Napier City Council

Community Housing Options

Phase Two - Market soundings, detailed analysis and evaluation

22 December 2021

pwc

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22 December 2021

Re: Napier City Council's Community Housing Portfolio Options Review

Dear Natasha

In accordance with your instructions as confirmed in our Letter of Engagement dated 30 October 2019 (the "Contract"), we present the findings for phase two of our work, being the analysis of three potential options for Napier City Council's (NCC's) Community Housing portfolio:

- Status quo
- Part retain/part sell (retain retirement villages, sell social villages and redevelop/develop some)
- Transfer portfolio.

This report is an extension of the work completed under phase one of the Contract which was presented:

- In our report dated 24 September 2020 - Housing Provision - Transfer Options Analysis
- To the NCC Councillors October 2020 at the Transfer Options Workshop.

We draw your attention to important comments regarding the scope and process of our work, as set out under the Important Notice and Disclaimers on the following page. Key assumptions made, and information relied upon in respect of this report, are set out in the commentary provided.

You may not make copies of this report available to other persons except as described in the Contract, and subject to the conditions described therein. We will not accept any duty of care (whether in contract, tort (including negligence) or otherwise) to any person other than you, except under the arrangements described in the Contract.

Yours sincerely

PwC Advisory Services

John Schellekens
Partner
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Important notice and disclaimers

Important notice

PwC Advisory Services (PwC) provided a presentation to Napier City Council (NCC) in relation to the Community Housing strategic review in accordance with the scope of services set out in the Letter of Engagement dated 30 October 2019. This report is for the purposes of providing NCC Councillors with a summary of work completed to date and in particular the findings from the market sounding with Community Housing Providers (CHPs), Iwi and Kāinga Ora (KO).

Disclaimers

COVID-19 has now emerged, and continues to evolve, (as at the date of this presentation), as a major economic risk and a risk to the property market. At this stage, it is difficult to take a view on the medium to long term impact of this issue, which at present is highly volatile and uncertain. We have not made any adjustment to our advice in relation to this issue but acknowledge that it may yet become a material consideration.

This document has been prepared for and only for NCC in accordance with the terms of the Contract dated 30 October 2019 and for no other purpose. We do not accept or assume any liability or duty of care (whether in contract, tort (including negligence) or otherwise) for any other purpose or to any other person to whom this document is shown or into whose hands it may come save where expressly agreed by our prior consent in writing or as specifically provided for in the Contract.

The services provided are only to be used for internal decision support. We accept no liability to any party should it be used for any purpose other than that for which it was prepared. We do not permit the services provided to be used for financial reporting or fund raising purposes.

This document is strictly confidential and (save to the extent required by applicable law and/or regulation) must not be released to any third party without our express written consent which is at our sole discretion.

To the fullest extent permitted by law, PwC accepts no duty of care to any third party in connection with the provision of this document and/or any related information or explanation (together, the “Information”).

Accordingly, regardless of the form of action, whether in contract, tort (including without limitation, negligence) or otherwise, and to the extent permitted by applicable law, PwC accepts no liability of any kind to any third party and disclaims all responsibility for the consequences of any third party acting or refraining to act in reliance on the Information.

We have not carried out anything in the nature of an audit nor, except where otherwise stated, have we subjected the financial or other information contained in this document to checking or verification procedures.

Accordingly, we assume no responsibility and make no representations with respect to the accuracy or completeness of the information in this document, except where otherwise stated.

The statements and opinions expressed herein have been made in good faith, and on the basis that all information relied upon is true and accurate in all material respects, and not misleading by reason of omission or otherwise.

Where we reference valuation parameters in this report, these should be considered as indicative only and it cannot be relied upon as formal valuation advice. Should NCC seek to transfer the assets, we recommend that independent, formal, valuation advice is procured.

Contents

Definitions

We set out below the definitions of the various cashflow elements that we summarise in this report.

Community Units: Accommodation designated for adults and/or families from the community who fulfil each council's own housing eligibility criteria. Some councils lease a limited amount of their community units at market rates (in an attempt to assist financial sustainability). NCC holds 18 residential properties for strategic purposes. These are excluded from the analysis in this report.

Corporate overhead expenses: costs incurred at the council level which can be partially attributed to the housing portfolio; e.g, IT and specialist staff who spread their time across different departments.

Direct expenses (excl R&M): those operating expenses that are payable whether units are occupied or not e.g. rates, insurance and utilities in shared areas such as common rooms or halls.

Gross revenue: The full amount of rent that is received through the provision of housing tenants. This includes the rent received directly from tenants, any accommodation subsidies and other revenue (e.g rent from community halls within villages).

Liquidity: Refers to the ease with which a an asset can be converted into cash at market price.

Market rent: To estimate 'market rent', we considered the market rents for each site as provided by Telfer Young in their 2020 valuations. We have then added 10% to these figures to reflect the increase in average rents in Napier in the past year.

OPEX: Operating expenses include direct expenses, R&M, other operational costs and corporate overheads attributable to providing the housing service.

Other operational expenses: administrative staff costs and tenancy management fees.

Planned CAPEX: Programmed capital expenditure which includes preventative maintenance designed to maintain the asset's functional lifespan e.g roof replacements, exterior painting, bathroom upgrades, deferred maintenance, legislative works and sinking funds.

Repairs and Maintenance (R&M): day to day general maintenance and service contracts for basic upkeep of the units and grounds.

Retirement units: Accommodation designated to 'seniors' who fulfill each council's own definition of a senior citizen (age criteria across the councils sampled) and who meets the housing eligibility criteria.

Walk-up units: Walk-up buildings are typically two or three-storeys high. These apartment buildings offer predominantly one- and two-bedroom units. Kāinga Ora typically utilises this typology in suburban areas close to town centres to make the most of smaller sites. Their low height means that elevators are not required.

We reference net cashflow on these bases:

- **Net operating income before R&M and planned CAPEX:** The gross revenue less direct expenses (excl R&M), other operational expenses and corporate overhead expenses.
- **Net operating income after R&M but *before* planned CAPEX:**The gross revenue less direct expenses (excl R&M), other operational expenses, corporate overhead expenses and R&M.
- **Net cashflow / Net operating income after R&M and after planned CAPEX:** The gross revenue less direct expenses (excl R&M), other operational expenses, corporate overhead expenses, R&M and planned CAPEX.

Please note:

- **In relation to GST, the information provided and the analysis within this report (unless otherwise stated) includes GST.**

Acronym list

CAPEX	Capital expenditure
CCO	Council Controlled Organisation
HPUDS	Heretaunga Plains Urban Development Strategy
IRRS	Income Related Rent Subsidy
LTP	Long Term Plan
MSD	Ministry of Social Development
NCC	Napier City Council
NPV	Net Present Value
OPEX	Operating expenditure
RTA	Residential Tenancies Act
SPM	SPM Assets

Executive summary

Purpose of this Report

This report forms phase two of a broader scope to identity and consider potential pathways for NCC to nominate sustainable Community Housing services in Napier.

In July 2019, PwC presented a report to NCC providing a strategic review of potential options in relation to the provision of Community Housing. The scenarios considered reflected amended Status Quo options which were tested to establish whether financially sustainable inhouse delivery of community housing was feasible. Our analysis was that 'piecemeal' changes in isolation would not deliver long-term sustainability without significant downsizing of the portfolio. Subsequently two possible strategic paths were identified, either:

- Active management of the portfolio (sell underperforming villages and recycle capital to maintain/improve the balance of the portfolio), or
- Transfer the portfolio.

In October 2019, we were engaged to undertake analysis of these two options and in particular consider respective financial implications, viability and pathways for implementation. The pathways were to establish a framework for NCC to nominate its preferred long-term strategy and way forward for its Community Housing.

This work was undertaken in two phases; phase one identified and presented the various options available to NCC for a transfer (sale, either directly or 'effectively' via a lease) of the portfolio and transfer of management services to an external provider. The findings from this phase of work were presented in our report dated 24 September 2020. In October 2020, a workshop with NCC Councillors was facilitated by PwC. Following this engagement there was a general consensus that the sale or lease of property stock to a CHP was the preferred transfer option to evaluate in greater detail with a proviso that any such transfer must ensure that the portfolio is used for retirement housing in perpetuity with a first right of refusal in NCC's favour if the acquirer ever decided to sell. Additionally, such first right of refusal would be on the basis the value would be established on the same basis as it was sold i.e. established on a Discounted Cash Flow of subsidised rents.

This report presents phase two of our scope of works including our methodology in developing the detailed options and the findings from our detailed analysis of three potential options for the future delivery of Community Housing Services for NCC:

- Status Quo (revised);
- Part retain/part sell (active management);
- Transfer to CHP via sale or lease.

The objective is for Council to select a preferred strategy(ies) and, if applicable, to release the strategy(ies) for public consultation in 2022 with Council ultimately making a decision on the future of its housing portfolio.

Structure of this Report

This report has been structured to:

- Provide an overview of the broader scope and project progression since NCC's initial Section 17A review (under the LGA 2002) in 2018;
- Summarise the findings from the phase one work and the key outcomes including the general consensus of NCC's Councillors from the October 2020 workshop;
- Present our findings from the analysis of:
  - the revised Status Quo option;
  - the part retain/part sell option;
  - our approach to the market, primarily CHPs, to understand the market's appetite to acquire the portfolio (either directly or 'effectively' via a lease) and to ascertain likely key commercial terms.

Within each of the option sections we have set out our:

- Methodology, approach and assumptions;
- Financial analysis;
- Evaluation against the criteria the NCC Councillors worked through at the October 2020 'Transfer Options' workshop when comparing the alternate transfer options to agree the preferred transfer option.

We have then concluded with our key findings identifying the potential pathways available to NCC along with our recommended pathway for NCC to sustainably deliver its Community Housing services in alignment with the City and Community objectives.

Executive summary cont.

Key findings

- **The Status Quo** ensures ongoing security for the current tenants, but at a significant cost to ratepayers. It does not contribute to Napier's growing community housing needs, nor does it support providing fit for purpose accommodation units. We have estimated that over the period to 2046, the indicative cost to the ratepayer to fund the shortfall (to break-even) will be circa $2.2m (excluding financing) per annum.
- **The part retain/part sell** option only marginally improves the cashflow position after 2028 - the cashflow injection from sale proceeds and rent from new units falls short of redevelopment costs. Over the period to 2046, we have estimated the cost to the ratepayer to fund the shortfall (to break-even) will be circa $2.3m (excluding financing).
- In order to achieve financial sustainability under the Status Quo or Part retain/part sell options, policy rent would need to be set at ~74% market rent (equating to ~50% of a retiree's income or 29% of the income threshold* for an individual Community tenant) or ~81% market rent (equating to ~52% of a retiree's income or 30% of the income threshold for an individual Community tenant), respectively. Setting rental policy at these levels would represent a significant increase in rents and would not align with the Council's current objectives of providing affordable housing.
- CHP status and access to Crown funding streams (IRRS and Operating Supplements) are critical for developing a sustainable commercial model that can grow social housing stock and renew the portfolio without creating a burden for ratepayers.
- NCC's portfolio is attractive to CHPs as their focus is to invest in the 'golden triangle' - high growth, high need and fair return. Of the parties approached, purchase was the preferred form of transfer. A leasing model does not enable a CHP leverage for funding for renewal or development aspirations.
- Kāinga Ora has emerged as a potential important shareholder in the community housing sector and may present an alternative to the CHP sector; it is the key government entity with the mandate to deliver on social housing. Whilst Kāinga Ora's key focus is 'Additionality' (ability to provide NEW housing supply), Kāinga Ora did, in March 2021, purchase Nelson City Council's community housing portfolio.
- Whether the portfolio is transferred to a CHP or Kāinga Ora, the Transaction Value would be materially lower than the 'market' value. Market Value represents highest and best use (e.g. the greater of capitalised 'market' rent, or redevelopment value). Both a CHP and Kāinga Ora would assess the transaction value based on discounted cashflow (DCF) analysis of future net cashflow reflecting rental income net of operating and maintenance and CAPEX costs, and with a covenant that locks in community housing into perpetuity, and would not value 'higher and better' alternative use.
- Kāinga Ora's assessment of the value of the portfolio might exceed that of a CHP, on the basis Kāinga Ora can access IRRS (almost) immediately, unlike CHPs who can only access IRRS for new incoming tenants. The initial cashflow for Kāinga Ora post transfer will accordingly be higher than that of a CHP. Either way the value estimated by DCF methodology (subject to the covenant to use the asset for community housing in perpetuity) will be significantly less than market value.
- Transfer via a sale is expected to benefit ratepayers as a result of income returns from reinvested capital or a positive impact from recycling the capital, together with avoided costs equivalent to circa $2.2m and $2.3m per annum.
- Additionally, a transfer to a CHP or Kāinga Ora would benefit the tenants; potentially, eligible tenants for IRRS (we estimate to be 90% of current cohort) would experience a decrease in their rent contribution from 30% to 25% of net income. This benefit would be realised (almost) immediately by the eligible existing tenants with a transfer to Kāinga Ora and to eligible new incoming tenants under a transfer to a CHP.

* The income threshold ($761.50 p/w) is the maximum household income that a tenant is able to earn to be eligible for a council housing unit

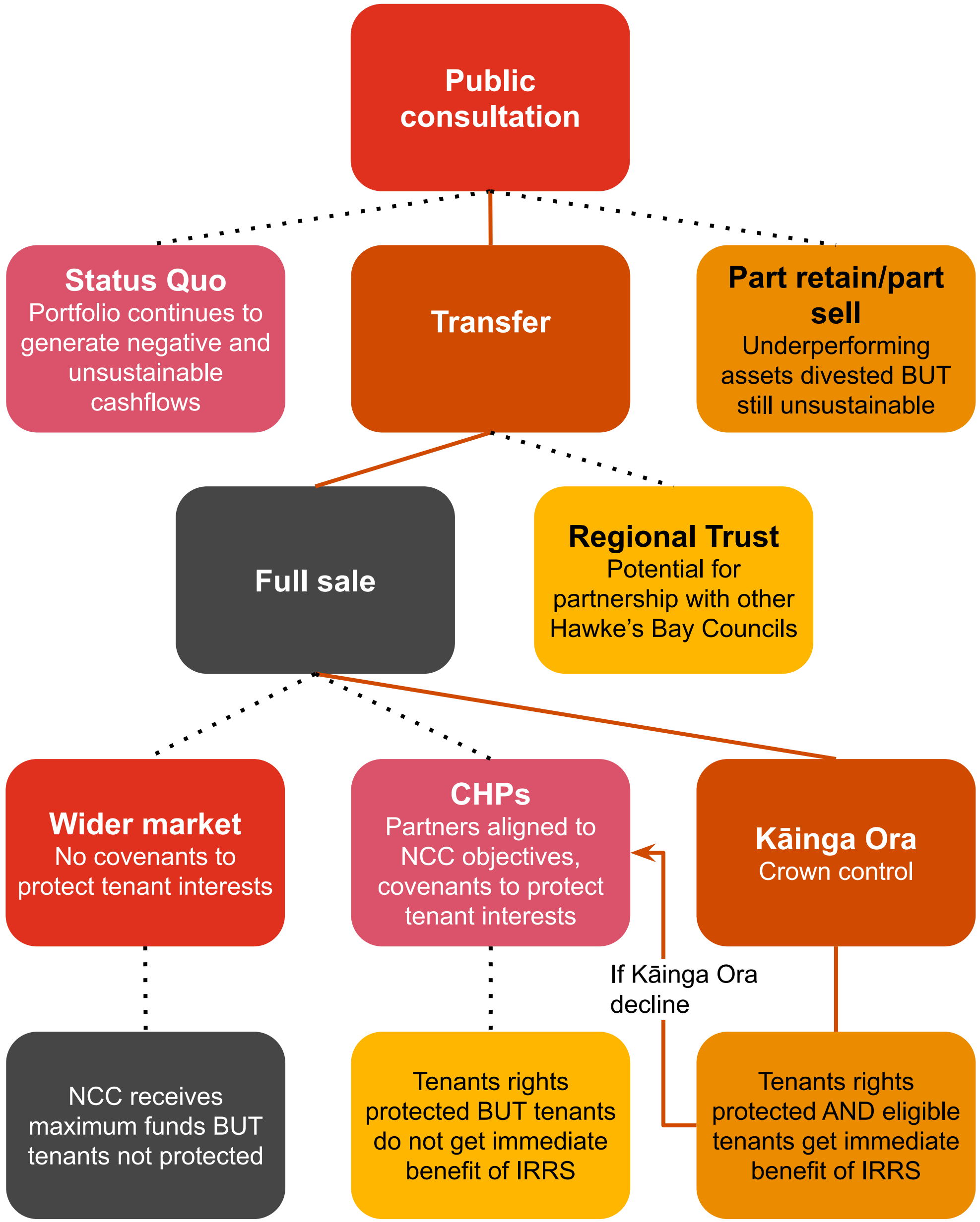
Executive summary cont.

