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**REPORT 6**

*(1215/52/IM)*

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**HOUSING INNOVATION FUND DEMONSTRATION  
PROJECT -REPORT BACK ON ALTERNATIVE OPTIONS**

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**1 Purpose of Report**

This report:

- outlines the process used to select sites for the demonstration project
- assesses a range of alternative options for the demonstration project
- seeks approval to proceed with the preferred Housing Innovation Fund proposal.

**2 Executive Summary**

This report follows on from a report presented to the Strategy and Policy Committee meeting on 11 May 2006. The report proposed two sites for redevelopment (18 to 24 Strathmore Avenue and Walden Street) which would be eligible for funding from Housing New Zealand Corporation's Housing Innovation Fund (HIF).

The Committee agreed that the Strathmore Avenue proposal should proceed and asked that officers report back on possible alternatives to the Walden Street proposal. This paper is the requested report back on alternatives.

A range of options had been canvassed as possible candidates for the demonstration project prior to the previous committee paper. In addition, two further alternatives have been identified and preliminary costings for development on these sites were obtained. Both the previous and new sites are presented in this paper. The criteria used to select the preferred sites are presented and possible sites ranked against these.

Council is also working with HNZA on a Stock Assessment Project in order to develop future options and scenarios for further stock upgrade initiatives. Outcomes will be fed into the ongoing partnership discussions between the Council and HNZA. A number of these potential development sites will be further investigated by officers.

Officers recommend that the Walden Street proposal be included in the redevelopment project and proceed subject to securing:

- 50% of the project costs from the Housing Innovation Fund. If the application receives 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 to proceed with Walden Street as part of the demonstration project*
3. *Agree that officers make an application to the Housing New Zealand Corporation's Housing Innovation Fund for 50% of the project costs for the redevelopment of Walden Street*
4. *Agree that the detailed designs for the redevelopment of Walden Street proceed*
5. *Agree that the funds from CX\_CF364 – Housing Reconfiguration be used to meet Council's share of the costs for this project*
6. *Agree that officers lodge a resource consent application for Walden Street site and note that these applications may be publicly notified*
7. *Agree that officers lodge a building consent application for Walden Street site*
8. *Agree that construction of the new units proceed provided that the application referred to in recommendation 3 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 undertake further investigations into options for future development projects at the following sites:*
  - i. *Batchelor Street Flats, Newlands*
  - ii. *Pukehinau Flats, Aro Street/Ohiro Road corner*
  - iii. *Regent Park Flats, Owen Street.*
11. *Note that officers will develop a comprehensive communications strategy to ensure affected tenants and social agencies are fully aware of these initiatives.*

### **4 Introduction**

At the Strategy and Policy Committee meeting on 11 May 2006, officers were requested

*“to carry out further investigations into alternative for the development of Walden Street and other possible sites”*

Since this time, two additional alternative sites have been investigated. These sites, along with the range of alternatives considered during the work leading up to the preparation of the committee paper requesting approval of the Housing Innovation Fund (HIF) application, are presented in this report.

## 5 Background to HIF project

This housing redevelopment project arose from the suggestion for a demonstration project as part of the ongoing work between the Council and Housing New Zealand Corporation (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 for a capital grant to assist with the costs of the physical improvements.

Central Government HIF subsidies are designed to encourage Council's to develop innovative solutions to social housing provision, to make projects that are uneconomic from a local government perspective more financially sustainable and to enable them to proceed. HIF demonstration projects are intended to demonstrate a partnership approach between HNZC and local government.

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. A design concept was prepared and costed. The costings showed that the modernisation of this and similar complexes was outside the scale of the projects anticipated through the HIF process. In addition, HNZC indicated at that time that a figure around \$1.5 million had been identified as the probable maximum grant available for the Council.

As a result officers identified a range of options for the demonstration project. These are outlined below.

