Kāinga Ora
Homes and Communities

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6 May 2024

9(2)(a) [redacted]

Dear 9(2)(a) [redacted]

Thank you for your request to Kāinga Ora - Homes and Communities, dated 27 March 2024, requesting the following information under the Official Information Act 1982 (the Act):

> *… with regards the proposed Bonair Crescent development at Millwater that Kaingaora have recently decided to sell.*
>
> *1) The purchase price paid for the land*
>
> *2) The total $ spend by activity on the development to date in the following categories*
>
> - *Total $ spent internally by staff, travel, accommodation etc*
> - *Total $ spent on public consultation activities*
> - *Total $ spend on external consultants, advisors, legal, architects, engineering, town planning etc*
>
> *3) The estimated $ to be spent in the future to complete the sale of this site*
>
> *4) A copy of the business case that was used by Kaingaora to decide to exit the development.*

In response to question one, I can confirm that Kāinga Ora paid $5,002,500 for the site at 153 Bonair Crescent.

Regarding question two:

- We are not able to provide the total spend for staff as this was business as usual spend and not broken down. There was nothing spent on staff travel or accommodation.

- The spend on public consultation activities was:

Signage	$140
Refreshments for 3 drop-in sessions	$455
Stationery	$125
Meeting room fee	$52.88
Meeting room fee	$160
Total	**$932.88**

Additionally, in 2023 Kāinga Ora contracted Community Think to hear a wide range of perspectives from across the Hibiscus and Bays area about how, and where, we deliver public housing and other kinds of housing. The cost of this work was $53,774 (GST incl).

- The total spent on external consultants, advisors, legal, architects, engineering, town planning etc was as follows:

Site works	$34,443.09
Consultants	$429,283.65
Council and Infrastructure	$568,919.69
Grand Total	**$1,032,646.43**

In response to question three, the estimated cost to complete the sale of the site is:

Valuation	$6,700 (+GST)
Marketing	$3,500
Commission	2% of sale price (+GST)

In response to question four, Kāinga Ora has identified one document in scope titled *The Options Memo* which used to make the decision to sell the site. This document is released to you in full and is attached.

Please note that Kāinga Ora proactively releases our responses to official information requests where possible. Our response to your request may be published at https://kaingaora.govt.nz/publications/official-information-requests with your personal information removed.

Ngā mihi

Rachel Kelly
Manager Government Relations

Kāinga Ora
Homes and Communities

Options Memo

To	Taina Jones – Regional Director, Auckland North/West
Through	Garry Looker, Development Partnerships and Investment Manager
From	Nathaniel Landingin – Principal Advisor Development Strategy
Date	7 March 2024
Subject	**153 Bonair Cres, Silverdale**

Purpose

The purpose of this memo is:

a) to provide background and update on 153 Bonair Cres, a consented greenfield land acquisition, briefed to create 37 public housing units and a community room in Hibiscus and Bays, and

b) provide options for implementation, and

c) make recommendations as to future use.

Asset Profile

- The land is 4,787m^2 in area, zoned for Single House (SH), and located in Millwater, a greenfield residential development in Silverdale within Auckland's Hibiscus and Bays Local Board area.
- Kāinga Ora acquired the land in June 2020 from Broadway Developments Ltd for $5,002,500 including GST. The acquisition was made on the basis that the resource consents granted in 2018 for a land zoned for SH be used to expedite the delivery of 38 units to meet demand for public housing in the area. These resource consents expired in August 2023.
- Building consent was issued in 2019, extended until April 2023, and has now lapsed.
- Council's capital value for this property as at 1 June 2021 is $5,200,000.
- Under Plan Change 78 (PC78), the property is proposed to be upzoned to Mixed Housing Urban, enabling three-storey developments, subject, however, to qualifying matters on water and/or wastewater constraints control and precinct. Decision on PC78 is expected in March 2025.