Recommended pathway

NCC has a mid-sized and aging portfolio of housing which requires significant capital investment over the next 25 years with an estimated annualised cost to the ratepayers of circa $2.2m (excluding financing) to meet the shortfall if the Status Quo is retained. Actively managing the portfolio (part retain/part sell option) in-house does not improve the financial position and creates additional complexity. A portfolio transfer by way of an asset sale to an established CHP or Kāinga Ora appears to represent the best value for money option for NCC to meet its community housing objectives. This option is expected to improve tenant wellbeing via access to wrap-around services; structured correctly this option could:

- Provide secure and affordable tenure for council housing tenants;
- Potentially deliver better, 'wrap-around' services for the tenants and potentially improve tenants' financial position with decreased rental contribution relative to their net income;
- Likely facilitate growth in the volume and quality of housing stock within the portfolio through access to Crown subsidies;
- Improve financial outcomes for ratepayers, by transferring an otherwise ongoing liability.

If a transfer option is to be pursued by NCC, approaching Kāinga Ora to discuss options in the first instance would be a logical first step.



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Project review - previous work key outcomes

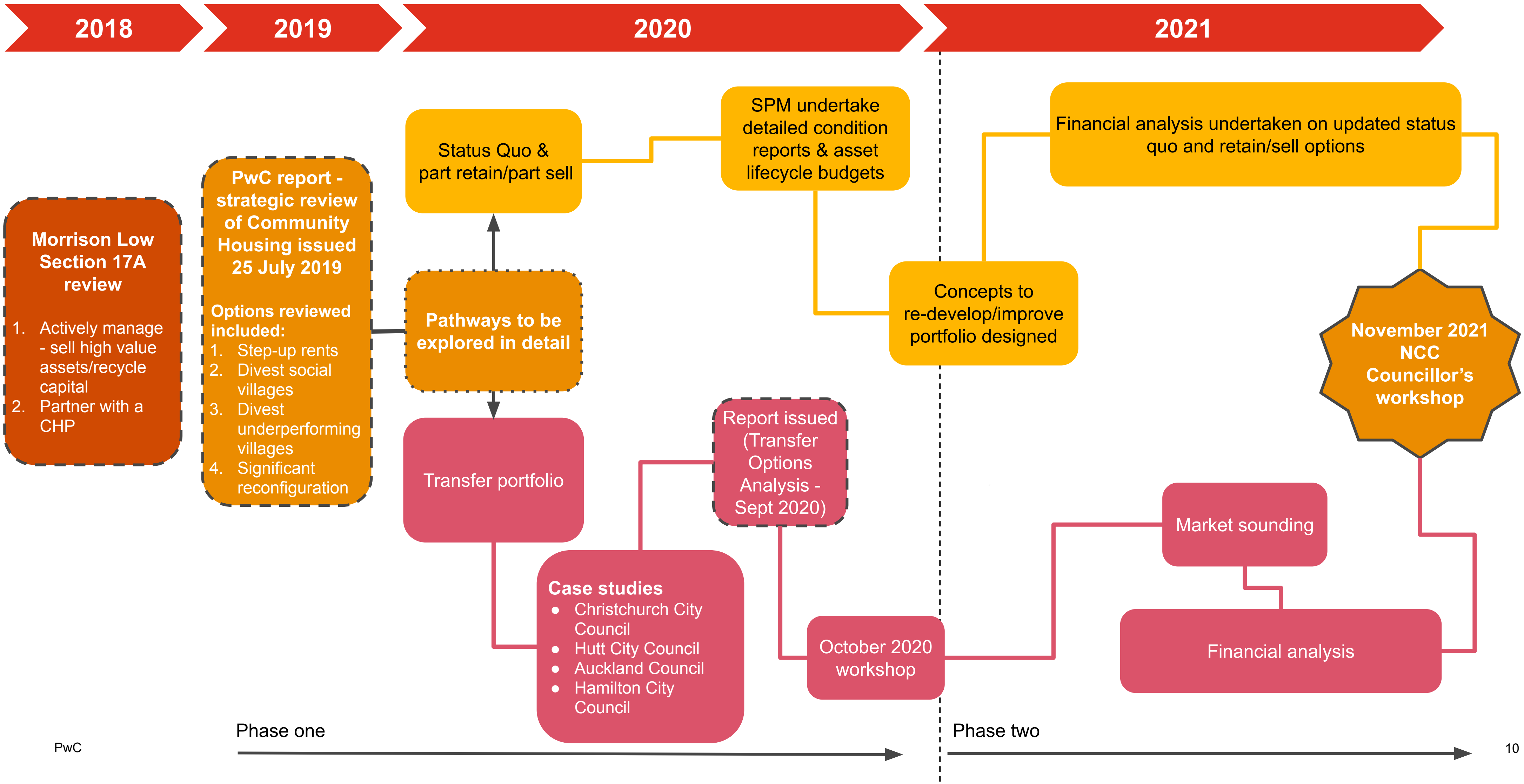
Project progression since 2018

Project Overview

This page presents an overview of the work undertaken by PwC (following the Section 17A review of NCC's Community Housing portfolio undertaken by Morrison Low in 2018) and subsequent PwC July 2019 strategic review which sought to identify pathways to achieve financial sustainability.

Phase two work

Phase two work compromised the development and evaluation of the two main pathways identified in the 2019 report; retain (either as status quo or part retain/part sell) vs transfer of the housing portfolio. This report focuses on our Phase two work,



Key outcomes of October 2020 workshop

We summarise below the evaluation criteria the NCC Councillors worked through at the October 2020 ‘Transfer Options’ workshop when comparing the differing transfer options to agree the preferred transfer option to be evaluated in detail against the Status Quo and part retain/part sell options.

The general consensus was that the **sale or lease of property stock to a CHP was the preferred transfer option to evaluate in detail** with two key requirements that it must be Retirement housing in perpetuity; a first right of refusal if the acquirer sold the property.

Achieving City and Community Goals

- Improve village amenity and site optimisation
- Contribute to Council Strategy, the district plan, long term plan and the HPUDS

Quality Fit for Purpose Housing

- Increased social housing provision
- Increased housing stock in the city

Protecting Tenants’ Interests

- Tenancy on the same or better conditions
- Increased access to wrap-around services

Sustainable Financial Outlook

- No ongoing liability for Council
- No ratepayer burden
- Assets are financially self-sufficient, including maintenance and regeneration

Limited Complexity

- Clean transaction with single CHP
- No decanting or tenant impact
- Exit from assets with Council exposure removed
- Limited exposure to market/commercial risk

NCC Ability to Replicate

- Additional resource and investment required
- Comparable portfolio scale
- Comparable Council expertise and capacity

Key outcomes of October 2020 workshop cont.

The October 2020 ‘Transfer Options’ workshop with NCC Councillors involved reviewing PwC’s work associated with identifying and analysing alternative transfer options adopted by other New Zealand councils in relation to their housing portfolios. Set out below are the key observations in context to NCC.

The options reviewed included:

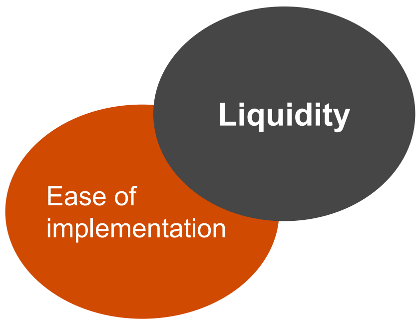
- Formation of a Trust partnership with a CHP - Lease - Christchurch City Council
- Formation of a CCO - Hutt City Council
- Formation of a Limited Partnership with a CHP - Peppercorn Lease - Auckland
- Sale to a CHP - Hamilton City Council

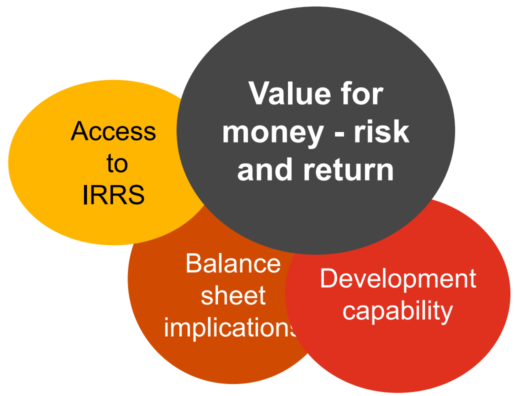
Observations

- Sale to private market investors has low alignment with NCC’s evaluation criteria;
- CHP status and access to Crown funding streams (IRRS and Operating supplements) are **critical** for developing a sustainable commercial model that can grow social housing stock and renew the portfolio without creating a burden for ratepayers;
- Transfer to a CHP (combined with contractual covenants) can protect existing communities and tenant rights;
- CHPs generally have a primary social focus with broader networks to social service and community-based organisations enabling better social outcomes;
- Scale of portfolio and in-house capability are major drivers for creation of new CHP structures (versus transfer to existing CHP);
- The leasing model does not generally transfer asset risk/forecast liabilities (costs) of the housing portfolio, it does not release capital and it requires performance monitoring and governance resources;
- Across all delivery models where Council retains an interest, demand for specialised human capital must be considered; and
- Kāinga Ora has emerged as the major player in the public housing sector. They may present an alternative to the CHP sector.

NCC context

- Small/mid-sized and ageing portfolio;
- Requires significant capital investment ~$80m over the next 25 years (SPM forecast);
- The size and capability of NCC’s current in-house property and tenancy team significantly limits the ability to actively manage and grow/renew the portfolio;
- In this context, the portfolio transfer option, by way of an asset sale to an established CHP, as demonstrated by Hamilton City Council, has good potential to align with NCC’s evaluation criteria;
- This transfer option, structured correctly, has potential to:
  - provide secure and affordable tenure for Council housing occupants;
  - improve financial outcomes for ratepayers;
  - potentially deliver a higher quality and broader service;
  - minimise the complexity of the process; and
  - enable growth in the volume and quality of housing stock within the portfolio through access to Crown subsidies.





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Status Quo

Methodology, approach and assumptions

A revised version of the analysis undertaken in 2019 following a detailed asset condition report on the assets

Overview

Under the Status Quo, our core evaluation assumptions were as follows:

- All Social and Retirement villages remain within the portfolio and NCC continues to operate the portfolio in the same way;
- Rental subsidies and rent setting policy remain unchanged. No additional income streams are added;
- Rents for both Retirement and Social villages grow at a rate of 3% per annum (at the upper end of RBNZ inflation target)*;
- Local and regional rates charges against the villages are included; and
- Direct and overhead costs are derived from the 2021-2031 LTP (except for CAPEX - explained later on this page) and we have applied varying levels of cost inflation to these based on index data.

Our approach

As in our July 2019 report, our analysis has focused on the ‘Net cashflow position’ (Net operating income after R&M and after planned CAPEX) of each village and the portfolio as a whole.

Net cashflow position is a performance measure that removes non-cash expenses (depreciation) to understand the cash outflows associated with asset renewals across the portfolio. It represents the cash surpluses/(deficits) generated by the portfolio, once operational costs and asset renewals are considered.

The ultimate test of sustainability is the cumulative net position of the portfolio in the long run. The portfolio is able to sustain small losses in the short term, as Council can support the portfolio through rates - but to be sustainable in the long term, there must be cash surpluses to offset any cash deficits.

To better understand the condition of the portfolio, SPM Assets completed a detailed condition assessment of all 377 units in the portfolio. This provided unit-by-unit CAPEX forecasts over a period of 25 years (2021 to 2046). In our experience this data only has regard to materials and labour costs and excludes decanting and other associated costs to implement.

Assumptions

We assumed an opening cash balance of zero as there was no opening cash balance in the LTP provided by NCC. Therefore, we are only considering the cashflow effects of those activities included in our forecast.

Net cashflow figures presented in this report (unless explicitly stated otherwise) exclude depreciation and interest charges. By doing so, figures only relate to cash expenses and exclude the financing effects of loans that have been taken out in the past.

When considering the Status Quo, we used figures from the 2021-2031 LTP. This captures all revenues and costs associated with NCC’s housing portfolio.

However, we made two key adjustments between the figures in the LTP and the figures used in our financial model that informs forecast cashflows:

- Revenue - instead of using LTP forecast revenues, we modelled revenue ourselves. To forecast revenue in the future, we took actual rates (accurate as of April 2021) charged to different types of tenants and multiplied them by the number of units at each village.
- CAPEX - SPM’s outputs were used as forecast CAPEX spend instead of the forecast CAPEX in the LTP. The LTP forecast CAPEX spend is lower than SPM’s and based on our experience of Council’s historical tendency to underinvest in the portfolio we have relied on SPM’s forecast CAPEX as a more realistic level of investment that would be required for NCC to maintain its portfolio over the next 25 years.

*We made a key assumption that NZ Superannuation rates increase by a rate of 3% annually and therefore, policy rents increase at 3% annually. As inflation targets were 1 - 3%, this assumption maintains stability in the model, as the rate of policy rental increases should be similar to increases in expenses.

Status Quo analysis

Revenue analysis

Since PwC's 2019 report, NCC changed the rent setting policy to accommodate tenant 'affordability' recognising the two key tenant cohorts. NCC's current rental policy is:

- Retirement - 30% of net NZ Superannuation (adjusted every July).
- Social - 92% of market rent (to a maximum of 30% of household income).

NCC's policy change resulted in some tenant's rental increasing and some decreasing, and the overall net additional cashflow was insufficient to offset the increased costs in the 2021-2031 LTP (albeit it did increase income from rents overall). The net cashflow position of the portfolio is, on average, worse today than it was in 2019 (as shown in the following graph).

As is the case with many other councils in New Zealand with rental policies set to a percentage of market rent, the social housing policy rent is not currently being met because rents are generally aligned to the tenant's income and ability to pay. Therefore rents have fallen substantially below those policy targets. Within the first years of our forecast, our model estimated that NCC's portfolio achieves on average, circa 43% of forecast market rents (as shown in the adjacent tables).

R&M and CAPEX analysis

To better understand the physical status of the portfolio, in 2019 NCC commissioned SPM Assets to complete a detailed condition assessment of the entire portfolio. All 377 units in the portfolio were inspected by SPM and this assessment was used to generate a programme of works from 2020 to 2046.

The programme of works indicated that the portfolio required significantly more investment in R&M and CAPEX in the immediate future to maintain safe and healthy homes for tenants. This assessment informed the 2021-2031 LTP, where the amount allocated to R&M and CAPEX was significantly increased compared to the 2018-2028 LTP.

SPM's work provided an independent expert estimate of the cost of retaining the portfolio in the long term. If NCC wanted to maintain an acceptable level of accommodation for tenants, they would need to invest heavily in the portfolio.

Understanding the true cost to maintain the portfolio is key for NCC and stakeholders when considering the future options for the portfolio.

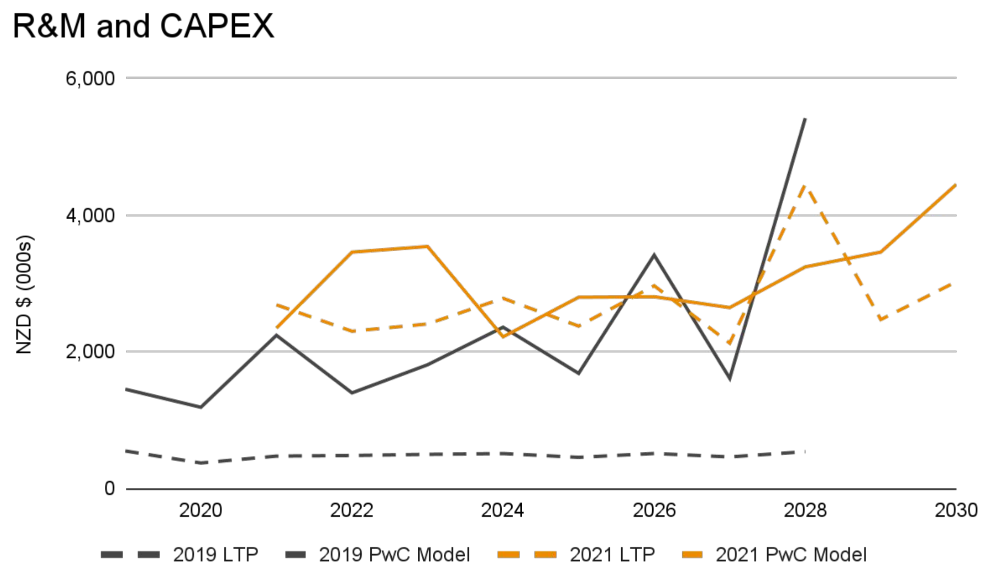
The adjacent graph shows LTP and modelled figures for R&M and SPM figures for CAPEX as in 2019 and in 2021, respectively.

Per unit rent per annum basis

	2021	2022	2023	2024	2025
Average policy rent	$6,694	$6,946	$7,154	$7,389	$7,590
Market rent	$15,520	$15,985	$16,465	$16,959	$17,467
Policy vs market	43%	43%	43%	44%	43%

Portfolio rent per annum

	2021	2022	2023	2024	2025
Average policy rent	$2,523,665	$2,618,639	$2,697,188	$2,785,700	$2,861,427
Market rent	$5,850,862	$6,026,388	$6,207,180	$6,393,395	$6,585,197
Policy vs market	43%	43%	43%	44%	43%



Status Quo analysis cont.