## 6 Site options for HIF project

A number of sites and redevelopment proposals were identified as suitable for social housing (re)development and as potential candidates for the HIF project. These sites were:

Potential site for redevelopment	Existing use	Proposal
1. Regent Park	36 studios & 4 x 1 bed	Redevelop studios into 2 and 3 bedroom houses
2. Darwin Street	12 x 3 bed	Refurbish existing units
3. Darwin Street	12 x 3 bed	Refurbish and extend existing units
4. Darwin Street	12 x 3 bed	Demolish and rebuild – 2 storey houses (14 x 3 bedroom)
5. Darwin Street	12 x 3 bed	Demolish and rebuild – 3 storey houses (15 x 3 bedroom)
6. Newtown Park (Blocks A and B)	Block A – 26 x 1 bed and 26 x 2 bed Block B – 38 studios	Refurbishment of 2 blocks of the 6 existing blocks
7. Newtown Park (Block D)	28 studios	New build on front of block D
8. Walden Street	5 studios & 2 x 1 bed	Demolish studios and rebuild 4 x 3 bedroom houses

Potential site for redevelopment	Existing use	Proposal
9. 18-24 Strathmore Avenue	8 studios	Infill - 2 x 3 bedroom units
10. Pukehinau	1 studios, 59 x 1 bed, 11 x 2 bed & 8 x 3 bed	Infill development on green space on Aro Street
11. Central Park	103 studios, 99 x 1 bed, 11 x 2 bed	Infill on carpark roof and extension onto green space
12. Central Park	103 studios, 99 x 1 bed, 11 x 2 bed	Infill on green space
13. Abel Smith Street garages	Garages	Demolish garages and build 2x3 bedroom flats
14. Inner city bypass land	Surplus land adjacent to road	New build
15. J'ville library site	Library	Redevelop as medium density residential units
16. 102 Maupuia Road	Undeveloped	Infill townhouses – 3 x 3 bed units
17. Batchelor Street flats	29 studios & 2 x 1 bed	Redevelop as medium density housing comprising 2 and 3 bed units

Two new options, infill development on the garage roof at Central Park (no.11) and the site at 102 Maupuia Road (no.16) have been investigated since the last committee meeting.

Sites along the growth spine between Johnsonville and Kilbirnie currently owned by Council and potentially available for residential development are limited to the Johnsonville library site (no.15) and reservoir site on Chapman Street. These have not been considered in depth due to the lack of clarity around the timeframe and options for the Johnsonville library and title issues regarding the reservoir land.

### 6.1 Criteria for selecting project site

Each site was assessed against a range of criteria for their suitability as the demonstration project. These criteria were:

1. *Site conditions do not significantly increase site development costs*
2. *Maximises HIF grant to WCC – grant criteria are either (a) \$30k/unit towards costs of refurbishment or (b) 50% of costs of creating new/additional bed numbers (e.g. new build or infill development)*
3. *Impact on bed numbers – increasing bed numbers triggers the ability to apply for 50% of building costs*
4. *No additional WCC Annual Plan funding required – all costs to be met through existing City Housing Annual Plan allocations (maximum available budget in CX\_CF364 - Housing Reconfiguration is \$1.4 million)*
5. *Minimises resource consent issues – most sites require resource consent for multi-unit developments – this involves considering the impact of the development on neighbours*
6. *Site available within next 6 months – a condition of grant funding is that it must be spent within 12 months of receipt*

7. *Minimises impact on tenants* – relocating and re-housing tenants adds additional costs to City Housing (and the project). In addition, some tenants may find the disruption of either building works nearby distressing.

## **6.2 Assessment of options as suitable for HIF project**

The assessment of the sites is summarised in the table in Appendix 1.

The dominant issues in selecting a possible project are cost of development and the site's availability within the project timeframe. The scale of the site affects the cost of development, particularly when redeveloping/modernising the larger blocks of units. In addition, the larger complexes generally need to be addressed in an integrated manner, plus adding more units to these sites may exacerbate the issues currently experienced by City Housing in managing the site.

The only sites that meet both criteria of within the Council budget and currently available are:

- Walden Street
- 18-24 Strathmore Avenue
- Pukehinau
- 102 Maupuia Road

These are considered below:

### *18 – 24 Strathmore Avenue*

18 – 24 Strathmore Avenue has already been approved as a development site at the meeting on 11 May 2006.

### *Pukehinau*

Infill development at Pukehinau has been proposed in the past. Town house development could be located on the green space adjacent to the tower blocks. This proposal has proved controversial in the past and is likely to remain so. This site is a good redevelopment site but in the absence of a plan for the three high density estates in the locality, further intensification is not recommended. Further work should be undertaken.