Regional Context

- The Auckland North-West Regional Plan identifies Hibiscus and Bays as a low market share, of medium to high land value and with low demand for public housing. We have a strategy to increase our capacity in the area to:

  a) meet the requirements of the Ministry of Social Development Housing Register

  b) release properties in high-value and peripheral suburbs of Whangaparaoa and North Shore and sites that are of high risk to climate change related hazards, and

  c) to provide rehousing opportunities for impacted customers.

- The acquisition of 153 Bonair Cres was considered an opportunity to be part of this strategy due to its location being in a rapidly developing residential area with good access to amenity, service provision, and employment opportunities, as shown on the map below, making the land suitable for public housing.

- The Regional Plan also sets out the following portfolio objectives for Hibiscus and Bays:

  a) Form an appropriate acquisition strategy to optimise our land holding or increase our market share.

b) Identify sites and form suitable renewal and retrofit programmes to improve the ageing stocks to ensure they remain healthy and economically viable.

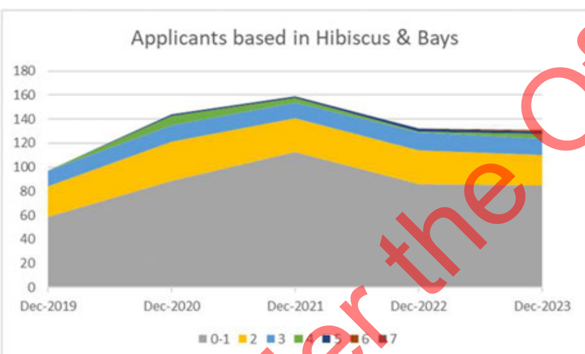
c) Divest sites in Whangaparaoa (and other areas as progressively assessed in this Local Board location) in line with the Kāinga Ora environment and sustainability policies to mitigate and adapt to climate change.

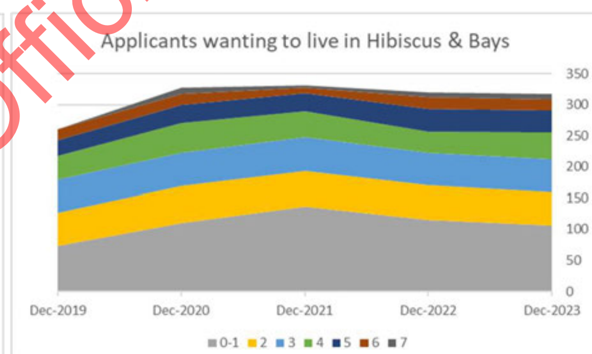
d) Explore partnership and development opportunities near new developments and Future Urban Zone in close proximity to the Hibiscus Coast Bus Station to provide a range of benefits, including improved accessibility to transport stations and employment locations.

e) Support our customers to live well and feel connected in their community by working with them to make the most of local knowledge, networks and existing activities.

f) Form further meaningful relationships with agencies who can offer support to customers and help them to independence.

- The graphs below show that the Hibiscus and Bays area has seen a steady level of demand for public housing over the last five years, from applicants either living in the area or self-selecting the area. As at 31 December 2023, there were 131 applicants based in the area and 187 more from elsewhere in Auckland who would choose, if offered, to live in the area. The majority of the local demand is for smaller homes while the external demand is mostly for larger family homes.





- Kāinga Ora's public housing portfolio in the Hibiscus and Bays Local Board area consists of 126 properties - 48 x 1b (38%), 25 x 2b (20%), 26 x 3b (21%), and 27 x 4-9b (21%), with an average age of 34 years. We have 17 properties in the area that are more than 50 years old. However, none of them has any redevelopment potential, being single isolated sites. **There is therefore little opportunity to redevelop existing properties in the area, and acquisition of land or existing homes (whether greenfield or brownfield) is the only way we can improve the capacity of public housing in the area.**

Project Background

- The Project Brief was approved in November 2021, with the Business Case later approved in May 2022 by the Programme Control Group (PCG).