Over the period to 2046 the annualised cost to the ratepayer to fund the shortfall will be circa $2.2m (excluding financing)

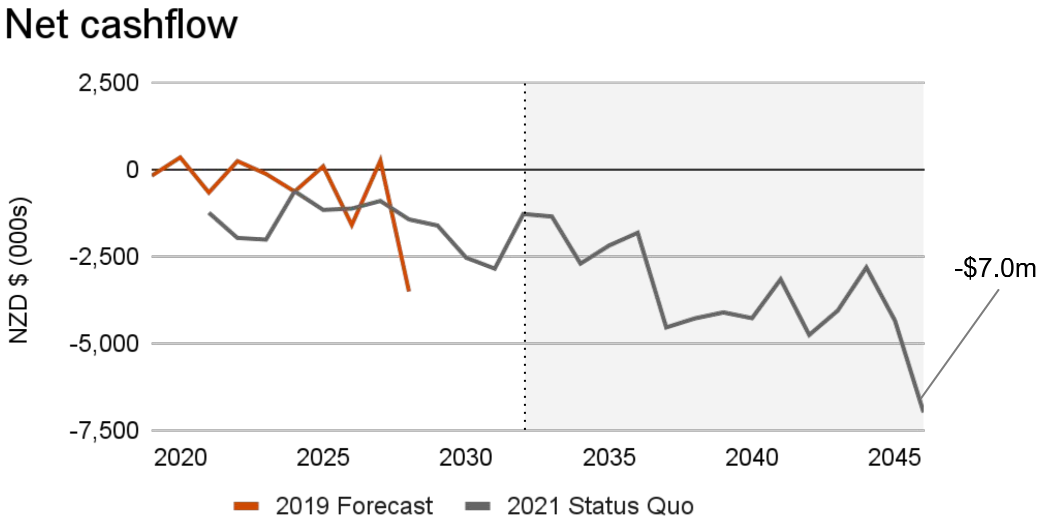
2019 Status Quo forecast cashflows vs revised

During our initial 2018-2019 engagement with NCC, we analysed the forecast cashflows of the portfolio using the 2018-2028 LTP. This forecast estimated nominal accumulated cash shortfall of circa $5.2m to 2028. Relative to the 2019 forecast, the portfolio is now (as a result of a better understanding of deferred maintenance and CAPEX) forecast to run at a larger cash deficit - **a predicted nominal accumulated cash shortfall of circa $10.5m by 2028 increasing to $70.0m by 2046** (refer table below).

The adjacent chart compares the 2019 net cashflow forecasts to the revised forecasts of this report. The 'jagged' cashflows are due to lumpy R&M and CAPEX - other costs such as rates, insurance and overhead expenses remain relatively constant.

Forecast cash outflows are on a steady downward trend, as the amount of capital required to maintain the aging portfolio increases and the Council's current rent setting policy, aimed to maintain 'affordable' housing, limits its ability to charge market rents. **The largest cash deficit in a year is in 2046, where the cashflow shortfall is expected to be circa -$7.0m.**

This year, this deficit has been covered by NCC through raising debt, which NCC confirms is not sustainable in the long term. Ratepayers will eventually have to fund the deficit from the housing portfolio, and the cost will be further increased by the interest that has been incurred on the aforementioned debt. Over the period to 2046 we have estimated the **annualised cost to the ratepayer to fund the shortfall will be circa $2.2m** (excluding financing).



NZD $ (000s)	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Retirement Rental Income	1,949	2,023	2,083	2,152	2,210	2,276	2,345	2,422	2,487	2,562	2,639	2,726	2,800
Social Rental Income	573	594	612	632	649	669	689	711	731	753	775	801	822
Misc. Income	2	2	2	2	2	2	2	2	2	2	2	2	3
Total Revenue	2,524	2,619	2,697	2,786	2,861	2,947	3,036	3,135	3,221	3,317	3,417	3,529	3,625
(Direct Costs)	-1,927	-1,980	-2,033	-2,084	-2,137	-2,192	-2,250	-2,310	-2,372	-2,435	-2,474	-2,538	-2,604
(Overhead Costs)	-800	-492	-516	-522	-536	-558	-568	-583	-607	-614	-624	-641	-657
EBITDA	-203	147	148	180	188	197	217	242	241	268	318	350	363
Total Capital Expenditures	-1,037	-2,110	-2,159	-803	-1,346	-1,317	-1,120	-1,674	-1,849	-2,798	-3,162	-1,625	-1,712
Net Cashflow	-1,240	-1,963	-2,011	-623	-1,158	-1,120	-902	-1,432	-1,608	-2,530	-2,844	-1,276	-1,349
Opening Cash Balance	-	-1,240	-3,203	-5,214	-5,837	-6,995	-8,116	-9,018	-10,450	-12,057	-14,588	-17,432	-18,708
Free Cashflow from Existing Portfolio	-1,240	-1,963	-2,011	-623	-1,158	-1,120	-902	-1,432	-1,608	-2,530	-2,844	-1,276	-1,349
Closing Cash Balance	-1,240	-3,203	-5,214	-5,837	-6,995	-8,116	-9,018	-10,450	-12,057	-14,588	-17,432	-18,708	-20,056

NZD $ (000s)	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046
Retirement Rental Income	2,884	2,970	3,068	3,151	3,246	3,343	3,453	3,547	3,653	3,763	3,886	3,992	4,111
Social Rental Income	847	873	901	926	953	982	1,014	1,042	1,073	1,105	1,142	1,173	1,208
Misc. Income	3	3	3	3	3	3	3	3	3	3	3	3	4
Total Revenue	3,733	3,845	3,972	4,080	4,202	4,328	4,470	4,592	4,729	4,871	5,031	5,168	5,323
(Direct Costs)	-2,672	-2,742	-2,813	-2,886	-2,961	-3,038	-3,117	-3,198	-3,281	-3,367	-3,454	-3,544	-3,636
(Overhead Costs)	-674	-692	-710	-728	-747	-767	-787	-807	-828	-849	-872	-894	-917
EBITDA	387	412	449	465	494	523	566	586	620	655	705	730	769
Total Capital Expenditures	-3,087	-2,593	-2,264	-4,998	-4,766	-4,624	-4,833	-3,738	-5,367	-4,702	-3,517	-5,067	-7,737
Net Cashflow	-2,700	-2,181	-1,815	-4,532	-4,273	-4,101	-4,266	-3,151	-4,747	-4,047	-2,811	-4,338	-6,967
Opening Cash Balance	-20,056	-22,757	-24,938	-26,753	-31,285	-35,558	-39,659	-43,925	-47,076	-51,823	-55,871	-58,682	-63,020
Free Cashflow from Existing Portfolio	-2,700	-2,181	-1,815	-4,532	-4,273	-4,101	-4,266	-3,151	-4,747	-4,047	-2,811	-4,338	-6,967
Closing Cash Balance	-22,757	-24,938	-26,753	-31,285	-35,558	-39,659	-43,925	-47,076	-51,823	-55,871	-58,682	-63,020	-69,987

Status Quo analysis cont.

Status Quo maintains status quo for the current tenants at the cost to ratepayers and does not contribute to the growing future community housing needs

Achieving key outcomes

Maintaining the Status Quo does not achieve 'City and Community Goals' of improved amenity and site optimisation as the dated units remain, albeit with some slight improvement through increased CAPEX spend. Recent changes to the RTA (Residential Tenancies Act) now present additional challenges in NCC's ability to maintain it's Community Goals by constraining its ability to manage and ensure the housing remains occupied by eligible tenants. Changes to the RTA prevent the ability to terminate a tenancy on the grounds that a tenant no longer meets the income or assets thresholds. Whilst CHPs and Kāinga Ora have been granted exemptions to this restriction, local Councils are classified as 'private owners' and do not therefore enjoy this exemption.

Without external funding from third parties or increasing ratepayer contributions (or debt) there is no ability to increase community housing stock or redevelop the existing stock to meet changing tenant demands.

Existing tenants' interests are protected as their tenancies remain. However, the current level of services provided will remain i.e limited to basic tenancy management services which are no longer comparable to the increasing 'wrap-around' services provided by Kāinga Ora and CHPs.

As mentioned, the Status Quo is not financially sustainable and the financial position of the portfolio steadily worsens across the forecast period.

Whilst there is no financial impact on the tenant, there is an increasing financial burden to the ratepayer with an indicative annualised cost of circa $2.2m p.a. to be met. That is, the ratepayers need to invest circa $2.2m (in 2021 dollars) every year for the next 25 years to meet the cash shortfall (to break-even) generated by the portfolio over the corresponding years. This financial burden will be further emphasised with the reduction in Council rates revenue due to the proposed Three Waters reform; the proportion of rating revenue being applied to subsidised housing will increase.

The Status Quo simply maintains status quo for the current tenants at the cost to ratepayers and does not contribute to the growing future community housing needs of the wider community.

	Status Quo
Achieving City and Community Goals	✗
Quality Fit for Purpose Housing	✗
Protecting Tenants' Interests	✓
Sustainable Financial Outlook	✗
Tenant financial impact	—
Ratepayer financial impact	↓ Annualised ratepayer contribution of circa ~$2.2m to fund Status Quo

Status Quo sensitivity analysis

Financial sustainability is achievable with retirement policy rent set @ ~78% market rent equating to ~49% of a retiree's income

Affordable vs using a blended rate subsidised rents

NCC's current rent setting policy, aimed to maintain 'affordable' housing, means it receives only 30% of the net NZ Superannuation allowance from retirement tenants and a maximum of 30% of household net income from social tenants. There are a small number of tenants who pay slightly more than this as their income and/or assets are over the threshold.

NCC's net income threshold set for social tenants is currently $762 p/w opposed to the NZ Superannuation rate for a single occupant of $437 p/w (2021). We have assumed that these are the maximum incomes for eligible NCC tenants and accordingly rents are set at 30% of these levels.

To increase profitability and make the portfolio sustainable in the future, NCC could switch from an 'affordable' rental policy to a 'subsidised' policy, whereby NCC would still provide accomodation at a discounted rate but linked to a set percentage of the market rate. This could enable the council to meet its R&M and CAPEX obligations, and potentially increase the level of service it provides tenants (depending on the percentage of market rent set).

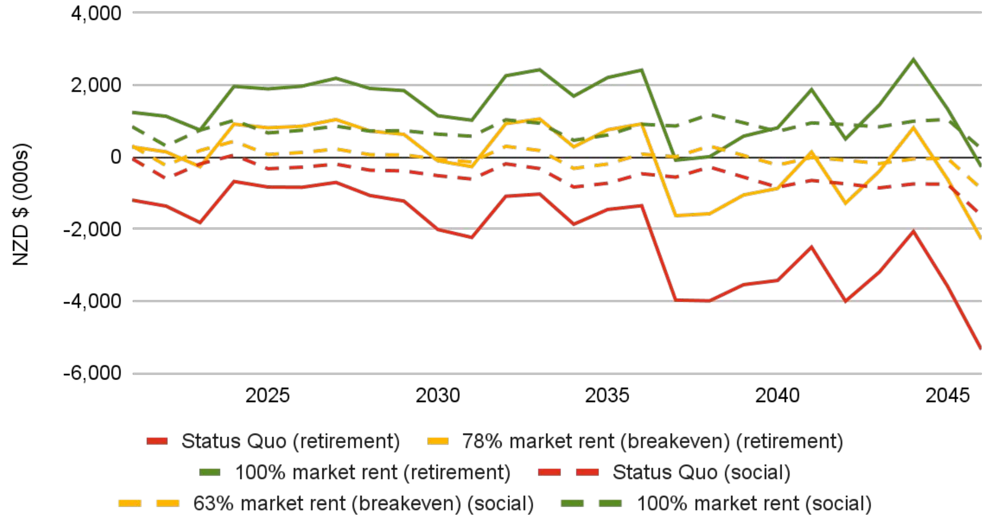
The adjacent tables and graphs demonstrate the impact on the cashflow relative to the percentage of market rent received (for both retirement and social villages). We have estimated that retirement policy rent would need to be set at around **78% of market rent over the next 25 years to break even**. This would equate to 49% of an individual retirement tenant's income. For a social tenant, we have estimated the policy rent would need to be circa 63% of market rent over the next 25 years. This would equate to 32% of an individual social tenant's income.

While this would be beneficial to NCC and its ratepayers, an increase of this level of rent is unlikely to be affordable to current retirement tenants (typically rent of circa ⅓ of income is considered affordable), but it could be affordable to other retirees who sit at the lower end of the private rental market. Under a 'subsidised' rental policy, NCC could still provide housing to its retired constituents, however, it may not be providing it to those with the greatest need.

An issue with setting policy rent as a percentage of market rent is that large year-on-year increases in market rent can make policy rent unaffordable. We note that rents rose 15.5% on average in the year to June 2021 - an increase that would likely be unaffordable for most tenants on fixed incomes.

While rent increases may potentially be unpopular with current tenants, the opportunity for the housing to remain with Council may outweigh these concerns, while also not impacting on ratepayers.

Rent setting impact on Status Quo cashflows



Rental policy % of market rent	% of 2021 super single rate ($437 p/w)	% of individual social tenant income threshold ($762 p/w)	Annualised net cashflows	Cumulative nominal position after 25 years
Retirement (market rent ~$276 p/w)				
Current - 45%	28%	n.a.	-$2.17m	-$56.40m
Breakeven - 78%	49%	n.a.	$0.00m	$0.00m
100%	63%	n.a.	$1.42m	$37.01m
Social (market rent ~$387 p/w)				
Current - 39%	n.a.	20%	-$0.52m	-$13.59m
Breakeven - 63%	n.a.	32%	$0.00m	$0.00m
100%	n.a.	51%	$0.79m	$20.52m

3

Part Retain/Part Sell option

Methodology, approach and assumptions

Overview

PwC's 2019 strategic review analysed several scenarios / pathways to achieve financial sustainability. Of these pathways, 'Scenario 4a' was, although complex, identified as the most likely to support financial sustainability and it was this scenario that was agreed to be compared against the Status Quo option and Transfer option.
The part retain/part sell option assumes:

- The three Social villages (underperforming assets) are divested and the sale proceeds reinvested;
- All Retirement villages remain within the portfolio and NCC continues to operate the portfolio in the same way;
- Rental subsidies and rent setting policy remain unchanged. No additional income streams are added;
- Rents for Retirement villages grow at a rate of 3% per annum (at the upper end of RBNZ inflation target);
- Greenmeadows East Village's vacant land (~circa 9,300m^2) is intensified with additional Retirement housing; and
- The existing four houses on Hastings/Munroe site are demolished and redeveloped with new units for market rent to subsidise the Community Housing portfolio.

Our approach

To develop this concept into a detailed scenario for financial analysis we worked with the following parties:

- NCC urban planners to establish the likely permissible site coverage, heights, housing typology, infrastructure requirements etc to provide guidance to the design architects and review and test concepts presented.
- Young + Richards (architects) - selected via a Request for Proposal (RFP) process to provide high level concepts for both sites. Young + Richards has experience in the community housing sector, working with Kāinga Ora and other Councils to design developments of similar size and typology. Concepts from Young + Richards were completed with the intent of providing low-cost social rental units that would be able to accommodate senior and some disabled tenants, applying 'Good Quality Social Housing' practices consistent with Kāinga Ora's requirements.
- Rider Levett Bucknall (RLB) (quantity surveyors) who provided estimates as at February 2021 inclusive of all development costs including fees, housing, landscaping, demolition, utility provision and connection, landscaping, roadways and vehicle crossings. Housing was assessed at Good Quality Social Housing with all amenities including heating, basic appliances and window treatments. Fencing has been allowed to all separate properties. GST, land purchase and potential Resource Consent hearing costs were excluded. RLB's cost estimates include 7.5% contingency and 16% cost escalation to 2026.

Following consultation with NCC urban planners, the concepts from Young + Richards that were adopted included (as shown on page 20):

- Greenmeadows East (net increase 38 units) - 12 x 1-bed units, 8 x 2-bed terraced units, 8 x 1-bed walk-up units, 10 x 2-bed walk-up units, primarily for retirees.
- Hastings/Munroe (net increase 7 units) - demolition of 4 units and creation of 11 new units - 7 x 2-bed terraced units, 4 x 3-bed terraced units.

Assumptions

We made the following assumptions (among others) for our cashflow model:

- Divestment of the three Social villages will occur first to assist funding the development works;
- Sale prices for the divested villages are established on a discounted cash flow (DCF) basis, assuming a CHP purchases these sites with sitting tenants and policy rent switches to market rent (via IRRS) at a rate of 15% annually (current turnover rate);
- Development works will commence at Greenmedows East to accommodate eligible tenants. Construction will be phased enabling some tenants to move in while remaining units are completed. Construction costs on the Redeveloped villages will be realised in a linear fashion;
- Commencement of works to Hastings/Munroe is dependent upon existing tenants relocating to new units in Greenmeadows East or other retirement villages (this is highly likely given current tenant turnover);
- Forecast future CAPEX spend on the Redeveloped villages is based on useful lifespans and costs of components and establishing a 'sinking fund'; and
- CAPEX works are allocated to occur predominantly over the warmer months of the year in Quarters 2 and 3 (from 1 October to 31 March).

