

8.10. Community Housing Project and Funds: Update on a New Generation Boarding House

AUTHOR: Rebecca Aukim, Director Community & Library Services

ENDORSED BY: Ken Gouldthorp, General Manager

ATTACHMENTS:

1. Revised investment summary Mar 2022 [8.10.1 - 3 pages]

PURPOSE:

To combine two community housing projects into one and provide an update on project costs.

EXECUTIVE SUMMARY:

In September 2020 Council endorsed a report in which it was recommended that a portion of Council's affordable housing funds be used to fund a new generation boarding house in North Sydney with the remaining funds to purchase a property for women escaping domestic and family violence (DFV).

The original proposal from Link Wentworth (Council's community housing partner) was to demolish a 5- bedroom boarding house and construct on the site 11 modern self-contained studio apartments.

In July 2021, Link Wentworth received a DA and a notice of determination from Council (D335/20) based on a revised project design. The updated design provides significant improvements over the previous design in that it delivers one additional studio apartment, increases the size of the units to enable better circulation and furniture layouts and increases the number of Disability Discrimination Act compliant units to three. The updated design also proposes that two of the units be set aside to house women escaping DFV.

Due to a Ministerial Directive in 2009, Council has not been receiving any development contributions towards affordable housing in North Sydney. Council's current Affordable Housing Reserve funds are funds collected before 2009 and it is therefore important to invest these funds before the reserve may potentially be called in by the State Government at some future time.

In February 2022, the quantity surveyor repriced the construction cost and this report provides an update on project costs and investment requirements with new recommendations.

FINANCIAL IMPLICATIONS:

Correspondence dated 10 March 2022 from Link advises that a Quantity Surveyor has updated calculations based on the stamped plans, conditions of consent as well as the current

state of the construction sector impacted by Covid 19. The total cost of the project is estimated to be \$4,706,838.

To achieve the 51% equity, Council would need to provide a contribution of \$689,344 (land ownership and adjustment) and \$2,400,487 (development cost contribution), a total of \$3,089,831. These funds are available in the Affordable Housing Reserve. The remaining balance in the reserve would be \$347.82.

In June 2020, Council had the land value assessed and provided a report from AVG Specialist Valuers which assessed the market value of land at \$1,850,000. Though the market has increased significantly over the past 18 months, Link Wentworth have not asked to increase the land value in their updated assessment of project costs.

Council's Solicitor and Corporate Contracts Manager have recommended that the Development Agreement between Council and Link Wentworth contain clauses that address any overrun or underrun of costs. The Agreement will specify that costs overrun must be funded and borne in full by Link Wentworth at their sole risk and underruns shall be proportionately refunded to the Landlord (North Sydney Council) upon Practical Completion.

RECOMMENDATION:

1.THAT Council's total contribution towards the construction of a New Generation Boarding house which will include two units for women escaping domestic and family violence, be capped at a maximum contribution of \$3,089,831 from the Affordable Housing Reserve to achieve a 51% majority share.

2.THAT the Development Agreement between Council and Link Wentworth include clauses ensuring that costs overrun must be funded and borne in full by Link Wentworth at their sole risk and underruns shall be proportionately refunded to the Landlord (North Sydney Council) upon Practical Completion.

LINK TO COMMUNITY STRATEGIC PLAN

The relationship with the Community Strategic Plan is as follows:

4. Our Social Vitality

4.1 North Sydney is connected, inclusive, healthy and safe

BACKGROUND

In September 2020 Council endorsed a report (28 September 2020: 8.6) in which it was recommended that a portion of Council's affordable housing funds would be used to fund a new generation boarding house in North Sydney. A briefing paper from Link Housing in July 2020 proposed Council would need to contribute \$689,344 (land ownership and adjustment) and \$1,545,980. A total of \$2,235,324 for the construction of 11 self-contained studio units and to ensure a 51% majority share.