- The proposal was to create 37x2b walkup units across three two-storey blocks, a community room, 38 car parks, and a bike parking on the site, with intended delivery in June 2023.

- All ground floor units were proposed to meet full universal design standards and the brief required an amendment to the building consent to meet Kāinga Ora design standards.

- Civil works were anticipated to commence in mid-May 2022, but had to be deferred in the course of seeking Council amendment to the building consent and to provide an opportunity to engage with the community on the development of the land.

- Over the duration of consulting with the local MP, concerned residents, and the Hibiscus and Bays Local Board, the feedback was that the site is not in the right location for public housing It was suggested that the site be used instead for Kiwibuild or affordable housing. Alternative opportunities for purchase in nearby Wainui Rise development were also suggested.

- Due to the need to engage with the wider Hibiscus and Bays community in 2023, Construction and Innovation handed the project back to Investment and Planning to re-scope or re-brief and procurement contracts have all been cancelled accordingly.

- Note that the total actual spend to date for this project is $6,051,206 (with GST), inclusive of $5,002,500 for land acquisition and net $624,810 paid to Council/Watercare, Vector and Chorus for growth charges, which can be recouped if land is divested.

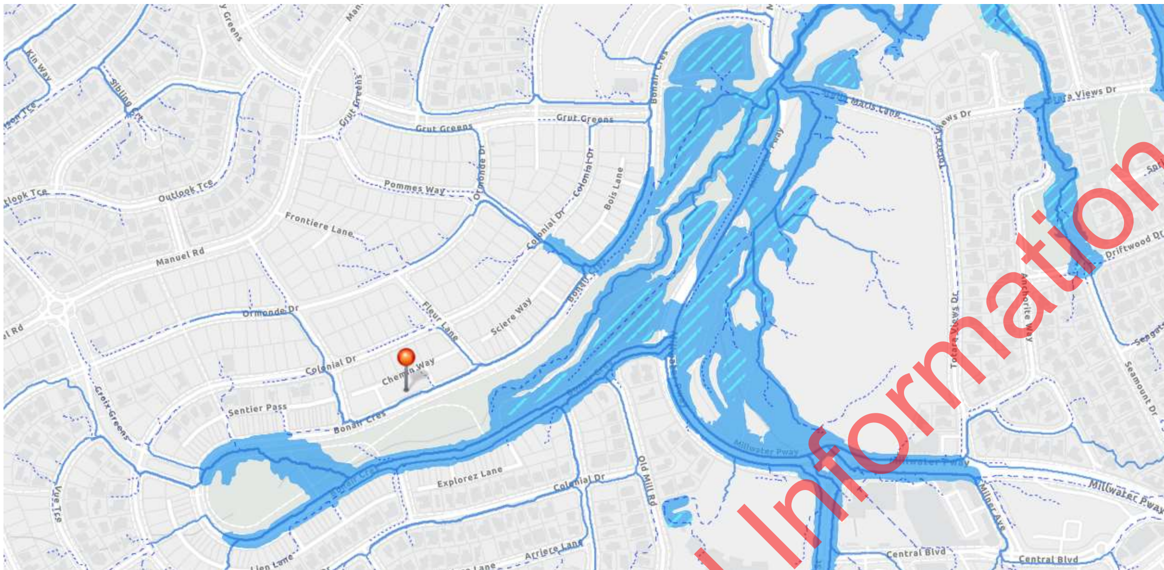
- As shown in the table below, if this project was to be re-briefed for the same proposal (assuming approval would be provided for the same yield, which is not certain), due to rising costs of construction and the need to re-apply for or extend the consents, the investment would result in a much lower IROI and NPV.