Part retain/part sell potential timeline

Timeline (as at March 2021)

We adopted the following timeline in modelling the cashflows associated with part retain/part sell. The assumed date of disposal of Social villages is 1 July 2022 (the start of FY23) and both developments will be completed by 1 April 2027.

This timeline was developed following the guidance of RLB, in March 2021, who have estimated the length of each project and overall cost of the development process. The overall timelines will be dependent upon start date.

Key assumptions are as follows:

- 16% cost escalation to 2026;
- 7.5% contingency; and
- Zero cost for land purchase and resource consents.

See Appendix 2 for RLB's estimates.

Indicative construction timeframes (as advised by Quantity Surveyors, RLB)

Greenmeadows East		Hastings/Munroe	
Development planning	10 - 12 months	Development planning	6 - 9 months
Land & infrastructure development	8 - 10 months	Land & infrastructure development	4 - 6 months
Housing and construction	16 - 18 months	Housing and construction	8 - 10 months
Total	34 - 40 months	Total	18 - 25 months
Estimated cost (incl. contingency and escalation)	**$18.64 million (excl. GST)**	Estimated cost (incl. contingency and escalation)	**$6.32 million (excl. GST)**

FY23
- Disposal of Community villages and **Greenmeadows East** development planning commences

FY24
- **Greenmeadows East** land and infrastructure development commences

FY25
- **Greenmeadows East** housing construction commences
- **Hastings Munroe** development planning commences

FY26
- **Greenmeadows East** development completed **Hastings Munroe** demolition, land and infrastructure development commences

FY27
- **Hastings Munroe** development completed
- **Hastings Munroe** housing construction commences

Part retain/part sell redevelopment opportunities

Greenmeadows East - concept only

Hastings Munroe - concept only

Part retain/part sell cashflows

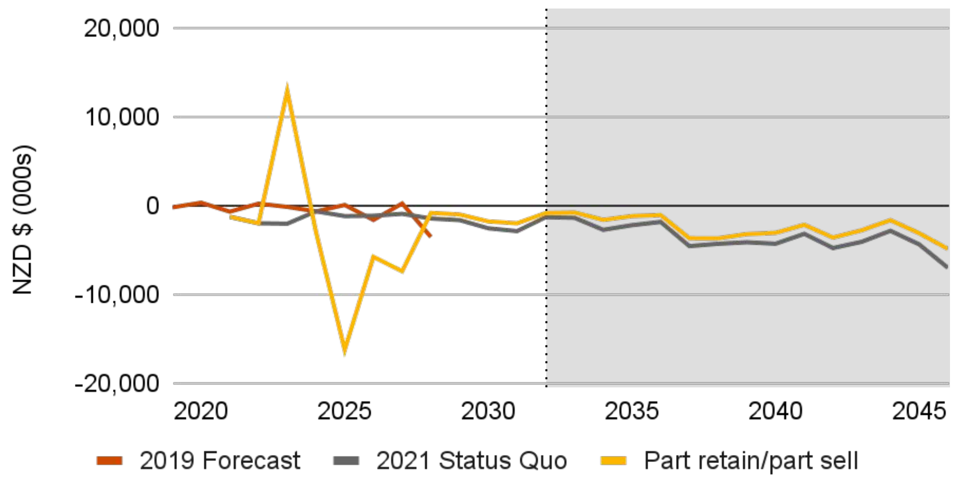
Part retain/part sell only marginally improves the cashflow position after 2028 - the cashflow injection from sale proceeds and rent from increased units falls short of redevelopment costs

Retain/Sell forecast cashflows

Under the part retain/part sell scenario, we assumed that the three Social villages (Carlyle, Nelson and Wellesley) will be divested at the beginning of FY23 with the sale proceeds contributing to the redevelopment costs for Greenmeadows East and Hastings/Munroe. While the current market valuation of these three villages is circa $16.2m (as at 2020), this market valuation represents highest and best use (e.g. capitalised ‘market’ rent, or redevelopment value). On a DCF basis relative to actual contract, the transaction value would be materially lower than the ‘market’ value assuming a CHP purchases these sites with sitting tenants and policy rent switching to market rent (via IRRS) at a rate of 15% annually (current turnover rate); likely close to 40% to 70% of unencumbered market value. Consequently, as illustrated in the adjacent graph, the sale proceeds will not cover the cost of the additional units.

The cashflows of the part retain/part sell scenario are marginally improved relative to the Status Quo after 2028 primarily due to the net increase of new units and the ability to lease the 11 units at the redeveloped Hastings/Munroe village at market rates. However, despite improving the later year cashflow position of the portfolio, the part retain/part sell option will not achieve breakeven with **a predicted nominal accumulated cash shortfall of circa $23.3m by 2028 increasing to $64.9m by 2046** (refer table below).

Net cashflow



Over the period out to 2046 we have estimated the **annualised cost to the ratepayer to fund the shortfall will be circa $2.3m** (excluding financing).

NZD $ (000s)	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Retirement Rental Income	1,949	2,023	2,083	2,152	2,196	2,247	2,315	2,391	2,456	2,529
Social Rental Income	573	594	161	9	9	9	9	10	10	10
Misc. Income	2	2	2	2	2	2	2	2	2	2
Total Revenue	2,524	2,619	2,246	2,162	2,207	2,259	2,326	2,403	2,468	2,542
(Direct Costs)	-1,927	-1,980	-1,714	-1,648	-1,642	-1,635	-1,679	-1,723	-1,769	-1,816
(Overhead Costs)	-800	-492	-418	-389	-397	-411	-418	-429	-447	-452
EBITDA	-203	147	114	125	168	212	230	251	251	274
Total Capital Expenditures	-1,037	-2,110	-2,159	-803	-964	-975	-854	-1,233	-1,388	-2,193
Net Cashflow	-1,240	-1,963	-2,045	-678	-796	-763	-624	-982	-1,137	-1,920
Opening Cash Balance	-	-1,240	-3,203	9,692	6,738	-9,444	-15,179	-22,535	-23,336	-24,314
Free Cashflow from Existing Portfolio	-1,240	-1,963	-2,045	-678	-796	-763	-624	-982	-1,137	-1,920
Village Disposal Proceeds	-	-	15,044	-	-	-	-	-	-	-
(Village Redevelopments)	-	-	-104	-2,276	-15,370	-4,943	-6,773	-	-	-
Incremental FCF from Village Redevelopments	-	-	-	-	-16	-30	41	182	159	161
Closing Cash Balance	-1,240	-3,203	9,692	6,738	-9,444	-15,179	-22,535	-23,336	-24,314	-26,073

NZD $ (000s)	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046
Retirement Rental Income	2,605	2,691	2,764	2,847	2,932	3,029	3,111	3,204	3,300	3,409	3,501	3,606	3,715	3,836	3,941	4,059
Social Rental Income	11	11	11	12	12	12	13	13	13	14	14	15	15	16	16	17
Misc. Income	2	2	2	3	3	3	3	3	3	3	3	3	3	3	3	3
Total Revenue	2,618	2,704	2,778	2,861	2,947	3,044	3,126	3,220	3,317	3,425	3,519	3,624	3,733	3,855	3,960	4,079
(Direct Costs)	-1,846	-1,894	-1,943	-1,993	-2,045	-2,099	-2,153	-2,209	-2,266	-2,325	-2,386	-2,448	-2,512	-2,577	-2,644	-2,713
(Overhead Costs)	-459	-471	-484	-496	-509	-522	-536	-550	-564	-579	-594	-609	-625	-641	-658	-675
EBITDA	313	339	351	371	392	423	437	461	486	521	539	567	596	637	658	691
Total Capital Expenditures	-2,443	-1,322	-1,279	-2,132	-1,742	-1,668	-4,289	-4,334	-3,891	-3,801	-2,918	-4,400	-3,610	-2,529	-4,028	-5,835
Net Cashflow	-2,129	-983	-928	-1,761	-1,350	-1,245	-3,852	-3,872	-3,406	-3,280	-2,379	-3,833	-3,014	-1,892	-3,369	-5,143
Opening Cash Balance	-26,073	-28,041	-28,853	-29,605	-31,183	-32,341	-33,385	-37,028	-40,684	-43,864	-46,906	-49,040	-52,617	-55,365	-56,977	-60,057
Free Cashflow from Existing Portfolio	-2,129	-983	-928	-1,761	-1,350	-1,245	-3,852	-3,872	-3,406	-3,280	-2,379	-3,833	-3,014	-1,892	-3,369	-5,143
Village Disposal Proceeds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(Village Redevelopments)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Incremental FCF from Village Redevelopments	162	170	176	183	191	202	208	217	226	238	245	256	266	280	289	301
Closing Cash Balance	-28,041	-28,853	-29,605	-31,183	-32,341	-33,385	-37,028	-40,684	-43,864	-46,906	-49,040	-52,617	-55,365	-56,977	-60,057	-64,900

Part retain/part sell cashflows

Part retain/part sell marginally improves housing stock and community goals but at a greater ongoing cost to ratepayers

Achieving key outcomes

Part retain/part sell partially achieves the key outcomes of "Achieving City and Community Goals" by increasing some village amenity, site optimisation, "Quality Fit for Purpose Housing" and by increasing the volume of housing stock in the city. However, as with the Status Quo, recent changes to the RTA will present additional challenges in NCC's ability to maintain its Community Goals by constraining its ability to manage and ensure the housing remains occupied by eligible tenants. As with the Status Quo option, changes to the RTA will prevent the ability to terminate a tenancy on the grounds that an occupier no longer meets the income or assets thresholds.

Retirement village tenants interests are protected as their tenancies remain in place. This would potentially extend to the tenants within the Social villages, dependent upon the sale contract conditions albeit reflective of the sale proceeds received. As with the Status Quo option the current level of services provided will remain i.e limited to basic tenancy management services which are no longer comparable to the increasing 'wrap-around' services provided by Kāinga Ora and CHPs.

Like Status Quo, the part retain/part sell option is not financially sustainable. Even after divestment of underperforming assets and building new units, the portfolio still returns a negative cashflow each year.

There is no financial impact on existing Retirement village tenants with the financial impact on the Social village tenants dependent upon the sale contract conditions.

Despite generating greater cashflows than Status Quo, ratepayers would face a larger annualised contribution of indicatively ~$2.3m due to the requirement to meet the shortfall between sale proceeds of the underperforming assets and the redevelopment and intensification costs. As with the Status Quo option, this financial burden will be further emphasised with the reduction in Council rates revenue due to the proposed Three Waters reform; the proportion of rates dollars going to fund subsidised housing will increase.

In addition to these outcomes, the part retain/part sell option introduces a number of variables, not limited to: scarcity and cost of building supplies, availability of contractors and cost escalation all increasing the complexity of implementation.

	Part retain/part sell
Achieving City and Community Goals	✔ / ✘
Quality Fit for Purpose Housing	✔ / ✘
Protecting Tenants' Interests	✔
Sustainable Financial Outlook	✘
Tenant financial impact	—
Ratepayer financial impact	↓ Annualised ratepayer contribution of circa ~$2.3m to fund Part retain/part sell

Part retain/part sell sensitivity analysis

Financial sustainability is achievable with policy rent set @ ~81% market rent equating to ~52% of a retiree's income

Affordable vs subsidised rents

As with the Status Quo option, to increase profitability and make the portfolio sustainable in the future, NCC could switch from an 'affordable' rental policy to a 'subsidised' policy, whereby NCC would still provide accomodation at a discounted rate but link rent to a set percentage of the market rent. This could enable the council to recover its R&M and CAPEX obligations, and potentially increase the level of service it provides tenants,depending on the percentage of market rent set.

As opposed to the Status Quo option, under this scenario the social villages are divested and the occupants will be retirees only. Therefore, the adjacent table and graph demonstrates the impact on the cashflow relative to the percentage of market rent received for the retirement villages only (post 2023). We have estimated that policy rent would need to be set at around **81% of market rent over the next 25 years to break- even**. While this would be beneficial to NCC and its ratepayers, based on the NZ 2021 superannuation single person allowance rate, 81% of market rent would equate to 52% of an individual retirement tenant's income representing an increase of circa 22% to what is currently paid by the individual retirement tenant.

An increase of this level of rent is unlikely to be affordable to current tenants, but it could be affordable to other retirees who sit at the lower end of the private rental market. Under a 'subsidised' rental policy, NCC could still provide housing to its retired constituents, however, it may not be to those with the greatest need.

An issue with setting policy rent as a percentage of market rent is that large year-on-year increases in market rent can make policy rent unaffordable. We note rents rose 15.5% on average in the year to June 2021 - an increase that would likely be unaffordable for some tenants.

While rent increases may potentially be unpopular with current tenants, the opportunity for the housing to remain with Council may outweigh these concerns, while also not impacting on ratepayers.

Rent setting impact on Part retain/part sell cashflows

Retirement villages only

Rental policy % of market rent	% of 2021 super single rate ($437 p/w)	Annualised net cashflows	Cumulative nominal position after 25 years
45%	28%	-$2.71m	-$70.41m
50%	32%	-$2.34m	-$60.75m
60%	38%	-$1.59m	-$41.43m
70%	44%	-$0.85m	-$22.10m
81%	52%	$0.00m	$0.00m
90%	57%	$0.64m	$16.54m
100%	63%	$1.38m	$35.86m

Case study - Palmerston North

PNCC Community Housing operates at a consistent deficit, requiring ratepayer support and additional borrowings. Given constrained rents, this debt will likely be challenging to repay with portfolio growth increasing liabilities over time

Council held portfolio - During our phase one work when compiling transfer case studies for NCC consideration, we also reviewed and analysed the approach taken by Palmerston North City Council (PNCC) who opted to retain its housing service delivery in-house including demolition and redevelopment of sites. We have set out below our findings in respect of a 'live' example of the Retain option relative to NCC.

17 villages

403 (2015) → **425** (2021)

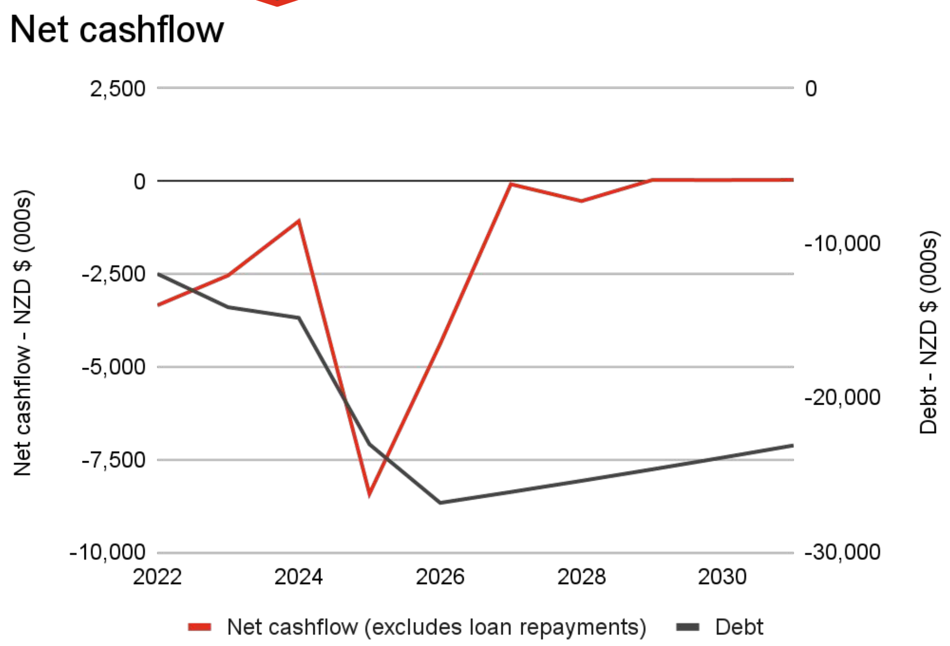
353 units subsidised (25% of tenant's main benefit)
72 units rented at market

In 2015 PNCC, facing similar financial sustainability issues as NCC, conducted an internal review of its social housing service delivery options and decided to retain ownership and control of its portfolio. Management of all portfolio operations, including new development and the capital renewal programmes, are managed in-house by the Council's property and facilities function.

PNCC has a broader tenant target market than NCC, providing housing access to more conventional social tenants, those with disabilities and low income retirees. During development of the 2018-2028 LTP, an increase to market rents (to reduce ratepayer contribution) was proposed but faced significant opposition during public consultation and was rejected. The current rent setting policy is similar to NCC's, being based on percentage of a tenant's main income, although 72 units (17%) of the portfolio are rented at full market rents to assist subsidise costs.

Village redevelopments are gradually being undertaken across the portfolio. The Council is close to completing its first major village redevelopment at Papaeoia Place (~80 units providing a net increase of 30 units). In order to fund the development additional debt was raised and according to PNCC's recent LTP, the level of debt is forecast to increase to a high of $26.8m in 2026 before reducing slightly to $23.1m in 2031 (as shown in the adjacent graph). This debt will be serviced and repaid through revenue over the forecast life of the new units.