### *102 Maupuia Road*

Development at 102 Maupuia Road is also a possibility. This land is surplus to Council requirements and under consideration for disposal. The site is a steep sided gully forming a rear section between properties fronting Maupuia Road and Booth Street. Access to the site is possible from either Maupuia Road or Booth Street. The access from Maupuia Street would be formed along a narrow access way between two front sections. This would create a driveway approximately 40m long and 3m wide. This could create issues for cars entering and leaving the site.

Access from Booth Street is better as it is shorter (although steeper), however it would go between two new dwellings and require relocation of recently installed playground equipment and landscaping. As a result of the site access issues, this site is not favoured as a candidate for the HIF project.

### Walden Street

Walden Street is preferred as a redevelopment site. The site at Walden Street is adjacent to a park and is well suited to family type accommodation.

The existing buildings are of low quality and are approximately 30 years old. The site has a rateable value of \$550k, of which \$205k is the land value. Demolishing the existing buildings does have a negative impact on the financial viability of the proposal which is demonstrated below. The Net Present Value (NPV), Internal Rate of Return (IRR), return on assets and annual ratepayer impact are summarised below:

Description of Option	Status quo	Demolish and rebuild - no HIF grant	Demolish and rebuild - with HIF grant	Reconfiguration (proposed under HARS)
Configuration	5 studios, 2 x 1 bed	4x 3 bed	4x 3 bed	4 x 1 bed, 2 studios
Initial WCC capital outlay	\$0	\$1,850k	\$925k	\$180k
Increase in valuation	\$0	\$1,545k	\$1,545k	\$180k
Annual Increase in income	\$0	\$18,264	\$18,264	-\$1,488
NPV (year 25)	-\$29k	-\$1,168k	-\$301k	-\$167k
IRR (year 25)	6.3%	2.5%	5.2%	4.9%
Return on assets (excluding additional interest)	4.7%	2.4%	2.4%	3.7%
Average annual rate payer impact	\$26k	-\$72k	-\$10k	\$20k

#### Assumptions include:

- an increase in occupancy level from 97 to 98% after redevelopment,
- cost of capital = 6.75%,
- inflation = 2.5%,
- asset depreciated over 60 years.

The rental income from the new townhouses is higher than the existing rental streams. The negative ratepayer impact under the demolish and rebuild options is principally as a result of the increase depreciation charge on the asset due to the higher asset value. The return on assets is reduced to 2.4% under the redevelopment scenarios although the HIF grant significantly increases the IRR to 5.2% for redevelopment, higher than that from reconfiguring the units.

Retaining and reconfiguring the existing studios is not recommended as this does not address issues such as functional obsolescence of the stock or the low quality of the building stock.

### 6.3 Future development options

Council is also working with HNZN on a Stock Assessment Project in order to develop future options and scenarios for further stock upgrade initiatives. Outcomes will be fed into the ongoing partnership discussions between the Council and HNZN. In the meantime, a number of the potential development sites, listed in the table at the beginning of section 6, are considered to be worth further investigation by officers.

These are:

Site	Description
Batchelor Street (Newlands):	<ul style="list-style-type: none"><li>▪ large site – 5435m<sup>2</sup></li><li>▪ location on the growth spine</li><li>▪ potential synergy with objectives of Newlands Centre Plan</li><li>▪ poor quality existing studio units</li><li>▪ redevelopment potential for equivalent of 30 x 3 bedroom townhouses</li></ul>
Pukehinau Flats (cnr Aro Street and Ohiro Road):	<ul style="list-style-type: none"><li>▪ subject to an integrated site development plan</li><li>▪ small site – approximately 750m<sup>2</sup></li><li>▪ central location</li><li>▪ relatively flat, open space</li><li>▪ infill potential for 6 x 3 bedroom townhouses</li></ul>
Regent Park Flats (Owen Street)	<ul style="list-style-type: none"><li>▪ large site – 7983m<sup>2</sup></li><li>▪ good location</li><li>▪ relatively flat site</li><li>▪ poor quality existing studio units</li><li>▪ redevelopment potential for equivalent of 38 x 2/3 bedroom units</li></ul>

## 7 Conclusion

The redevelopment of Walden Street to four 3 bedroom townhouses 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:

- 50% of the project costs from the Housing Innovation Fund. If the application receives 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 the 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.*

