is required through the Long Term Council Community Plan to complete these projects as funds from CX_CF364 will be used to undertake the project. An amendment to the annual plan will be required to reflect the \$1.4m costs that will be funded by the contribution from Housing New Zealand.

5 Housing Innovation Fund

The HNZC Housing Innovation Fund is a central government initiative aimed at promoting social housing. It has been operating since 2004 and will continue until 2007. A large number of local authorities have either already applied or shown their interest in applying for the fund, and this is the first proposal by Wellington City Council to apply for this funding. Officers have been in discussions with HNZC regarding the possible allocation of funds for the Council's 'demonstration project'.

The Housing Innovation Fund is in two parts: the first part is aimed at community housing providers; the second is for local authorities. The local authority fund aims to encourage Councils to retain and increase their existing rental housing by providing assistance to fund the purchase of new stock or the modernisation of existing stock. It is recognised that providing improvements to existing stock or increasing the number of units of social housing is not necessarily able to be justified financially when rental income levels are below market values.

The fund is intended to provide one off capital grants to ensure that social housing projects become economically feasible. Interest free suspensory loans are provided for the acquisition, modernisation and reconfiguration of social housing units. The loans are available up to a maximum of \$30k per unit for reconfiguration or modernisation and up to 50% of the cost of any new building works which increases the housing stock or number of bedrooms.

A condition of any loan is that the housing is retained for social housing for at least 20 years. Repayment of the loan plus interest would be required if the units were not retained as social housing for this period, or alternately the proceeds of any sale could be reinvested in social housing with the approval of HNZC.

6 Walden Street flats

Walden Street flats were built in the early 1970's. They are single storey units, originally built as 8 bed-sits, however 3 bed-sits were reconfigured 2 x 1 bedroom units in 2000.

In the past, some of these units have been difficult to let mainly due to single person accommodation in the outer suburbs being unpopular with prospective tenants.

The current tenants are generally older single males, with the exception of a couple in a one bedroom unit. Three tenants are older long term residents, living in the units for 12, 14 and 17 years. Two tenancies were started in the last 12 months and two tenancies have been for 4 and 8 years. Four tenants have particular requirements which would need to be carefully managed before any relocation could go ahead.

6.1 Site

The site is in Strathmore, being Sec 67 SO 28353 Watts Peninsula District, and has a land area of 1019m². The land is north facing, sloping down from Monorgan Street to Walden Street and is surrounded by road reserve on all sides. The District Plan identifies the site as being zoned Outer Residential.

The land to the west and south of the site comprises Monorgan Road and Council Reserve (Sec 75 Watts Peninsula District). A park with a children's playground is located directly to the north of the site and low-density residential development is located directly to the east of the site. Scots College is located some 100m to the northeast.

The site is close to schools, open space, bus routes and the Strathmore shops.

6.2 Proposal

This development proposes to demolish the existing buildings entirely and rebuild 4 x 3 bedroom town houses.

6.3 Resource consent issues

Depending on the final design of the units, resource consent for either a Discretionary (restricted) activity or Non-complying activity will be required. Every effort will be made through the design process to ensure that the category of consent will be a Discretionary (restricted) activity.

Provided any redevelopment of the site is designed in general accordance with the Design Guide for Multi Unit Housing Developments and meets the traffic requirements, it is considered unlikely that Council would publicly notify the resource consent application. However, given the nature of the development and proximity to its neighbouring properties, Council is likely to require the written approval of the neighbours.

7 Strathmore Ave flats

Strathmore Avenue flats were constructed in 1945 and comprise 8 bed-sit units on two storeys. The location is close to the schools, open space, bus routes and Strathmore shops.

The existing tenants are all single males aged between 30 and 60 years old. All tenancies are less than 5 years with the exception of one which started in 1998. One unit is currently vacant. The needs of existing tenants will need to be addressed particularly for those who may have difficulty coping with any construction phase at the rear of the property.

7.1 Site

The Strathmore Ave Flats are located on a flat 1013m² parcel of land legally described as Lot 1 DP 15452. The site is adjoined by Scots College sports fields to the west, single storey low density residential development to the south and north and Strathmore Avenue to the east.

The site contains a two-storey building, comprising eight residential units, two vehicle crossings, various landscape treatments and an undefined number of parking spaces.

7.2 Proposal

The proposal is for infill development of 2 x 2 or 3 bedroom town houses on the rear section of the existing building. This will require relocating the existing storage sheds behind the building. The level site requires little site works to create the building platforms and allows easy drive on access. A final decision on the number of bedrooms in each property will depend on the outcome of the Housing Needs Assessment work currently underway and scheduled for completion by July 2006.