Net cashflows become significantly negative in 2026 and 2027 where PNCC expects to bear the cost of constructing additional housing units. The cashflows are then forecast to become approximately neutral. However at this time, PNCC would be facing a relatively low level of R&M and CAPEX on their new units. Additionally, it is anticipating generating cash surpluses (based on increasing land values) from a separate major subdivision project to cover renewal expenditure. Cashflows could become negative again as the units age and become more capital intensive.




New units at Papaioea Place

4

Transfer options

Methodology and approach

Overview

The general consensus from the October 2020 Councillor's workshop was that whilst a sale or lease of property stock to a CHP was the preferred transfer option to evaluate in detail, covenants would be required to protect tenants interest and prevent on selling of the assets. The transfer option therefore assumes that any transfer contract would contain covenants that:

- ensure existing tenancies, under the current terms and conditions, remain in place;
- the portfolio can only ever (into perpetuity) be used to provide housing to Retirement or Community tenants; and
- NCC retains the right of first refusal (on the same DCF basis) if the buyer was to sell the portfolio.

Our approach - market sounding

Market soundings were required to understand the market's appetite for the portfolio in its current state with covenants in place and to ascertain likely key commercial terms. In consultation with NCC's Community Strategies team, a shortlist of parties to approach was established, primarily focussed on parties with CHP status to enable access to IRRS. The list consisted of local Iwi, charitable trusts, CHPs and Kāinga Ora - parties who share common goals with NCC in regard to community housing.

These parties included:

- Ngāti Kahungunu: Kahungunu Asset Holding Company (K3) - registered charity - in process of seeking CHP registration;
- Accessible Properties Limited (APL) - registered charity - registered CHP;
- Whatever It Takes Trust Incorporated (WIT) - registered charity - registered CHP;
- The Salvation Army New Zealand Trust - registered charity - registered CHP;
- Trust House - registered charity - registered CHP;
- Compassion Housing Limited - registered charity - registered CHP;
- Habitat for Humanity New Zealand Limited - registered charity - registered CHP;
- Emerge Aotearoa Housing Trust - registered charity - registered CHP;
- Mana Ahuriri Trust;
- Te Taiwhenua o Heretaunga Trust - registered charity - registered CHP; and
- Kāinga Ora - Crown agency that provides rental housing for New Zealanders in need.

An Information Memorandum (IM), comprising the purpose and key facts about the portfolio was created for circulation to interested parties (in strict confidence) (refer Appendix 3) including data on the following:

- number of villages and units;
- forecast gross rent 2021 vs estimate or market rent received;
- forecast annualised R&M;
- forecast capital expenditure over next 10 years;
- age and typology of units;
- annual tenant turnover;
- estimate percentage of tenants eligible for IRRS; and
- potential development opportunities e.g. Retirement village expansion (Greenmeadows East, Hastings/Munroe).

Video calls (in place of face-to-face meetings due to COVID-19) were held with those parties to ascertain in each case:

- their level of interest and ability to purchase the portfolio (all or part);
- the terms under which they would purchase or manage the portfolio;
- how they would value the portfolio;
- experience purchasing other housing portfolios; and
- ethos and purpose.

The results of these calls helped us to group the parties based on their ability and appropriateness to partner with NCC in the transfer of the portfolio.

Market soundings - parties approached & their responses

Local Iwi, charitable trusts, CHPs and Kāinga Ora

Below we have set out the key highlights from our interviews with the various parties contacted.

Ngāti Kahungunu: Kahungunu Asset Holding Company (K3) (registered charity) - In the process of becoming a CHP. They have been more interested in building their own stock as this provides opportunities for apprenticeships and employment for their whanau. However, they may be interested in purchasing at the 'right price'.

Accessible Properties Limited (APL) (registered charity) - The scale of the portfolio is attractive to APL. In its experience, around 350 units are needed to begin to achieve economies of scale and efficiencies in regard to management. APL has experience in this space, as they purchased a large portion of Tauranga's state housing in 2017.

Whatever It Takes Trust Incorporated (WIT) (registered charity) - WIT would only be interested in providing tenancy management services for a fee (circa 10% - 15% of gross revenue) as they are not in a financial position to purchase. Its expectation is that the R&M and CAPEX costs would remain the responsibility of the Council. They already have a team based in Napier and have experience working in this sector.

The Salvation Army New Zealand Trust (registered charity) - Favour building new units as they are eligible for operating supplement too. They place a lot of value in the community aspect of the villages - community spaces and halls are key. Salvation Army would only be interested in purchasing the portfolio if the price was significantly discounted.

Trust House (registered charity) - Focused on the Wairarapa region. Unlikely to be interested in the purchase of properties. Similar to WIT, it would only be interested providing tenancy management services for a fee (circa 10% - 15% of gross revenue).

Compassion Housing Limited (registered charity) - A partnership between Willis Bond and the Sisters of Compassion. Purchased ~110 units from Horowhenua District Council. Would be interested in a deal if it was 'sensible'.

Habitat for Humanity New Zealand Limited (registered charity) - Have recent experience purchasing units from Hamilton City Council (12) and Waipa (26). Purchases made on condition that tenants were retained and on intrinsic (cashflow) value.

Emerge Aotearoa Housing Trust (registered charity) - Emerge already has a presence Napier, particularly in the mental health and support area. They would require a one-off specific mechanism to purchase the portfolio - with the right partner.

Te Taiwhenua o Heretaunga Trust (registered charity) - Have an agreement with Emerge that Emerge will focus on Napier, and Te Taiwhenua will focus on Hastings. Would be interested if there was a link with Hastings District Council as they consider that they have an established relationship there.

Kāinga Ora - Napier is a priority area for Kāinga Ora, but they prefer to acquire land (for development) that is not tenanted. Very interested in the development opportunities provided, but the Hastings/Munroe site might be difficult due to risk of Tsunami and rising sea levels.

Mana Ahuriri Trust - at the time of our market sounding Mana Ahuriri Trust was not in a position to engage with us.

CHPs' legislative requirements

The Community Housing website notes that typically CHPs are not-for-profit groups, but CHPs can be for-profit entities. All of the CHPs we approached were not-for-profit groups.

From a practical standpoint, it can be hard for CHPs to make profit and it is likely that any surplus made would be required to fund CHP operations or invested to expand their offering given the needs in communities. Accordingly, there may be limited practical value in operating a CHP ostensibly as a for-profit entity. There are always difficulties from a public perception and political perspective; profiting at the expense of the most vulnerable members of society and/or using central government funding to do so. This may affect their ability to receive grant funding or funding from central government mechanisms as well e.g. operating grants.

In regard to tax considerations associated with CHP income (as a high level observation only - not intended to be tax advice), section CW 42B of the Income Tax Act provides that any amount of income derived by a registered CHP is exempt income. However if a CHP were to use the profit from their community housing activities for the private pecuniary profit of an individual or apply it to something outside of the community housing entity or for non charitable purposes, then the CHP's income would not be exempt under this section. That loss of exemption would likely also exacerbate the practical issues with taking a profit stream from a CHP.

Key findings from CHPs

Focus is to invest in the 'golden triangle' - high growth, high need and fair returns; immediate access to IRRS is unlikely

Elements of interest

CHPs were attracted by the size and tenant profile of the portfolio as this scale supports establishment of a local team and resources.

The tenant profile potentially enables access to Crown funding streams (IRRS) but it was noted that this would take time to achieve as ~90% of the 377 tenancies might be eligible, but CHPs can only access IRRS for new incoming tenants.

The development potential (Greenmeadows East and Hastings/Munroe) was another attractive element of the portfolio as CHPs can potentially secure Operating Supplement funding in addition to IRRS for new supply. It was noted, however, that the real value is in 'net' new supply of units i.e Hastings/Munroe with the demolition of four existing units would create a net new supply of seven.

Elements of concern

The primary source of concern from CHPs is the significant capital investment required for CAPEX and R&M. This would need to be factored into the commercial terms of any transfer. To fully understand the condition of the portfolio, CHPs would need to undertake a robust due diligence process, which can be costly.

Securing funding to purchase and develop may be a challenging with the likely requirement to establish joint venture or access additional competitive 'capital'.

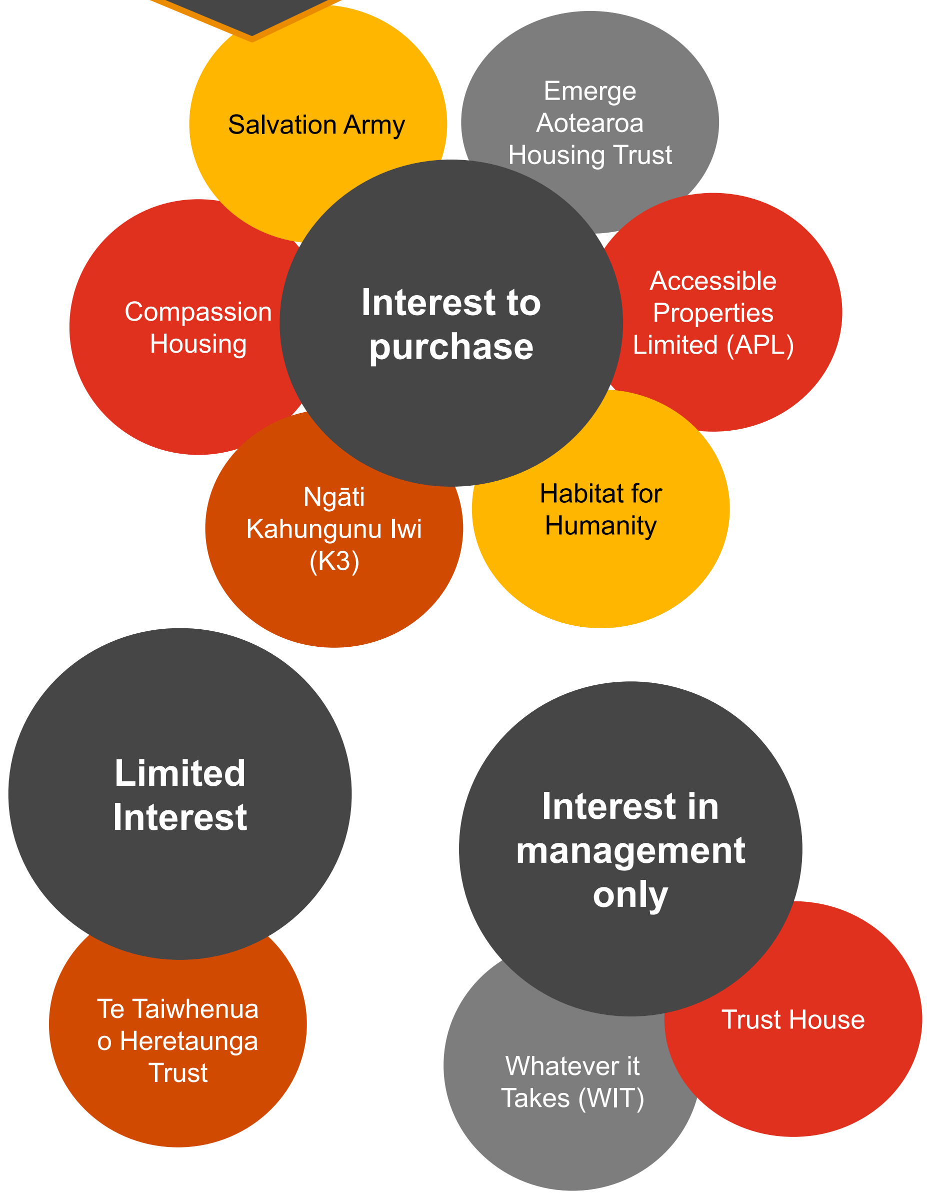
Early consultation with MSD would be essential to ascertain eligiity to access IRRS. Some CHPs fear that existing stock might not meet MSD housing criteria (e.g minimum gross floor area, bedroom sizes and healthy home compliance). Additionally, the time required to transfer the rental profile to market rent via access to IRRS is a concern; understanding tenant turnover would be key.

Other

None of the CHPs preferred a leasing model as the ability to expand and grow the portfolio was seen as key to achieving financial sustainability - preference was for a purchase.

An alternate option to a purchase transfer was the provisions of a management contract under CHP status. Whilst this option would provide increased 'wrap around' tenancy services NCC would retain responsibility for R&M and CAPEX on top of paying 10 - 15% of Gross revenue received to the CHP.

Transfer covenants to protect tenant and community interests are acceptable but will be reflected in the assessment of asset value. CHPs would value this based on a discounted cashflow approach using policy rents (see slide 33).



However - Some CHPs suggested that they would be unlikely to participate in a tender process if Kāinga Ora was a participant - Kāinga Ora with its ability to access IRRS immediately can generally offer better commercial terms.

Kāinga Ora

Key focus areas of Kāinga Ora is 'Additionality' - ability to provide NEW housing supply

Kāinga Ora has emerged as a potential important shareholder in the community housing sector and may present an alternative to the CHP sector as it is the key government entity with the mandate to deliver on social housing.

Focus areas

A key focus area of Kāinga Ora is 'additionality' - the ability to provide additional 'new' housing supply. This is an attempt to address the increasing strains on the public housing sector as more and more people require its services. Opportunities for intensification and redevelopment are therefore sought after by Kāinga Ora.

Napier and the wider East Coast is an area targeted under the latest government Public Housing Plan (2021-2024). Napier has been identified as a location where housing need is urgent due to population growth exceeding new housing development, leading to rising rents and housing shortfall. There are intentions for an additional net supply of 1,287 units from June 2018 to June 2024.

Potential benefits for NCC

The benefits of Kāinga Ora purchasing the portfolio over a CHP is Kāinga Ora's ability to access IRRS immediately, unlike CHPs which can only access IRRS for new incoming tenants.

Immediate access to IRSS will also benefit the NCC's existing eligible tenants (~90%). Generally tenants eligible for and receiving IRRS are only required required to pay 25% of their net incomes or Superannuation payments - currently NCC tenants pay 30%.

Kāinga Ora's immediate access to IRRS might benefit NCC through a (potentially) a higher purchase price. As Kāinga Ora could achieve higher cashflows in the early years after the transfer, their discounted cashflows across the lifetime of the portfolio should, all else equal, be higher (see slide 34). Importantly, however, it would be financially irrational for Kāinga Ora to pay more than 'the next best bidder', and so any price premium cannot be guaranteed.

Potential benefits for Kāinga Ora

The benefit to Kāinga Ora is that they can achieve 'additionality' at pace. With the Hastings/Munroe and Greenmeadows East concepts already developed (with NCC urban planners involvement) these opportunities could be acted upon immediately.

Nelson Case study (sold to Kāinga Ora)

Whilst our meetings with Kāinga Ora indicated its focus was on funding new supply, it was noted that a precedent has been set for the purchase of existing Council owned Community Housing.

In March 2021, Nelson City Council (Nelson CC) transferred its portfolio to Kāinga Ora, which consisted of 142 units across 9 villages (predominantly Retirement units).

The portfolio is younger than NCC's and exhibited less deferred maintenance than that of NCC, but Nelson CC still faced challenges to retain a financially sustainable service.

Nelson CC approached CHPs and Kāinga Ora in 2018 with an interest to transfer the portfolio to secure IRRS. Initial approaches were unsuccessful and Nelson CC considered a disposal on the open market. Not wanting the supply of affordable housing to drop in the region, Kāinga Ora stepped in and agreed to purchase the portfolio.

The purchase price was relative to a 'market rent', reflecting a social covenant and the deferred maintenance. Settlement of the portfolio was concluded in 2021 with all existing tenants eligible for IRRS transferrIng to MSD upon settlement. A sale price of $19.8m was agreed based on 'market rent', with eligible tenants transferring to IRRS immediately. $12m from the sale was available to the Council immediately on settlement to be used to help stimulate a range of affordable housing options in the region. The remainder was held back for up to 15 years for any share of the costs required for units that may undergo retrofitting and renewal, consents for expanding the housing and rent top-ups, should any be necessary, for tenants who are not eligible for the government rent subsidy.

The covenant required Kāinga Ora to retain the portfolio as Retirement and Social housing, not solely Retirement. This is because Kāinga Ora does not distinguish eligible tenants by their age.

In relation to NCC...

Nelson CC's portfolio was smaller than NCC's, and slightly younger. There was on average, around 15 to 20 years of useful life left in the units upon transfer.

NCC has the benefit of additional land at some sites which would offer the opportunity to achieve 'additionality' - something that was not available in Nelson CC's portfolio.

Potential cashflows/valuation considerations

Discounted Cashflow valuation approach

All CHPs we engaged with informed us that they would value the portfolio on a discounted cashflow (DCF) basis. A DCF 'discounts' an asset's future cashflows by a discount rate to reflect the opportunity cost of any investment and the time value of money. For example, $1 received five years from now is less valuable than $1 today as you could invest today's dollar and receive interest over the next five years.

We have completed indicative modelling of NCC's forecast cashflows and applied, as a working assumption, a discount rate range of 5.0% to 6.0% to reflect the age and condition of the portfolio. We did receive feedback from the market (CHPs) that these discount rates are potentially high; based on discussion with NCC we have adopted a slightly more conservative discount rate range. Relative to the cashflows of a newer housing portfolio, NCC's cashflows are more risky due to the age and condition of the portfolio. Cashflows are more likely to be negatively impacted through the capital intensive nature of an older portfolio.