Investment metric	Project Brief	Business Case	Re-briefed*
Proposed units	37 + Com Rm	37 + Com Rm	37 + Com Rm
Total development cost (TDC)	$24,108,325	$19,066,478	$28,017,947
Development cost/unit	$651,576	$515,310	$757,242
Build rate/m^2 ex GST	$3,200	$2,989**	$4,445
Net Rental***	$554,732	$539,793	$579,325
IROI	2.30%	2.24%	1.75%
NPV	-$979,165	-$3,642,924	-$5,916,925

*Values, costs, and rents are escalated at 3% p.a.
**Based on build rates provided by then procured CPA partner Home Construction Ltd.
***Based on average gross weekly rental of $550, plus escalation.

- Note that the above financial feasibility for the re-briefed scenario is based on estimates and there are residual risks in that, should inflation increase and re-briefing and re-consenting becomes more difficult due to more stringent due diligence, construction costs would increase and timeframes would delay, further compromising financial feasibility.

- The original business case for this project did not highlight any significant flooding risk. As indicated in Council's updated Flood Viewer, there is a minor overland flow path originating from the centre of the site and exiting to Bonair Cres. As shown by the map and image below, the site is on a sloping terrain with a higher elevation protected by a long and high retaining wall at the back, a moderate overland flow path running along its three road frontages and is in close proximity to a major flood plain down the slope on Bonair Reserve.



Community Engagement

- Kāinga Ora – Homes and Communities Act 2019 established Kāinga Ora by bringing together Housing New Zealand and HLC, and introduced the operating principle “having early and meaningful engagement with communities affected, or to be affected, by urban development”.

- We aim to engage with communities affected by a Kāinga Ora development. The way we engage with a community, and the timing of our engagement, is likely to vary depending on the nature of the proposed development and the specific circumstances of the community in question. We hope that by engaging with communities affected by our developments we can share information that is of importance to the community and take any feedback into account.

- If a local council approves a non-notified resource consent for a new housing development, we have no additional obligation to engage or consult with the community about new public housing under the Resource Management Act 2002.

- Kāinga Ora is committed to engaging with any community affected by a proposed Kāinga Ora development. However, provided that Kāinga Ora, or the developer we are working with, has satisfied all the local council's planning requirements, our new developments do not require community approval.

- Construction works were initially set to commence in 2022. However, shortly before these works commenced it was decided it was appropriate to pause these works and undertake engagement with the community who had expressed concerns with the proposed delivery of public housing in the location.

- Engagement with the local community was extensive and carried out over 2022/23. Community drop-in sessions, community representative group and local Board meetings were conducted, and an online feedback platform and paper-based mechanisms were initiated to ensure community members were able to feedback directly. Following engagement with the community and wider local board on the project, an additional engagement process and a subsequent report was contracted through an external engagement service, Community Think, to focus on the housing needs in the area, perceptions of public housing and solutions to the housing needs in the area. The report indicated the need for secure and affordable housing in the area, for more public housing than the current stock could possibly satisfy and a need for more affordable rental housing.

- We consider the engagement undertaken is consistent with our policy 'community engagement on Kāinga Ora development activities (POL-386)'.

Options Analysis

- We explored five options for the land, assessing them against strategic fit, risk, and feasibility to Kāinga Ora, as summarised in the table below.

Option		Strategic fit	Risk	Feasibility	Notes
1	Develop for 100% public housing in line with approved resource consent.	🟢	🔴	🟡	Risk is high due to expired consents, financial feasibility of the project.
2	Develop to enable mixed tenure housing in line with approved resource consent.	🟢	🔴	🟡	Risk is high due to expired consents, financial feasibility and plans may not meet market demand.
3	Maintain and develop for mixed tenure housing following PC78.	🟢	🔴	🔴	There are additional costs due to risks of consenting under PC78 and higher density construction.

4 Divest to a build partner to create affordable housing through Kiwibuild Underwrite or PHO.				While meeting our wider mandate and potentially feasible, there is risk that consented plans would not meet their target market.
5 Divest 'as is' to the open market (which includes opportunity for build partners to tender at option 4) to enable affordable and/or market housing development.				Land is not surplus to market demand but could create housing supply through private and market-led development.

