



Responsible GM:	Sean Bignell General Manager Asset Development	
Endorsed by:	Glen Sowry Chief Executive	
Board meeting date:	29 August 2013	
Subject:	McLean Flats and Gordon Wilson Flats	

Executive summary

- 1 The purpose of this paper is to inform the Board on the status of negotiations regarding the partial divestment and redevelopment of the Gordon Wilson site located at 314 The Terrace, Wellington.
- 2 This paper also outlines the preferred opportunities presented by retention of the McLean Flats site.
- 3 The McLean Flats and Gordon Wilson Flats buildings require major upgrade, including seismic and structural repairs.
- 4 The condition of the buildings is currently well below Housing New Zealand standards and the buildings are both vacant.
- 5 The Gordon Wilson Building is listed in the Wellington Council District Plan as a Heritage Building.
- 6 There is no longer an imperative to return 105 units to the Housing New Zealand portfolio in this location which provides greater investment flexibility.
- 7 Victoria University is very interested in purchasing either both properties, or just the Gordon Wilson property. Sale to the University is dependent on The Port Nicholson Trust, which has Right of First Refusal (RFR), confirming no interest in purchasing the property/ies for it's own purposes and or lease to Victoria University.
- 8 The preference is to sell the Gordon Wilson property on an 'as is where is' basis, and for Housing New Zealand to demolish the McLean Flats building and redevelop the 1,492m² site with terraced housing as part of a truly innovative mixed tenure and place based development.
- 9 The Housing New Zealand Finance team has yet to comment on the preferred scheme and will provide financial analysis and funding advice once further feasibility work has been completed.
- 10 There is a risk that the Heritage listing on the Gordon Wilson Flats building will not be able to be removed, or that the building becomes registered with the New Zealand Historic Places Trust (NZHPT). There is also a risk that a Heritage rating is applied to McLean Flats building.

Recommendations

11 It is recommended that the Board:

- **note** the Housing New Zealand preference for retention of a (reduced) presence on The Terrace as part of a place based master-plan
- **note** Victoria University has offered to purchase the 314-320 The Terrace properties outright
- **note** Victoria University [redacted] 9(2)(j) [redacted] are supportive of Housing New Zealand to retaining 320 The Terrace (McLean Flats).
- **note** The Port Nicholson Trust has the Right of First Refusal on the property and any offers must initially be invited from the Trust as a matter of statute - this may preclude Victoria University altogether.¹
- **note** the Gordon Wilson Flats building is listed on the Wellington Council District Plan as a Heritage Building
- **note** the Asset Development Group (ADG) is preparing a redevelopment design for the McLean Flats site which optimises site occupancy, and enables cost estimates and an 'as completed' valuation to be produced
- **note** the ADG will finalise RFR discussions on the Gordon Wilson property with The Port Nicholson Trust, and subsequent discussions with Victoria University (if any).

Prior Approvals

12 The Asset Investment Committee (AIC), on 17 July 2013, endorsed:

- the proposed retention and refurbishment of the McLean Flats
- consideration of developing new terraced units on the McLean site – so that the property returns up to circa 40 units
- the entire Gordon Wilson site is sold to Victoria University 'as is where is', which includes, Victoria resolving the RFR and demolition of the Gordon Wilson Flats building, and using the site as an open space 'Front Door' access way to the University Campus.

Existing Situation

13 McLean and Gordon Wilson Flats comprise of 105 vacant units in critical disrepair at 314–320 The Terrace, in the Wellington Central Business District.

14 McLean Flats were vacated in October 2011 and Gordon Wilson in May 2012 following a seismic and strength assessment rating below the National standard on McLean Flats and falling masonry on Gordon Wilson.