7.3 Resource consent issues

Depending on the final design of the units, resource consent for either a Discretionary (restricted) activity or Non-complying activity will be required. Every effort will be made through the design process to ensure that the category of consent will be a Discretionary (restricted) activity.

As there are already eight units on the site, it is likely that neighbours' consent will be required for the development and that any application for resource consent will be notified. Critical issues which would determine the outcome of any consent process relate to design and maximising the private open space for both existing and new units, minimising any potential impacts on neighbouring properties and impact on the roading network.

8 Consistency with current Housing policy

The current housing policy as agreed on requires the housing asset to be matched to demand and that the overall investment in housing should be retained.

The Housing Asset Reconfiguration Strategy (HARS) outlined a number of principles that the stock should conform to. These principles were:

1. **Affordability** – WCC housing should be affordable to those groups targeted by its housing policy
2. **Location** – housing should be well located – i.e. close to public transport routes and essential services such as shops, schools and essential social services
3. **Design** – housing should be maintained and renewed to contemporary functional design standards in terms of access, aspect, security, use of space, health and safety, energy efficiency and use of materials
4. **Stock matched to demand** – the service should be able to respond to demand from different size and type of household groups
5. **Adaptability** – housing should be capable of responding to the needs of different groups (Maori, Pacific Island, ethnic minorities, disabled people, etc)
6. **Value retention** – the Council’s investment in housing should retain ratepayer value over time.

The appropriate design will ensure the proposed redevelopments will incorporate all of the above principles.

The number of units in the housing portfolio will be reduced by one, and the number of beds will be increased by nine under the current proposed redevelopments. However, it is anticipated that when HARS is implemented, this will rebalance the housing bed numbers.

9 Housing demand

At present, City Housing uses its waiting list as a proxy for demand for social housing. This has a number of limitations particularly as the number and types of applicant may be influenced by types of accommodation available rather than reflective of the nature and scale of social housing demand in the city.

As part of the ongoing work with Housing New Zealand Corporation on the possible futures for the Council’s housing portfolio, a project is underway to more accurately assess the number of households experiencing housing stress and the extent of the unmet social housing need in Wellington city. It is expected that this project will be completed by July 2006.

9.1 The waitlist

There have been 313 applications for City Housing accommodation in the first quarter of 2006, and 210 applicants from the waiting list have been housed. The total number of applicants currently on the waiting list is 275.

The average time of the waiting list for applicants housed in the last quarter has been just over 85 days, although the average waiting time for the remaining applicants on the waiting list is 250 days.

Below is waitlist information for bed-sits and 3 bedroom properties in the different parts of the city. Applicants for housing are able to select the areas of the city they wish to be housed in and may specify any number of zones. This means that the same applicant may be counted in more than one zone and the accuracy and usefulness of this data is limited. The information on the waiting list as at end March 2006 is given below.

Waitlist for Bed-sits

City Housing has over 961 bed-sits with 159 bed-sits in the Miramar peninsula area. The waiting list for bedsits is given below.

Zone	Areas	No. of people on waitlist	Average household size	No. of units in portfolio	No. of vacancies (as at 4/4/06)
1	Miramar Peninsula, including Strathmore and Seatoun	34	1.0	159	6
2	Kilbernie, Newtown and southern suburbs	95	1.0	453	9
3	Central city including Hataitai, Roseneath, Brooklyn and Thorndon	123	1.0	214	3
4	Karori, Kelburn, Wadestown, Ngaio and Khandallah	29	1.0	27	3
5	Northern Khandallah, Johnsonville, Newlands, Crofton Downs, Tawa	15	1.0	108	2
	All areas			961	23

Note: households may appear on the waitlist for more than one zone

It should be noted that of the 34 people that have included the Miramar Peninsula as a preferred zone, only 3 people have specified that they only want to live on the Miramar Peninsula.

Waitlist for three bedroom units

City Housing has over 240 three bedroom units, the majority of which are located in Brooklyn, Newtown and Miramar. Of these units, 90 are standalone houses which are located in Buckley Road, Miramar and Newtown.

Zone	Areas	No. of households on waiting list	No. of people on waitlist	Average household size	No. of units in portfolio	No. of vacancies (as at 4/4/06)
1	Miramar peninsula, including Strathmore and Seatoun	25	106	4.2	69	2
2	Kilbernie, Newtown and southern suburbs	29	112	3.9	63	2
3	Central city including Hataitai, Roseneath, Brooklyn and Thorndon	19	76	4.0	59	0

Zone	Areas	No. of households on waiting list	No. of people on waitlist	Average household size	No. of units in portfolio	No. of vacancies (as at 4/4/06)
4	Karori, Kelburn, Wadestown, Ngaio and Khandallah	13	50	3.8	41	2
5	Northern Khandallah, Johnsonville, Newlands, Crofton Downs, Tawa	10	36	3.6	6	0
	All areas				238	6

Note: households may appear on the waitlist for more than one zone

It should be noted that of the 25 households that have included the Miramar peninsula as a preferred zone, only 1 household has specified that they only want to live on the Miramar peninsula.