## Appendix 1: Site Assessments

Potential site for redevelopment	Proposal	Site conditions	Maximises HIF grant	Impact on bed numbers	Within WCC budget	No resource consent required	Available by Nov 2006	Minimal impact on tenants	Demonstration project	Comment
1. Regent park	Redevelop studios into 2 and 3 bedroom houses	Soft ground requiring deep piles	✓	Increase	✗	✗	✓	✗	✗	Site needs to be addressed as whole - exceeds budget. Previous proposals controversial
2. Darwin Street	Refurbish existing units	Poor drainage	✗	Same	✗	✓	✓	✗	✗	Maximum grant \$30k per unit = \$360k Doesn't improve functionality or insulation. High costs due to presence of asbestos cladding
3. Darwin Street	Refurbish and extend existing units	Poor drainage	✗	Same	✗	✗	✓	✗	✗	Maximum grant \$30k per unit = \$360k
4. Darwin Street	Demolish and rebuild – 2 storey houses (14 x 3 bedroom)	Poor drainage	✓	Same	✗	✗	✓	✗	✗	Exceeds budget
5. Darwin Street	Demolish and rebuild – 3 storey houses (15 x 3 bedroom)	Poor drainage	✓	Same	✗	✗	✓	✗	✗	Exceeds budget
6. Newtown Park (Blocks A and B)	Refurbishment of 2 blocks	High density development	✗	Reduces if reconfigure studios	✗	✗	✓	✗	✗	Site needs to be addressed as whole - exceeds budget

Potential site for redevelopment	Proposal	Site conditions	Maximises HIF grant	Impact on bed numbers	Within WCC budget	No resource consent required	Available by Nov 2006	Minimal impact on tenants	Demonstration project	Comment
7. Newtown Park (Block D)	New build on front of block d	✓	✓	Increase if don't reconfigure studios	✗	✗	✓	✗	✗	Site needs to be addressed as whole - exceeds budget
8. Walden Street	Demolish studios and rebuild 4x3 bedroom houses	Stopped road - can be freeholded	✓	Increase	✓	✗	✓	✗	✓	Recommended as HIF project
9. 18-24 Strathmore Avenue	Infill - 2 x 3 bedroom units	None known	✓	Increase	✓	✗	✓	✓	✓	Recommended as HIF project
10. Pukehinou	Infill on green space on Aro Street	Objections from neighbours to previous proposals	✓	Increase	✓	✓	✓	✓	✗	Previous proposal controversial, intensifies already high density residential site
11. Central Park	Infill on carpark roof and extension onto green space	Need to check strength of carpark structure to take an additional storey	✓	Increase	✗	✗	✓	✓	✗	Exceeds budget
12. Central Park	Infill on green space	Cook strait cable crosses through site creating significant issues	✓	Increase	✗	✗	✓	✓	✗	Site issues prohibit development
13. Abel Smith Street garages	Demolish garages and build 2x3 bedroom flats	Reserved for Aro Valley community centre upgrade	✓	Increase	✓	✓	✗	✓	✗	Reserved for other purpose
14. Inner city bypass land	Infill	Land status unknown, sites possibly noisy	✓	Increase	✓	?	✗	✓	✗	Site not available within timeframe

Potential site for redevelopment	Proposal	Site conditions	Maximises HIF grant	Impact on bed numbers	Within WCC budget	No resource consent required	Available by Nov 2006	Minimal impact on tenants	Demonstration project	Comment
15. J'ville library site	Redevelop as residential	None known	✓	Increase	✗	✗	✗	✓	✗	Site not available within timeframe
16. 102 Maupuia Road	Infill townhouses	None known	✓	Increase	✓	✗	✓	✓	✗	Reduced number of houses due to high cost of creating access way to development site
17. Batchelor Street flats	Redevelop to 2 and 3 bed units	Site is leasehold land from Manchester Unity	✓	Increase	✗	✗	✓	✗	✗	Exceeds budget
18. Chapman Street (J'ville) reservoir land	Infill development on part of site	Steeply sloping site, currently used for reservoir purposes, requires approval of Capacity. Subdivision required. Zoned outer residential	✓	Increase	✓	✗	✗	✓	✗	Land availability uncertain. Requires subdivision
19. Rural zoned sections in Owhiro Bay	3 x 3 bedroom townhouses	Adjacent to south coast. Harsh environment. Lacks sun in winter	✓	Increase	✗	✗	✓	✓	✗	Harsh environment would increase maintenance costs. Distant from services