The valuation reflects the nature of the future cashflows and the assumption that a covenant would mean that the units would always have to be retirement/community stock and never sold to crystallize highest and best use capital gains. A transfer would only occur if they buyer agreed to:

- honour the tenancies that are currently in place;
- continue providing housing to those Retirement and Community housing eligible people in perpetuity, and
- NCC maintaining a right of first refusal should the CHP ever want to sell the portfolio.

The earning potential of the portfolio is greatly reduced as the CHP has no ability to realise its highest and best use. The only source of cashflow is from the net rents charged to tenants.

Therefore, CHPs would look at the expected cashflows of the portfolio and discount these at a level they consider appropriate to estimate the lifetime cashflows of the portfolio. The resulting net present value would be the value they assign to the portfolio, plus any undeveloped land.

Current NCC "Book Values" - 2020

Below, we present the book value of the NCC portfolio as at 20 March 2020. These values were provided on a village-by-village basis by Telfer Young.

The Market Valuation represents highest and best use (e.g. capitalised 'market' rent, or redevelopment value). On a DCF basis relative to actual contract, the Transaction Value would be materially lower than the 'market' value taking into consideration sitting tenants, policy rentals and subsequent forecast cashflows.

	Market Value as at 20/03/20
Arthur Richards Village - 51 Units	$ 8.06m
Centennial Village - 40 units	$ 6.62m
Coventry Avenue - 31 units	$ 4.91m
Rangi-Marie Village - 16 units	$ 2.99m
Oriel Place - 20 units	$ 3.07m
Otatara Village - 12 units	$ 2.27m
Henry Charles Village - 80 units	$11.10m
Hastings/Munroe Village - 4 units	$ 0.97m
Greenmeadows East Village - 51 units	$ 8.93m
Total Retirement Villages	$48.9m
Nelson Place - 12 units	$ 2.86m
Carlyle Place - 32 units	$ 7.05m
Wellesley Place - 28 units	$ 6.25m
Total Social Villages	$16.1m
Total Portfolio	**$65.0m**

A CHP's potential cashflows

Based on a CHP's potential cashflow a potential purchase will be equivalent to ~ 53% - 73% of 2020 Book value

CHP cashflows

Under IRRS policy, a CHP receives market rent on the units in its portfolio. The market rent consists of 25% of the tenant's net income/benefit and the difference between this implied rent and market rent is 'topped up' by MSD. This benefits a CHP as rent increases are **not restricted by tenant affordability**.

For CHPs, IRRS is only granted to those tenants who come off the MSD social housing register. This means that upon transfer to a CHP, none of NCC's current tenants would receive IRRS. Only once a sitting tenant vacates their tenancy/unit and is replaced by an incoming tenant off the MSD register will a CHP receive market rents on that unit.

Based on the current tenant turnover, a CHP might assume it is able to replace current tenants with individuals off the MSD register at a rate of 15% per annum. This means that annually, 15% of tenancies might be able to switch from existing policy rents to market rents via access to IRRS. Under this assumption, it will take **seven** years for the portfolio to achieve 100% IRRS eligibility.

For our modelling we have assumed the date of transfer to a CHP will be 1 July 2022. In this case, 100% of the portfolio could be eligible for IRRS by 1 January 2029. After such point, the CHP would be receiving market rents.

As summarised below, we have estimated a range values that a CHP may consider for the existing portfolio based on a range of discount rates and terminal capitalisation rates. The discount rate is the rate applied to annual cashflows to 'discount' them to reflect today's dollars. The terminal capitalisation rate is the rate at which the terminal cashflows are capitalised into perpetuity. The discount rate will vary from one purchaser to the next, reflecting each party's cost of capital or view on the portfolio

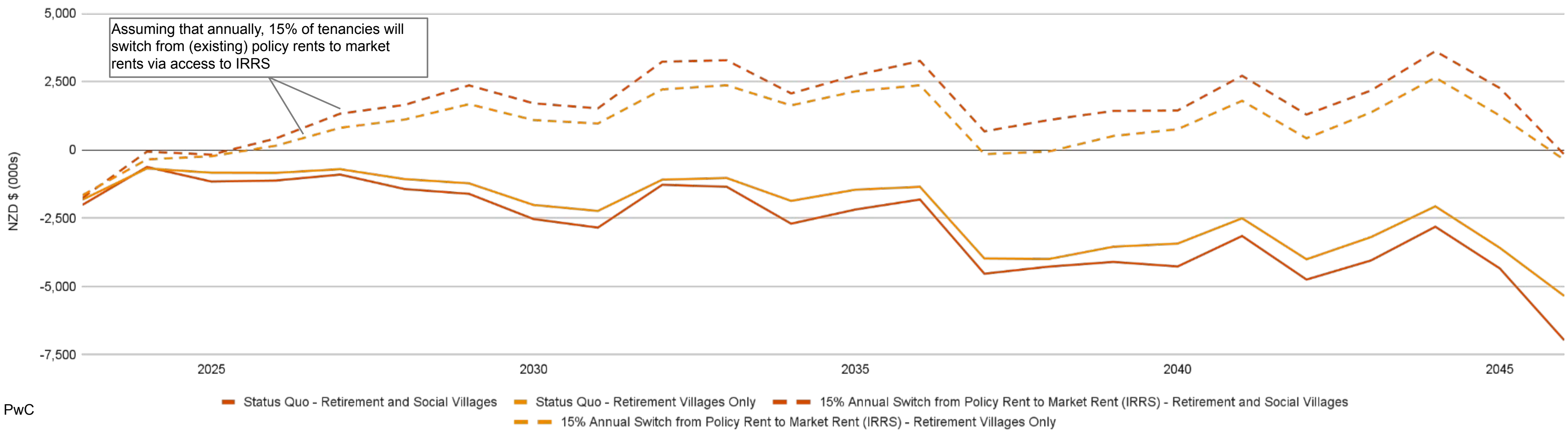
Terminal capitalisation rate

		3.50%	4.00%	4.50%
Discount Rate	5.00%	$47.6m	$44.0m	$41.2m
	5.50%	$43.4m	$40.2m	$37.7m
	6.00%	$39.6m	$36.7m	$34.5m

% of 2020 Book value		
53%	to	73%

**We note that this valuation excludes the vacant land at Greenmeadows East, which was valued at $1.0m as at March 2020*

Net cashflows (excl. financing)



Kāinga Ora's potential cashflows

Based on Kāinga Ora's potential cashflow a potential purchase price will be equivalent to ~ 69% - 89% of 2020 Book value

Kāinga Ora cashflows

If Kāinga Ora were to purchase the portfolio, the existing eligible tenants would (we understand) be granted IRRS on transfer as occurred under the Nelson CC transfer of 2021.

For our modelling, we have assumed that 90% of existing tenants are eligible for IRRS. Market rent would be achieved instantly across 90% of the portfolio, with the final 10% taking approximately seven years (same timeframe as a CHP). This is because we cannot determine how long it would take for those 10% non-eligible tenants to vacate, so have assumed the same rate as the CHP IRRS uptake.

Kāinga Ora's potential cashflows are shown by the dotted lines below. Note that the cashflows are higher than a CHPs (dashed lines) in the years before 2030, as Kāinga Ora would have instant access to IRRS for eligible tenants. After 2030, the cashflows of Kāinga Ora and a CHP would be similar, as 100% of tenants would be receiving IRRS under both parties.

This may(all else equal) result in a higher purchase price compared to CHPs, as the cashflows achievable by Kāinga Ora are higher in the early years of the forecast. However, it would be financially irrational for Kāinga Ora to pay more than 'the next best bidder', and so any price premium cannot be guaranteed.

We summarise below the estimated range of values that Kāinga Ora might consider for the existing portfolio based on a range of discount rates and terminal capitalisation rates. There is an argument that Kāinga Ora might apply a relatively low discount rate, although rationally they would target 'just' outbidding the next obvious buyer, not 'overbidding' the market. The potential financial upside of a sale to Kāinga Ora is uncertain.

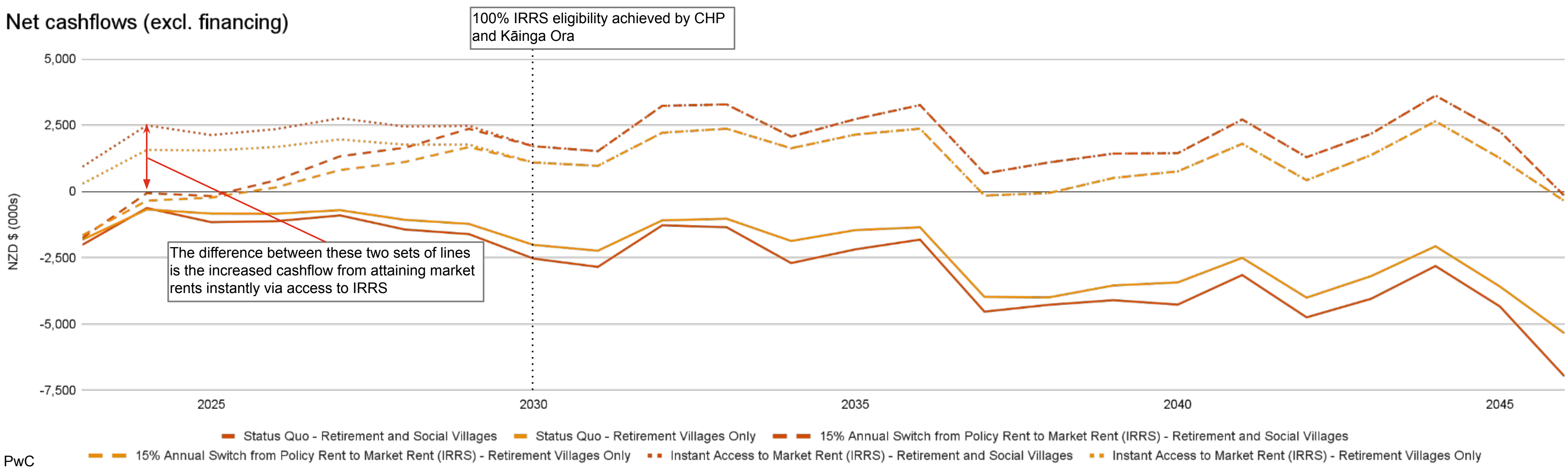
Terminal capitalisation rate

Discount Rate		3.50%	4.00%	4.50%
	5.00%	$58.2m	$54.5m	$51.7m
	5.50%	$53.8m	$50.6m	$48.1m
	6.00%	$49.9m	$47.0m	$44.8m

% of 2020 Book value		
69%	to	89%

**We note that this valuation excludes the vacant land at Greenmeadows East, which was valued at $1.0m as at March 2020*

Net cashflows (excl. financing)



Transfer Evaluation

Transfer via a sale will provide either income returns from reinvestment or a positive impact from recycling of the capital AND avoid annual ratepayer contribution of ~ $2.2m to $2.3m

Observations

A transfer to a CHP or Kāinga Ora achieves all of the relevant NCC evaluation criteria, while also having a positive impact on tenants and ratepayers. The difference between the two will ultimately depend on Kāinga Ora's ability to achieve IRRS eligibility for tenants on transfer (earlier than a CHP), whether NCC is comfortable with the portfolio becoming 'Social housing' as opposed to 'Retirement housing' and whether, indeed Kāinga Ora is an interested purchaser. A transfer to Kāinga Ora would financially benefit most of the 377+ existing tenants, as potentially their rents would decrease from 30% to 25% of net income. NCC might achieve higher sale proceeds via a sale to Kāinga Ora, albeit this is not certain as logically, Kāinga Ora would only need to outbid (not materially overbid) the 'next best' buyer.

	Transfer portfolio		
	Wider Market (without constraint)	CHP	Kāinga Ora
Achieving City and Community Goals	✗	✔	✔
Quality Fit for Purpose Housing	✗	✔	✔
Protecting Tenants' Interests	✗	✔	✔
Sustainable Financial Outlook	✔	✔	✔
Tenant impact	✗ Less affordable housing for tenants	✔ Slow transfer to IRRS eligibility. Rent contribution reduces from 30% to 25% of income	✔✔ IRRS granted immediately for those eligible. Rent contribution reduces from 30% to 25% of income
Ratepayer impact	↑ 2.6m to ~$3.9m p.a. income indicative return on invested sale proceeds (4-6% p.a.)	↑ ~1.6m to ~$2.4m p.a. income indicative return on invested sale proceeds (4-6% p.a.)	↑ ~2.0m to ~$3.0m p.a. Income indicative return on invested sale proceeds (4-6% p.a.)
	PLUS avoid annual ratepayer contributions of between ~$2.2m and ~$2.3m by retaining the portfolio		

Regional Trust Option

We understand that, quite recently, NCC has engaged in high level exploratory discussions with other Hawkes Bay regional councils in relation to Community Housing policies and services across the wider region. These ongoing discussions are exploring potential partnerships with other regional councils to form a 'Regional Trust' to establish a structure to provide combined housing services and resources. As we understand it, a potential structure has yet to be developed, however we note the following key points:

- CHP status and access to Crown funding streams (IRRS and Operating supplements) are critical for establishing a financially sustainable housing model.
- Under current legislation, local authorities and council-controlled organisations (CCO's) are excluded from registering as a CHP and securing access to IRRS.
- A **subsidiary** of a local authority or CCO may apply to register, so long as it is operating at arm's length from the local authority - must be genuinely operating independently i.e. not part of the parent body's corporate structure. To achieve this independence, a transfer of the assets is likely to be required, ether via a sale or a lease to the third party.
- As reported in October 2020, examples of where other local authorities have formed trust partnerships or CCO's suggest that transfer benefits to the councils are limited; e.g.Christchurch City Council which formed a Trust partnership with a CHP via a lease receive minimal annual rent and still have responsibility for CAPEX; Auckland City Council which transferred 51% of its interest in its elderly housing portfolio to a Limited Partnership and formed a CHP receive a peppercorn rent only and $2m towards capital works but still retain ownership of the housing and wider CAPEX responsibilities.

Ultimately, it is probable any likely structure proposed for a 'Regional Trust' will require a 'transfer' of the NCC housing portfolio (sale, either directly or 'effectively' via a lease) to secure Crown funding.

5 Potential transfer pathways

Potential retain portfolio pathways

Under this section we have undertaken a high level analysis of the varying options, applying a Red, Amber or Green (RAG) ranking to summarise and compare across financial, strategic and implementation risk perspectives.

Status Quo

Under the Status Quo option, NCC will need to consider how it will address the increasingly large future cash shortfalls. This likely means that ratepayers will need to pay higher rates as it is not sustainable to continue taking loans to support the portfolio.

Financial outlook

Rents under the current policy at 30% of tenant income/benefits are insufficient to fund (sustainably) the R&M and CAPEX needs of the aging portfolio. Under this policy, rents are tied to increases in NZ Superannuation and other benefits. They are unlikely to increase at a greater rate than capital goods, for example.

NCC may need to reconsider its rent setting policy to a percentage higher than 30% of income thresholds to decrease the cash shortfall incurred by the portfolio each year.

The negative cashflow position of the portfolio increases in magnitude over time. Therefore, opting for the Status Quo with the intention of reassessing the housing portfolio at a later date will only amplify the financial constraints faced today.

Strategic alignment

This scenario aligns with the key outcome of protecting tenants interests as there is no change to their current situation. While protecting the current tenants, this option negatively affects ratepayers and future tenants. Unless NCC increases rates or takes out additional loans to satisfy renewals, future tenancies will be in units of even poorer condition.

As the Status Quo fails to deliver positive cashflows, undertaking village expansions or developments is highly challenged. The existing unmet demand (waitlist) and forecast growth for affordable housing is not addressed, exacerbating this issue in the future.

Implementation risks

There are no implementation risks under the Status Quo as NCC would not be making any significant changes to community housing provision. However, consultation regarding substantial rates increases would be required.

Part retain/part sell

The Social villages could be sold (to a CHP) as of 1 July 2022 with sale proceeds being reinvested in the Greenmeadows East and Hastings/Munroe sites over the following five years.

There would be 38 new units constructed at vacant Greenmeadows East site and the the four units at Hastings/Munroe would be demolished and replaced with 11 new units; Hastings/Munroe units could be rented to the private market as a source of income to support the rest of the portfolio.

Financial outlook

The sale proceeds will not be sufficient to offset the development costs of the two sites. Therefore, ratepayers would be required to cover the difference in costs.

The annual cashflows following construction of the new units are improved (reduced shortfall) relative to the Status Quo option as NCC would have divested the underperforming Social village assets. However, while having a positive impact on cashflows, the market rents achieved on the 11 units at Hastings/Munroe would not be enough to make a significant impact to cashflows on their own. Overall, the portfolio is still unsustainable due to the continued negative cashflows.

Strategic alignment

Part retain/part sell does align with NCC’s strategy as it will provide an additional 45 units (34 affordable, 11 market) of housing stock in the city. However, it only partially achieves the goal of improving village amenity as NCC would be unable to significantly refresh the portfolio with higher quality units.

Implementation risks

NCC may face criticism through the disposal of the three Social villages. However, these would presumably be sold with covenants in place to protect the current tenants. There may be perceived risk to the existing four occupants of the Hastings/Munroe site in relation to termination or relocation, albeit, the intent is to rehouse these occupants to other retirement villages.