9.2 Overall

The waitlist information only gives an indication of the extent of the demand for social housing. Comparison between the demand for bed-sits and 3 bedrooms is difficult. However, the total number of people waiting for 3 bedroom houses is significantly above the total number of people waiting for bed-sits.

10 Costings and HIF Application

There is no additional funding required through the Long Term Council Community Plan. All Council costs for the project would be met from CX_CF364 – Housing Reconfiguration. As noted above, the application for this project is predicated on the HIF contributing around 50% of the cost of the development. If the application receives materially less than 50% funding from the HIF, officers will come back to the Committee for further guidance and decisions.

The Capex budget for all costs for the redevelopment of Walden Street flats and infill development at Strathmore Avenue including all professional fees (including design, structural and mechanical engineers, traffic engineers, project management and quantity surveyor), resource consent, legal costs and goods and services tax is:

	Budget
Walden Street	\$1,850,000
Strathmore Avenue	\$950,000
Total budget	\$2,800,000
Less anticipated HIF funding for 50% of costs	\$1,400,000
WCC costs	\$1,400,000

The WCC costs will be funded from CX_CF364 - Housing Reconfiguration.

The Housing Asset Reconfiguration Strategy uses a return on assets of 3.5% as a benchmark for investment in new or reconfigured housing stock. City Housing three bedroom houses in Miramar and Strathmore currently have an average market rental of \$280 per week. Based on assumptions that the anticipated rental income from the redeveloped units will be \$280 per week and that the capital value of the new dwellings is equivalent to the total investment, this rental income equates to the return on the asset of 3.1%. At 70% of market rental, this equates to a return on the asset of 2.2%. The return on WCC's \$1.4 million investment is 6.3% for market rental and 4.4% at 70% of market rental. This is above the HARS benchmark for an acceptable return on asset.

The opex impact is forecast to be neutral as the increased depreciation costs will be funded by the increase in revenue and maintenance savings that will result from the reconfiguration of the units.

11 Timeframe for implementation

It is intended to begin the application process for funding from HNZN's Housing Innovation Fund in April 2006. Preliminary design concepts will be completed by May 2006, with the detailed design completed by November 2006.

There is no pre-defined timeframe for the HIF application. The application will be initiated by means of a letter outlining the Council's intentions. Final release of the HIF suspensory loan is subject to all appropriate consents being obtained.

Application for resource consent for both developments will be made in September 2006. Depending on whether applications are notified, a decision on the consent will be issued in November 2006 or January 2007.

Construction is expected to begin in April 2007. However, if approval of the HIF application is delayed, resource consent is refused, and/ or objections to consent are lodged in the Environment Court, this timeframe will not be achieved.

12 Conclusion

The redevelopment of Walden Street and infill at Strathmore Avenue will address a gap in the housing portfolio for family accommodation. This redevelopment does not require any additional Annual Plan funding.

The current opportunity to apply for HNZN funding means that the cost effectiveness of the project is greatly increased. Officers recommend that the project is given approval to proceed, subject to securing:

- around 50% of the project costs from the Housing Innovation Fund. If the application receives materially less than 50% funding from the Housing Innovation Fund, officers will come back to the Committee for further guidance and decisions
- the requisite resource and building consents.

Contact Officer: *Vicki McLaren, Manager City Housing*

Supporting Information

1) Strategic Fit / Strategic Outcome

The provision of social housing supports the following outcomes in the Draft Social and Recreation Strategy

Outcome 1: Wellington will be a great place to live, work and play, offering a stimulating and high quality range of community amenities and services, including affordable housing.

2) LTCCP/Annual Plan reference and long term financial impact

The funding for this project is from CX_CF364 - Housing Reconfiguration

3) Treaty of Waitangi considerations

Maori are 13% of City Housing's current tenancy mix. There are no different impacts on Maori as a result of the proposed upgrade compared to other tenant groups

4) Decision-Making

This is not a significant decision.

5) Consultation

a) General Consultation

Tenants of Walden Street and Strathmore Ave properties will be consulted with prior to any redevelopment taking place and as part of the resource consent process.

b) Consultation with Maori

There has been no consultation with either mana whenua iwi or the wider Maori community

6) Legal Implications

Legal issues arising through grant process and the redevelopment project (if approved) will be addressed as part of business as usual

7) Consistency with existing policy

The redevelopments are consistent with current Housing policy.