- Options 1, 2 and 3 propose the delivery of public housing in full or in part. It is likely that the scale of development overall given the current zoning for the land is for Single House, i.e. only three houses can be considered compliant for the land, coupled with building costs escalations (including building and resource consents expiries) make these options unfeasible.

- Options 4 and 5 propose to release the land through controlled or open divestment, respectively. These present the least risk to Kāinga Ora and they, along with Options 2 and 3, contribute to our wider mandate to facilitate the creation of housing supply which is in great demand. Engaging in partnerships (Options 2, 3, and 4) is a key objective of the Regional Plan.

- Note that the approach set out in the Asset Management Strategy is that we dispose assets that are unsuitable, surplus to demand, not economically viable or of high value. At the time of acquisition, the land was considered suitable for public housing and developing it would have filled the gap in demand for public housing in the area. However, with the passage of time and in consideration of the rising costs of construction, the need to re-apply for or extend the consents, the potential yield that may now be available and potential climate-related risks, the overall risks of continuing to seek to redevelop currently outweigh the benefits.

Recommendation

- On the basis of the above options analysis, it is recommended to divest the land due to the risks associated with continuing redevelopment in the current proposed form and lack of feasibility in the other options.

- As part of options analysis, advice has been sought through Market Delivery as to potential feasibility of divestment. The advice provided is that there is currently high demand for residential land in the area, although there will be tax implications given the land is owned by HNZL. The advice we received from valuers in February 2022 is that the land could be disposed of with positive returns. Due to the risks involved in Kāinga Ora seeking to extend the resource and building consents to secure a higher sale price, it is proposed to sell the land 'as is where is' and the infrastructure growth charges paid to date will be recouped from the sale.

- Option 5 is recommended as the appropriate option. The process will ensure high visibility of the divestment opportunity through our build partners in Kiwibuild, Progressive Home Ownership, First Home Partner, Te Au Taketake and iwi and Māori organisations to enable them to participate (at their choice) to deliver good affordable housing and urban development outcomes for the land.
- Investigation of other opportunities for public housing in accordance with the regional and portfolio management plans for the Hibiscus and Bays Local Board will continue. This can be done through either the New Build, Land Acquisition, and/or Redevelopment programmes, spread across the Hibiscus and Bays area.

Delegations

- The Business Case was approved in May 2022 by the Auckland/Northland PCG. The Chair of the PCG has been involved in the development of this options memo.
- The Financial Mana Tuku (Delegations) for financial delegation to Regional Director to approve divest of property not subject to RFR requirements, which this property is not, up to $10 million (as stated above, the Council's capital value for this property as at 1 June 2021 is $5,200,000). Divestment >$10 million require Deputy Chief Executive approval.
- Based on financial delegations, the Regional Director has delegated authority to approve the recommendation in this options memo to divest the land.

Taxation Implications

- IMO requested that any taxation implications are also considered. Final advice as what potential tax implications there may be, aside from the bright line test has yet to be provided. While taxation implications should not impact the investment decision, there may be potential implications as to the timing of when the decision is implemented. As stated below, these taxation considerations will be taken into account by the appropriate team(s) who will be responsible for the implementation of any sale.

Next Steps

- Following the approval of this memo, and dependent upon the approval, the memo and approved decision will be notified and forwarded to the appropriate team(s) for implementation and notice. Based on the delegations referred to above, it is anticipated that the execution of any sale of the land will be undertaken by the Commercial Group. The appropriate team will determine the method for implementation and seek approval from the appropriate delegation holder for the proposed sale parameters.
- Continue to investigate other public housing opportunities in the area to meet current demand, consistent with the regional and portfolio management planning intentions.

Approvals

Approved by:

X

Taina Jones
Regional Director - North and West

Endorsed by:

X Garry Looker

Garry Looker
Development Partnerships and Investment Man...