The endorsed recommendations were as follows:

- 1. THAT Council enter into an Agreement with Link Housing for Council to acquire a majority share of the property referred to in this report – 287 Miller Street, Cammeray.*
- 2. THAT Council make a monetary contribution equivalent to its ownership share from the Affordable Housing reserve for the establishment of the 11 new studio apartments referred to in this report.*
- 3. THAT the General Manager (or Delegate) be authorised to finalise the contribution and equity share, subject to the constraints above, to ensure that Council obtains fair value for its contribution.*
- 4. THAT the property continues to be managed as part of the North Sydney Council Local Housing Program Property Management Agreement, 31 October 2018.*
- 5. THAT Council staff prepare a report on the options available to better meet the projected demands for Affordable Housing.*

The estimated total costs for the project in July 2020 were \$2,145,781. In October 2021, the estimated total cost for the project incorporating the new designs as required by the DA was \$4,139,859. The recent estimation (February 2022) puts the total cost at \$4,706,838.

CONSULTATION REQUIREMENTS

Community engagement is not required.

DETAIL

In July 2021, Link Wentworth received a DA and a notice of determination from Council (D335/20) based on a revised project design. The updated design provides significant

improvements over the previous design in that it delivers one additional studio apartment, increases the size of the units to enable better circulation and furniture layouts and increases the number of Disability Discrimination Act compliant units to three which is beneficial for residents with mobility issues.

The updated design also proposes that two of the units be set aside to house women escaping DFV.

Link Wentworth's Specialist Housing Team (SHT) has provided the following statistics regarding domestic and family violence accommodation for women in the North Sydney region:

- 3 out of 8 applications for housing assistance SHT receives each week is a result of DFV
- During 2021 SHT relocated 7 tenants to an alternative dwelling, away from the perpetrator due to DFV
- Each year SHT approves around 10-15 clients on our start safely program
- SHT receives 2-3 referrals from external agencies asking us to support clients escaping a domestic violence situation
- Over 10 clients escaping a domestic family violence situation are discussed on the Safety Action Meeting (SAM) each week
- SAM is where various agencies, such as the Police, Health, Education, Child Services, other DV agencies and housing providers meet and develop a coordinated approach to support clients escaping a DFV situation; and
- Link Wentworth works closely with both Mary's House for transitional accommodation and the Daisy Centre for refuge accommodation.



BRIEFING PAPER – 287 MILLER STREET CAMMERAY

To: Rebecca Aukim
From: Paul Hunt – Head of Development
Item: Updated project cost and investment summary
Date: 10 March 2021

EXECUTIVE SUMMARY

Council and Link Housing (renamed Link Wentworth Housing post-merger) met on 11 June 2020 to discuss council's investment in an affordable housing project, originally proposed in a briefing paper to the Director Community & Library Services dated 17 April 2020. That briefing paper outlined high level projected project costs and investment requirements for Council's desired 51% majority ownership.

At our 11 June 2020 meeting Council provided a report from AVG Specialist Valuers, which assessed the market value of land at **\$1,850,000** and I note that whilst the market has increase significantly over the past 16 months (30%+), we have not sought to increase the land value in our updated assessment of project costs, and it remains per AVG's 1 June 2020 assessment of market value.

In July 2021, Link Wentworth received development approval from the North Sydney Planning Panel and a notice of determination from North Sydney Council (D335/20) based on a revised project design. In February 2022 our quantity surveyor repriced the construction cost based on the DA design and current state of the construction sector post Covid 19. This briefing paper provides an update on project costs and investment requirements.

Based on Council's 1 June 2020 valuation, North Sydney Council would need to invest **\$689,344** to reach a 51% ownership position for the existing 5-bedroom cottage at 287 Miller Street.

The updated development cost estimate of 12 new studio apartments at 287 Miller Street is currently projected to be **\$4,706,838**. A 51% investment and 49% investment from North Sydney Council and Link Wentworth would require contributions of **\$2,400,487** and **\$2,306,351** respectively.

Based upon council's 2020 valuation and current build estimates, North Sydney Council would need to invest **\$689,344** (land ownership adjustment) and **\$2,400,487** (development cost contribution), total **\$3,089,831** to own the desired 51% majority ownership in this well-located affordable housing project.

Overleaf I provide an updated project cost and investment summary. This information has been updated since our advice provided to council in July 2020. As discussed, even with access to cheap long-term concessional finance through NHFIC only available to the Community Housing Sector, the low revenue generated from social housing level rents is insufficient to service the post construction debt and additional capital investment is required for a financially sustainable project.