Potentially significant risks are also implicit with development in relation to consents, contractor availability, timing and cost escalations.

Additionally, consultation regarding substantial rates increases would be required.

Potential transfer portfolio pathways

Wider market

The portfolio would be sold to the highest bidder without covenants or controls.

The bidder would pay a premium reflecting the ability to redevelop the land for its highest and best use.

Financial outlook

This option will realise the greatest sale receipts for NCC as the purchaser would buy the portfolio at ‘market value’. Proceeds could be used to fund (recycled) other NCC projects or reinvested.

There would relieve ratepayers of supporting the housing portfolio.

Strategic alignment

A sale to the private market is inconsistent with NCC’s strategy of providing community housing in Napier. Current tenants could have their tenancies cancelled and would be forced to find alternative housing.

Furthermore, this strategy could lead to more unaffordable housing in the city. Albeit, sale proceeds could be directed to the development of affordable housing, but this would take time.

Implementation risks *

The risks of implementing this option are significant. Public opposition is likely, as this strategy may be viewed as Council opting for a short term “money grab” without considering long term effects.

CHPs

NCC would transfer the community housing portfolio to a registered CHP. Covenants would be included in the sale that would ensure the villages continue to serve the community as it currently does (into perpetuity) and providing NCC a right of first refusal should the CHP wish to sell the portfolio.

Financial outlook

A transfer to a CHP would provide a positive cash inflow (sale receipt) upon sale, and relieve ratepayers of supporting the housing portfolio.

A sale to a CHP would likely result in the lowest sale price of the three transfer options.

Strategic alignment

This would align with NCC’s intention to provide community housing in the city. The CHP might be able to improve the amenity of current villages and even increase the supply of affordable housing.

Tenants may have increased access to wrap-around services.

Implementation risks *

This option has the lowest implementation risk of the three transfer options. NCC would need to assure tenants and the community that the services provided will remain the same (potentially improved), as those provided by NCC currently.

Kāinga Ora

Under this option, the portfolio would be transferred to the central government under Kāinga Ora. The transfer and covenants would be the same as a transfer to a CHP.

The ownership of the portfolio would simply be switched from Local government to Central government and therefore remain in ‘public’ ownership.

Financial outlook

A transfer to Kāinga Ora would provide the same financial benefits as a transfer to a CHP, however, may result in higher sale proceeds (to be tested).

Strategic alignment

As with a transfer to a CHP, a transfer to Kāinga Ora would align with NCC’s strategic goals.

A point of difference would be that the process of transferring the portfolio to Kāinga Ora before approaching CHPs would limit complexity.

Implementation risks *

The risk of a transfer to Kāinga Ora is that there is no distinction between Social and Retirement tenants on MSD’s register. This means that the villages would become a mix of Social and Retirement tenants, which some tenants may view as detrimental.

*Two sites (Hastings/Munroe and Carlyle Village) are subject to the requirements of both the Napier Borough Endowments Act 1876 (NBEA) and Local Government Act 2002 (LGA). Dependent upon the ‘transfer’ path taken, varying options can be explored to enable the implementation of the transfer.

Our recommendations

Key findings

- **The Status Quo** retains security for the current tenants, but at a significant cost to ratepayers. It does not contribute to Napier's ability to grow community housing needs, nor does it address fit for purpose consideration of the units. We have estimated that over the period to 2046 the annualised cost to the ratepayer to fund the shortfall (to break-even) will be circa $2.2m (excluding financing) per annum.
- **The part retain/part sell** option only marginally improves the cashflow position after 2028 - the cashflow injection from sale proceeds and rent from new units falls short of redevelopment costs. Over the period to 2046, we have estimated the annualised cost to the ratepayer to fund the shortfall (to break-even) will be circa $2.3m (excluding financing).
- In order to achieve financial sustainability under the Status Quo, retirement policy rent would need to be set at around ~78% of market rent and social tenancy rent at ~63% of market rent over the next 25 years to break even. This would equate to ~49% of an individual retirement tenant's income and ~32% of an individual social tenant's income. In order to achieve financial sustainability under the Part retain/part sell option, retirement policy rent would need to be set at ~74% market rent (equating to ~50% of a retiree's income). Setting rental policy at these levels would represent a significant increase in rents and would not align with the Council's current objectives of providing affordable housing.
- CHP status and access to Crown funding streams (IRRS and Operating Supplements) are critical for developing a sustainable commercial model that can grow social housing stock and renew the portfolio without creating a burden for ratepayers.
- NCC's portfolio is attractive to CHPs as their focus is to invest in the 'golden triangle' - high growth, high need and fair return. Of the parties approached, purchase was the preferred form of transfer. A leasing model does not enable a CHP leverage for funding for renewal or development aspirations.
- Kāinga Ora has emerged as a potential important shareholder in the community housing sector and may present an alternative to the CHP sector; it is the key government entity with the mandate to deliver on social housing. Whilst Kāinga Ora's key focus is 'Additionality' (ability to provide NEW housing supply), Kāinga Ora did, in March 2021, purchase Nelson City Council's community housing portfolio.
- Whether the portfolio is transferred to a CHP or Kāinga Ora, the Transaction Value would be materially lower than the 'market' value. Market Value represents highest and best use (e.g. the greater of capitalised 'market' rent, or redevelopment value). Both a CHP and Kāinga Ora would assess the transaction value based on discounted cashflow (DCF) analysis of future net cashflow reflecting rental income net of operating and maintenance and CAPEX costs, and with a covenant that locks in community housing into perpetuity, and would not value 'higher and better' alternative use.
- Kāinga Ora's assessment of the value of the portfolio might exceed that of a CHP, on the basis Kāinga Ora can access IRRS (almost) immediately, unlike CHPs who can only access IRRS for new incoming tenants. The initial cashflow for Kāinga Ora post transfer will accordingly be higher than that of a CHP. Either way the value estimated by DCF methodology (subject to the covenant to use the asset for community housing in perpetuity) will be significantly less than market value.
- Transfer via a sale would be expected to provide benefits to ratepayers as a result of income returns from reinvested capital or a positive impact from recycling the capital, together with avoided costs equivalent to circa $2.2m and $2.3m per annum.
- Additionally, a transfer to a CHP or Kāinga Ora would benefit the tenants; potentially, eligible tenants for IRRS (we estimate to be 90% of current cohort) would experience a decrease in their rent contribution from 30% to 25% of net income. This benefit would be realised (almost) immediately by the eligible existing tenants with a transfer to Kāinga Ora and to eligible new incoming tenants under a transfer to a CHP.

Our recommendations cont.

Recommended pathway

NCC has a mid-sized and aging portfolio of housing which requires significant capital investment over the next 25 years with an estimated annualised cost to the ratepayers of circa $2.2m (excluding financing) to meet the shortfall if the Status Quo is retained. Actively managing the portfolio (part retain/part sell option) in-house does not improve the financial position and creates additional complexity. A portfolio transfer by way of an asset sale to an established CHP or Kāinga Ora appears to represent the best value for money option for NCC' to meet its community housing objectives. This option would also be expected to improve tenant wellbeing via access to wrap-around services; structured correctly this option could:

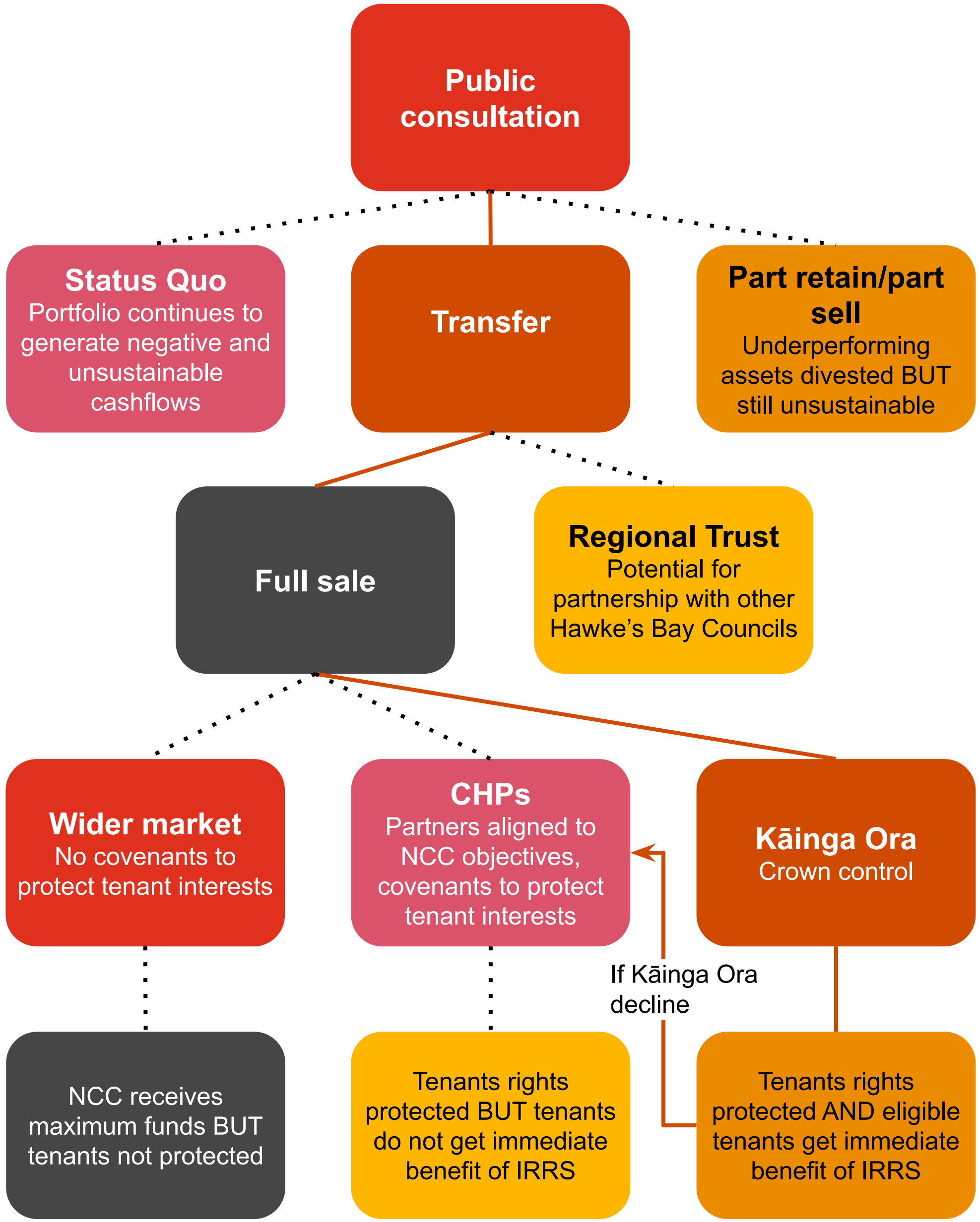
- Provide secure and affordable tenure for council housing tenants;
- Potentially deliver better, 'wrap-around' services for the tenants and potentially improve tenants' financial positions with decreased rental contribution relative to their net income;
- Facilitate growth in the volume and quality of housing stock within the portfolio through access to Crown subsidies;
- Improve financial outcomes for ratepayers, by transferring an otherwise ongoing liability.

If a transfer option is to be pursued by NCC, approaching Kāinga Ora to discuss options in the first instance would be a logical first step.

Key to the success of a sale to a CHP or Kāinga Ora will be NCC's management of the process including:

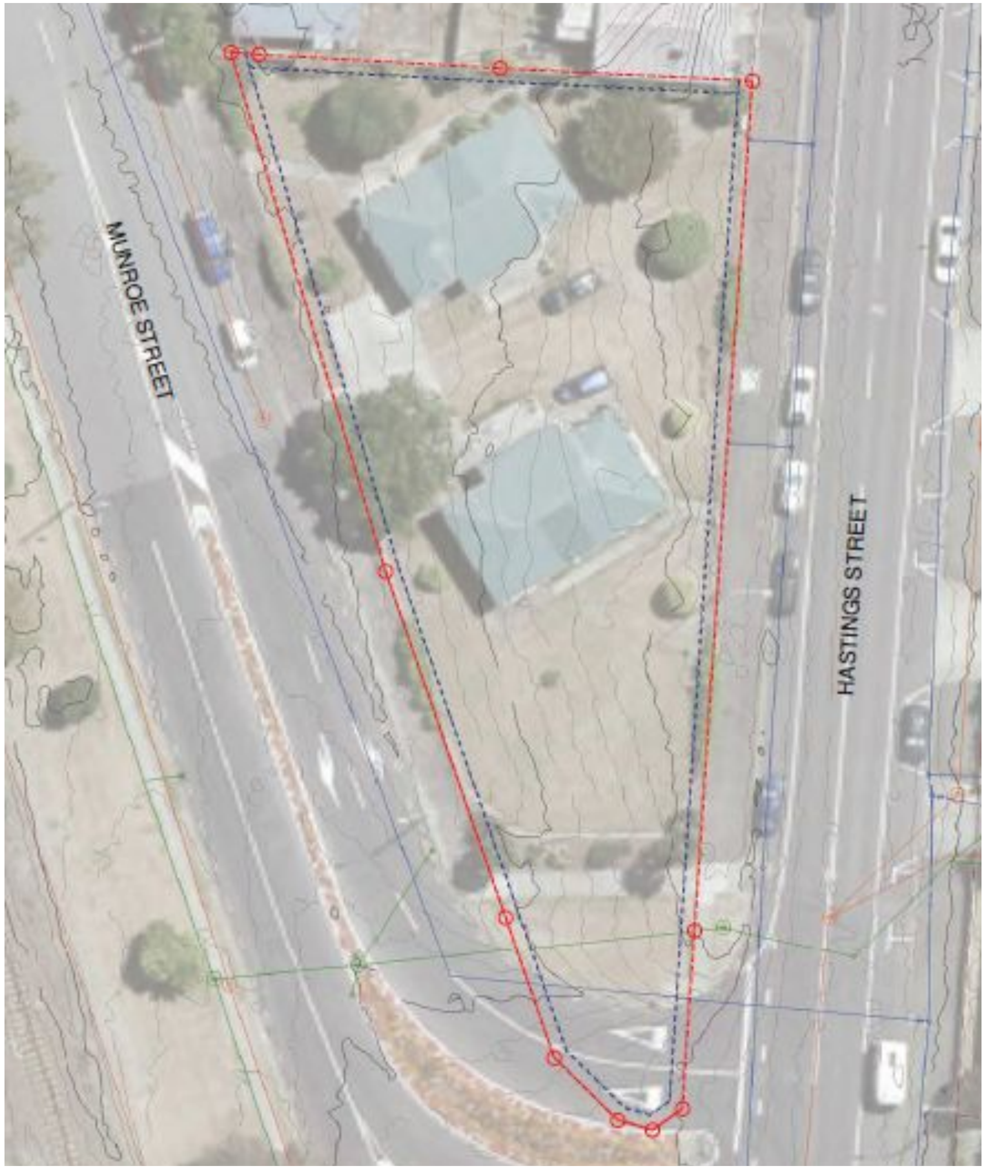
- Provision of a reliable, comprehensive, information memorandum incorporating detailed vendor due diligence;
- Communication and public engagement;
- A dedicated team of Councillors to provide a clear transaction mandate and Council staff to support the transition;
- Engagement and negotiation with bidders;
- A comprehensive framework for bid evaluation which incorporates social performance factors;
- Establishment of conditions of sale to protect Council housing occupants.

If a transfer option is to be pursued by NCC, approaching Kāinga Ora in the first instance is likely to realise a better financial outcome for ratepayers and tenants alike.



6 Appendices

Appendix 1 - Hastings/Munroe potential redevelopment



Hastings/Munroe Village

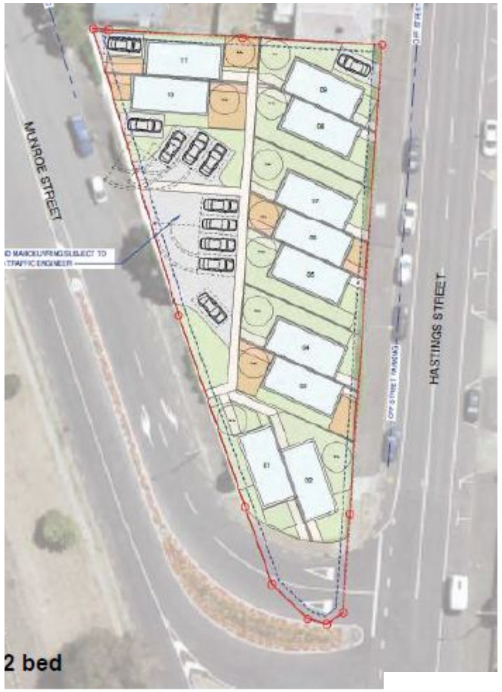
465 Hastings Street & 118 Munroe Street, Napier South

Comprising four single bedroom semi-detached units in average but tidy condition.