If you have any queries or require any additional information, please don't hesitate in calling me on 0466 428 099 or emailing paul.hunt@linkwentworth.org.au



Land Ownership

1a. Long-standing Ownership Split (1993-2019)

In 1993 title to the Property vested in LAHC, North Sydney Council and Link Wentworth as tenants in common in shares proportionate with their respective contributions as follows:

Current land ownership		
As to the Department:	<u>5879</u> 7279	Share or 80.767%
As to the Council:	<u>1000</u> 7279	Share or 13.738%
As to Link Wentworth:	<u>400</u> 7279	Share or 5.495%

1b. Current Ownership Split (based on Council's 1 June 2020 valuation of \$1,850,000)

Post the sales of LAHC's equity share to Link Wentworth, the ownership was as follows:

Ownership split post acquisition of LAHC's equity share		
As to the Council:	<u>1000</u> 7279	Share or 13.738% = 254,156
As to Link Wentworth:	<u>6279</u> 7279	Share or 86.262% = 1,595,844
		TOTAL = \$1,850,000

1c. Proposed Ownership Split (2021)

Ownership	% Split	Proposed	Current	Difference
As to the Council:	51	943,500	254,156	689,344
As to Link Wentworth:	49	906,500	1,595,844	-689,344
		\$1,850,000	\$1,850,000	

2. Estimated Development Costs

Based on development consent (D335/20) – the project will deliver 12 new studio apartments with an estimated delivery cost as follows:

Delivery cost summary (excl. land + acquisition costs)	Total
Construction costs incl. escalation and contingency (10%)	3,903,500
Professional fees incl. Project Manager	459,683
Statutory fees	40,016
Project contingency (5%)	213,426
Holding costs	7,500
Capitalised interest expense	82,713
TOTAL	\$4,706,838

Notes:

- Updated QS advice on construction costs (Feb 2022) is based on the approved DA design and notice of determination by council dated July 2021. Costs have risen as a result of requested design changes and covid supply chain increases in both material and labour costs. As a result we have adjusted allowances for price escalation to the midpoint of the delivery program and construction contingency.



- b. Professional fees are now adjusted for an open tender requested by council and for an external Project Management service provider per Link Wentworth's Board direction.
- c. Statutory costs per council's notice of determination and allowances for holding costs during construction, PCA and CC fees.
- d. Capitalised interest calculated from the June 2020 land valuation date – notional acquisition date, not the March 2019 date of acquisition from NSW government. This has reduced the projects capitalised interest expense.
- e. Construction contingency allowance of **\$351,000** (10%, +5% increase); and
- f. Project contingency allowance of **\$213,426** (5%) maintained.

Exclusions:

- a. Land costs
- b. Acquisition costs

3. Apportionment of Development Costs

Based upon the revised development cost estimate of **\$4,706,838** (Feb 2022) and North Sydney Council's desired position of a 51% investment of the estimated development costs (including contingency) would be as follows:

Ownership	Investment %	Contribution amount
As to the Council:	51	2,400,487
As to Link Housing:	49	2,306,351
		TOTAL \$4,706,838

4. External Project Manager and Building contractor

An RFP for suitably qualified and experienced Project Manager was concluded, with Signature Project Management being awarded a contract in Nov 2021.

Link Wentworth's Board approved release of an RFT to identify a suitably qualified constructor. Prior to release Council will review tender documentation and endorse a tender evaluation plan to achieve a single price 'lump sum' building contract for all works. Council have nominated John Thomson to join the tender evaluation panel and will nominate a representative to attend the monthly project control group meetings.

5. Indicative timescale

Program	Timescale
Development consent	July 2021 - Completed
Tender documentation	Mar 2022 - Underway
Tender/award of contract	Anticipated - Aug 2022
Completion	Anticipated - Aug 2023

6. Timing of Agreement and Council Investment

A draft development deed, lease and certifier deed have been reviewed by council and Link Wentworth is making final adjustments. These documents could be ready for execution in mid-April 2022. It is proposed that 80% of council's investment would be made available at project commencement (Aug 22) and the remaining 20% available on practical completion in (Aug 23).