Key Stats:

- 4 Beds
- $24k gross rental p.a circa 40% of the estimated market rent
- ~ $87k annualised R&M
- $72k Capex forecast over next 10 years (minor works only)
- 1,826m² site
- Site coverage ~ 10%
- Potential to redevelop the site

Appendix 1 - Hastings/Munroe potential redevelopment



2 bed

Indicative cost $6.3m ($572K per unit)

11 units / 26 beds
mix of 2 and 3 bed
2 storey

~98m^2 per unit

Lease at market rents

Appendix 1 - Greenmeadows East potential intensification

Greenmeadows East

83 Tait Drive, Greenmeadows

50 semi-detached single storey, one bedroom retirement units and one community housing three bed house configured around a central car park constructed in 1980.

Key Stats:

- 53 Beds
- $321k gross rental p.a circa 44% of the estimated market rent
- ~ $102k annualised R&M
- $2.00m Capex forecast over next 10 years (moderate works on the complex as a whole)
- 19,305m^2 site
- Site coverage ~ 10%
- Potential to extend village on adjoining NCC land

Appendix 1 - Greenmeadows East potential intensification

Indicative cost $18.7m ($492K per unit)

38 units / 56 beds
mix of 1 and 2 bed
Mix walk up & 2 storey

~62m^2 - 79m^2 per unit

Retirement housing

Indicative cost estimates as per quantity surveyors advice, Rider Levett Bucknall as at February 2021.
Estimates are inclusive of all development costs including fees, housing, landscaping, utility provision and connection, landscaping, roadways and vehicle crossings.
Housing has been assessed at Good Quality Social Housing with all amenities including heating, basic appliances and window treatments. Fencing has been allowed to all separate properties.
GST, Land purchase and potential Resource Consent hearing costs are EXCLUDED.

Appendix 2 - Cost estimates from RLB (QS)

Rider Levett Bucknall

Napier City Council Community Housing Development

Concept Design Estimate (Mar 2021)

Location Elements Item

A MUNROE VILLAGE / HASTINGS

Rates Current At March 2021

Description	Unit	Qty	Rate	Total
SP Site Preparation				
1 Prepare Site for housing	No	11.0	3,000.00	33,000.00
2 Utilities, Roading and Lighting to Section	No	11.0	35,000.00	385,000.00
3 2 Bedroom Two Storey unit - Concrete slab (98m2)	No	7.0	400,000.00	2,800,000.00
4 3 Bedroom Two Storey unit - Concrete slab (98m2)	No	4.0	400,000.00	1,600,000.00
5 Utility connections per unit	No	11.0	3,000.00	33,000.00
6 Landscaping to each unit	No	11.0	8,000.00	88,000.00
7 Paving for Vehicle traffic (say Asphalt)	m²	295.0	150.00	44,250.00
8 Paving for Pedestrian traffic (say Asphalt)	m²	181.0	120.00	21,720.00
9 Common Landscaping	Item			5,000.00
10 Vehicle Crossing at footpath	No	8.0	3,000.00	24,000.00
11 Fencing for units	Item			35,000.00
Site Preparation				*$5,068,970.00*
CN Contingencies				
12 Contingency 7.5%	Item			380,000.00
Contingencies				*$380,000.00*
PF Professional fees				
14 Consent, Consultants	Item			Included
Professional fees				*Included*
ES Escalation to Contract Completion				
13 Cost Escalation to 2026 - 16%	Item			872,000.00
Escalation to Contract Completion				*$872,000.00*
NA Not Applicable				
15 Land Purchase	Item			Excluded
16 Resource Consent hearings	Item			Excluded
17 Development Contribution	Item			Excluded
18 GST	Item			Excluded
Not Applicable				*Excluded*
MUNROE VILLAGE / HASTINGS				*$6,320,970.00*

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Rider Levett Bucknall

Napier City Council Community Housing Development

Concept Design Estimate (Mar 2021)

Location Elements Item

B GREENMEADOWS EAST VILLAGE

Rates Current At March 2021

Description	Unit	Qty	Rate	Total
SP Site Preparation				
19 Prepare Site for Single Storey housing	No	12.0	4,000.00	48,000.00
20 Prepare Site for Two Storey housing	No	8.0	4,000.00	32,000.00
21 Prepare Site for 1 Bed walk-up housing	No	8.0	4,500.00	36,000.00
22 Prepare Site for 2 Bed walk-up housing	No	10.0	4,500.00	45,000.00
23 Utilities, Roading and Lighting to Sections	No	38.0	35,000.00	1,330,000.00
24 1 Bedroom Single Storey unit - Concrete slab (64m2)	No	12.0	290,000.00	3,480,000.00
25 2 Bedroom Two Storey unit - Concrete slab (98m2)	No	8.0	395,000.00	3,160,000.00
26 1 Bed walk-up unit - Concrete slab (61m2)	No	8.0	270,000.00	2,160,000.00
27 2 Bed walk-up unit - Concrete slab (79m2)	No	10.0	330,000.00	3,300,000.00
28 Utility connections per unit	No	38.0	3,000.00	114,000.00
29 Landscaping to each unit	No	38.0	8,000.00	304,000.00
30 Paving for Vehicle traffic (say Asphalt)	m²	1,847.0	260.00	480,220.00
31 Paving for Pedestrian traffic (say Asphalt)	m²	717.0	200.00	143,400.00
32 Paving for Shared space (say Concrete)	m²	303.0	300.00	90,900.00
33 Common Landscaping	Item			30,000.00
34 Vehicle Crossing at footpath	No	34.0	3,000.00	102,000.00
35 Fencing for units	Item			90,000.00
Site Preparation				*$14,945,520.00*
CN Contingencies				
36 Contingency 7.5%	Item			1,120,000.00
Contingencies				*$1,120,000.00*
PF Professional fees				
38 Consent, Consultants	Item			Included
Professional fees				*Included*
ES Escalation to Contract Completion				
37 Cost Escalation to 2026 - 16%	Item			2,570,000.00
Escalation to Contract Completion				*$2,570,000.00*
NA Not Applicable				
39 Land Purchase	Item			Excluded
40 Resource Consent hearings	Item			Excluded
41 Development Contribution	Item			Excluded
42 GST	Item			Excluded
Not Applicable				*Excluded*
GREENMEADOWS EAST VILLAGE				*$18,635,520.00*

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Appendix 3 - Market sounding document

NAPIER CITY COUNCIL
Te Kaunihera o Ahuriri

Napier City Council
Housing Portfolio

Market Soundings
14 September 2021

Strictly Private and Confidential

Purpose

Napier City Council (NCC) has a community housing portfolio of 377 units comprising 304 retirement units and 73 community housing units.

NCC has undertaken a review of it how it delivers community housing; it faces a number of challenges:

- the below-market rents it is achieving
- NCC's inability to access Income Related Rental Subsidy (IRRS)
- significant forecast capital expenditure
- and ultimately an operating model is not financially sustainable.

NCC has investigated a range of options and alternative operating models, including where it partners with a Community Housing Provider (CHP) (via either a lease or transfer of assets) and to secure the IRRS and improve its operating cashflow.

This market sounding is to inform NCC's options, including understanding the market's appetite to partner with NCC and insights in relation to:

- how a transfer/procurement structure might work
- the indicative capital structure that might be required in terms of asset/portfolio value/s, equity/debt, risk and reward sharing
- potential levers to improve outcomes for NCC, including unlocking development potential
- potential levers to improve outcomes for purchaser/lessor.

NCC has identified the following key evaluation criteria for successful delivery of community housing services:

Achieving City and Community Goals

Quality Fit for Purpose Housing

Protecting Tenants' Interests

Sustainable Financial Outlook

Limited Complexity

Overview of the portfolio

Retirement Housing

9 Villages
304 Units

Forecast Gross Rent 2021^
$1.85m

Average age of units
48 years

~ 43% of estimated market rent

$0.88m Forecast Annualised R&M

~ 50% estimated tenants eligible for IRRS

$9.53m* Forecast Capital Expenditure over next 10 years

Annual tenant turnover
~ 15%

Typology / Fit for Purpose

- Typically one bedroom units; the majority are suited to single occupiers
- All units are single storey, and some have been upgraded
- Work is underway to bring the portfolio into compliance with the Healthy Homes standards.

* excludes contingency and project management costs, see disclaimer

Community Housing

3 Villages
73 Units

Forecast Gross Rent 2021^
$0.50m

Average age of units
38 years

~ 35% of estimated market rent

$0.25m Forecast Annualised R&M

~ 38% estimated tenants eligible for IRRS

$2.53m* Forecast Capital Expenditure over next 10 years

Annual tenant turnover
~ 15%

Typology / Fit for Purpose

- Primarily two bedroom units with some one and three bedroom units. Suited for couples and small families.
- Some units are in two or three storey blocks, as accessibility is not a key factor for these tenants.
- Work is underway to bring the portfolio into compliance with the Healthy Homes standards.

^: Note that 2021 refers to the Financial Year 1 July 2021 to 30 June 2022

Overview of the portfolio

Key

NP: Nelson Place
WP: Wellesley Place
CP: Carlyle Place
CV: Centennial Village
HC: Henry Charles Village
OP: Oriel Place
OV: Otatara Village
CA: Coventry Avenue
HM: Hastings/Munroe
GE: Greenmeadows East Village
RM: Rangi-Marie Village
AR: Arthur Richards Village

Development Potential

Three villages have been identified as having reasonable scope for redevelopment or intensification:

- Greenmeadows East: 9,600m^2 undeveloped land
- Hastings/Munroe: 1,826m^2 - demolish four units & redevelop site
- Centennial Village: 6,400m^2 - demolish ~ 10 units to unlock site

Preliminary concepts have been explored for Greenmeadows East and Hastings/Munroe as set out below

Greenmeadows East - Intensification

Key Stats:
- Vacant land around social hall developed
- 38 units - 18x 2-bed and 10x 1-bed
- Mixture of single units, walk ups and terraced units
- Existing hall would remain untouched

Hastings/Munroe - Redevelopment

Key Stats:
- Existing 4 units demolished for new development
- 11 units - 4x 3-bed and 7x 2-bed
- Potential to rent units to the open market to generate revenues to help maintain other villages

Overview of the retirement portfolio

Arthur Richards Village Tamatea

50 one bedroom early 1980's duplex residential units plus one two bed unit configured around a social hall.

Key Stats:
- 52 Beds + 1 Hall
- 45% estimated tenants eligible for IRRS*
- $295k gross rental p.a circa 41% of the estimated market rent
- ~ $109k annualised R&M
- $1.85m Capex forecast over next 10 years (includes moderate works on the hall)
- 12,412m^2 site
- Site coverage ~ 18%

Centennial Village Taradale

40 early 1970's single level one bedroom duplex units. Cladding is brick and fibre cement with concrete tile roofs and aluminium window joinery.

Key Stats:
- 40 Beds
- 55% estimated tenants eligible for IRRS*
- $260k gross rental p.a circa 44% of the estimated market rent
- ~ $98k annualised R&M
- $1.09m Capex forecast over next 10 years (includes moderate works on building envelopes)
- 15,148m^2 site
- Site coverage ~ 11%
- ~6,400 m^2 of land could be unlocked with demolition of ~ 8-10 units

Hastings/Munroe Village

Napier South

Comprising four single bedroom semi-detached units in average but tidy condition.

Key Stats:
- 4 Beds
- 60% estimated tenants eligible for IRRS**
- $24k gross rental p.a circa 40% of the estimated market rent
- ~ $87k annualised R&M
- $72k Capex forecast over next 10 years (minor works only)
- 1,826m^2 site
- Site coverage ~ 10%
- Potential to redevelop the site

* Based on a 2020 survey of 30% of occupants' income / ** Based on a 2019 survey of 30% of occupants' income

Overview of the retirement portfolio cont.

Oriel Place Pirimai

A complex located at the end of a cul-de-sac comprising 20 one bedroom semi-detached retirement units. Exterior cladding of fibre cement.

Key Stats:

- 20 Beds
- 33% estimated tenants eligible for IRRS*
- $111k gross rental p.a circa 40% of the estimated market rent
- ~ $91k annualised R&M
- $472k Capex forecast over next 10 years (minor works only)
- 3,662m² site
- Site coverage ~ 22%

Otatara Village Taradale

12 single bedroom duplex retirement units constructed in 1958 with attached carports. The units have a stucco finish and timber or aluminium window joinery.

Key Stats:

- 12 Beds
- 50% estimated tenants eligible for IRRS**
- $74k gross rental p.a circa 39% of the estimated market rent
- ~ $89k annualised R&M
- $308k Capex forecast over next 10 years (moderate works on the complex as a whole)
- 2,681m² site
- Site coverage ~ 19%

Henry Charles Village Onekawa

80 semi-detached retirement units. Each contains a double bedroom, ensuite with shower, kitchen/laundry, living room and a closed in glazed porch.

Key Stats:

- 80 Beds + 1 Hall
- 48% estimated tenants eligible for IRRS
- $492k gross rental p.a circa 47% of the estimated market rent
- ~ $119k annualised R&M
- $2.61m Capex forecast over next 10 years (significant works and seismic strengthening to the hall)
- 25,313m² site
- Site coverage ~ 17%

* Based on a 2020 survey of 30% of occupants' income / ** Based on a 2019 survey of 30% of occupants' income

Overview of the retirement portfolio cont.

Greenmeadows East Greenmeadows

50 semi-detached single storey, one bedroom retirement units and one community housing three bed house configured around a central car park constructed in 1980.

Key Stats:
- 53 Beds
- 45% estimated tenants eligible for IRRS*
- $321k gross rental p.a circa 44% of the estimated market rent
- ~ $102k annualised R&M
- $2.00m Capex forecast over next 10 years (moderate works on the complex as a whole)
- 19,305m² site
- Site coverage ~ 10%
- Potential to extend village on adjoining NCC land

Coventry Avenue Tamatea

North facing irregular shaped site comprising 31 semi-detached one bedroom, single storey retirement units. Overall complex presents to a reasonable standard.

Key Stats:
- 31 Beds
- 57% estimated tenants eligible for IRRS*
- $174k gross rental p.a circa 40% of the estimated market rent
- ~ $95k annualised R&M
- $739k Capex forecast over next 10 years (Moderate works on the complex as a whole)
- 6,824m² site
- Site coverage ~ 19%

Rangi-Marie Village Taradale

16 semi-detached one bedroom retirement units with attached carports.. 50% of the units have large double bedrooms suitable for couples.

Key Stats:
- 16 Beds
- 63% estimated tenants eligible for IRRS
- $100k gross rental p.a circa 40% of the estimated market rent
- ~ $90 annualised R&M
- $396k Capex forecast over next 10 years (minor works only)
- 4,046m² site
- Site coverage ~ 17%

* Based on a 2020 survey of 30% of occupants' income / ** Based on a 2019 survey of 30% of occupants' income

Overview of the community housing portfolio

Carlyle Place **Napier South**

32 community housing units constructed in 1984 and comprising a blend of one, two & three bedrooms units across single, double and three storey blocks.

Key Stats:

- 60 Beds
- 56% estimated tenants eligible for IRRS*
- $235k gross rental p.a circa 38% of the estimated market rent
- ~ $110k annualised R&M
- $994k Capex forecast over next 10 years (moderate works on the complex as a whole)
- 6,536m^2 site
- Site coverage ~ 36%

Nelson Place **Napier South**

Built in circa 1980, the complex comprises 12 two bedroom community housing units contained within one or two storey blocks.

Key Stats:

- 24 Beds
- 27% estimated tenants eligible for IRRS*
- $73k gross rental p.a circa 31% of the estimated market rent
- ~ $41k annualised R&M
- $508k Capex forecast over next 10 years (moderate works on building envelopes and complex as a whole)
- 3,025m^2 site
- Site coverage ~ 22%

Wellesley Place **Napier South**

A complex of 28 two bedroom semi-detached flats in tidy condition. The 28 units are configured around a large central lawn/ parking area.

Key Stats:

- 56 Beds
- 27% estimated tenants eligible for IRRS*
- $197k gross rental p.a circa 35% of the estimated market rent
- ~ $97k annualised R&M
- $1.03m Capex forecast over next 10 years (Moderate works on building envelopes)
- 6,183m^2 site
- Site coverage ~ 32%

* Based on a 2020 survey of 30% of occupants' income / ** Based on a 2019 survey of 30% of occupants' income

Disclaimer

This short form project flyer (Flyer) has been prepared by PwC Advisory Services (PwC), Licensed under the Real Estate Agents Act 2008, as advisor to Napier City Council (NCC) to engage with potential parties interested in the delivery of services and potential ownership of NCC's Housing portfolio.

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Any agreement related to the opportunity will include an acknowledgement from the purchaser that, save in respect of those warranties and representations expressly included in the agreement, there has been no reliance on information, warranties or representations which may have been made by NCC or PwC, or any of their respective shareholders, partners, directors, officers, employees, agents, advisers and representatives and that the purchaser has relied solely upon its own investigation and enquiries in order to formulate its proposal and in entering into the agreement.

Respondents must direct all enquiries related to this IM through the sole agent, PwC, via John Schellekens or Kirstyn McKeefry.

Respondents should not directly or indirectly make contact with Stand regarding this opportunity.

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PwC is engaging with a limited number of potential parties to understand interest and feedback on this opportunity.

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Thank you.

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