15 Table 1 provides a summary of existing property configuration.

Table 1 – McLean Flats and Gordon Wilson Flats existing property configuration summary

	Site area (m ²)	Gross Floor Area	Number of units	Number of bedrooms			
				Bedsit	1 bed	2 bed	Total
McLean	1,492	1,343	18	1	13	4	22

¹ [redacted] 9(2)(j) [redacted]

Gordon Wilson	7,139	7,041	87	11	0	76	163
Total	8,631	8,384	105	12	13	80	185

16 The existing dwelling units in the Gordon Wilson building do not meet current Housing New Zealand design standards. The bedsits are undesirable and the two-level apartment units have inherent design faults which limit accessibility.

17 Since January 2013 the ADG has:

- explored office building conversion opportunities
- discussed with Victoria University its interest in purchasing the site
- commissioned Durability Assessment Testing to confirm life expectancy of existing structures
- commissioned invasive Geotech and Seismic testing to confirm seismic retrofit engineering design and cost estimates
- continued to pursue one-off and bulk sale apartment purchases in the Wellington CBD
- engaged consultants to develop, cost and value redevelopment concepts
- engaged with Council on negotiating the Resource Consent process if demolition and redevelopment becomes the Housing New Zealand approved position.

Problem and/or opportunity

18 **Condition issues:** seismic testing confirms a rating of 68 percent of NBS for main structure and < 20 percent for infill panels on McLean Flats and 58 percent on Gordon Wilson.

- Durability testing has been carried out estimating the life span of the building providing the buildings are refurbished, the estimations are:
 - McLean Flats - 50 years
 - Gordon Wilson Flats - 40 years.
- The ADG has investigated the options of refurbishing and replacement of McLean Flats.
- Refurbishment of the existing 18 McLean Flats to 67 percent of NBS has a cost of \$4 million.

19 **Heritage constraint:** Gordon Wilson Flats is listed on the Wellington Council District Plan as a Heritage building.

- Asset Development has engaged with Council over what the process will be to gain resource consent if demolition and redeveloping Gordon Wilson is Housing New Zealand's approved position.
- The resource consent process to achieve demolition of Gordon Wilson is likely to be notified and could take from 3 to 6 years depending on whether an Environment Court hearing is required.

20 **Replacement acquisitions:** other opportunities have been activated including the redevelopment at Hanson Street and acquisitions across the city.

- The ADG has explored office building conversion opportunities in the Wellington CBD. Except for conversion to student accommodation only one building in the market has been identified as having any potential - 143 Willis Street. After investigations this building was rejected due to risks associated with IEP and conversion from office into residential. In addition, the property could not be secured for an exclusive period as it was tied up as part of a portfolio sale.

21 **Tenant demand opportunity:** the urgent need to re-house Earthquake Prone Buildings affected tenants in the Wellington CBD has subsided since the decant of tenant households from the McLean and Gordon Wilson Flats.

- While demand is expected to remain high in this location, there is no longer an imperative to return 105 units to the Housing New Zealand portfolio in this location given the poor condition of the buildings and opportunity for divestment.
- Tenancy Services and Property Services would like to recover some units on the 314–320 The Terrace site due to the prime location for high needs tenants.

22 **Divestment:** the properties are located in front of the University of Victoria and behind the Wellington CBD. The University has made an unsolicited offer to purchase the McLean / Gordon Wilson property outright from Housing New Zealand.

- [REDACTED] 9(2)(i),9(2)(j)
[REDACTED]
[REDACTED]
- The Port Nicholson Trust has the Right of First Refusal on these properties and any offers must initially be invited from the Trust as a matter of statute. This may preclude Victoria University altogether.
- Housing New Zealand is currently seeking an offer from The Port Nicholson Trust for 318 The Terrace (the Gordon Wilson site).

Proposal

23 It is recommended that shared ownership of 314-320 The Terrace continues to be pursued, with either The Port Nicholson Trust or Victoria University purchasing the Gordon Wilson Building and Housing New Zealand building a replacement complex on the McLean site.

24 Housing New Zealand has two viable options available when considering shared ownership over the land with the University².

- [REDACTED] 9(2)(i)
[REDACTED]
- [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

² Assuming The Port Nicholson Trust confirm they are not interested in the site.

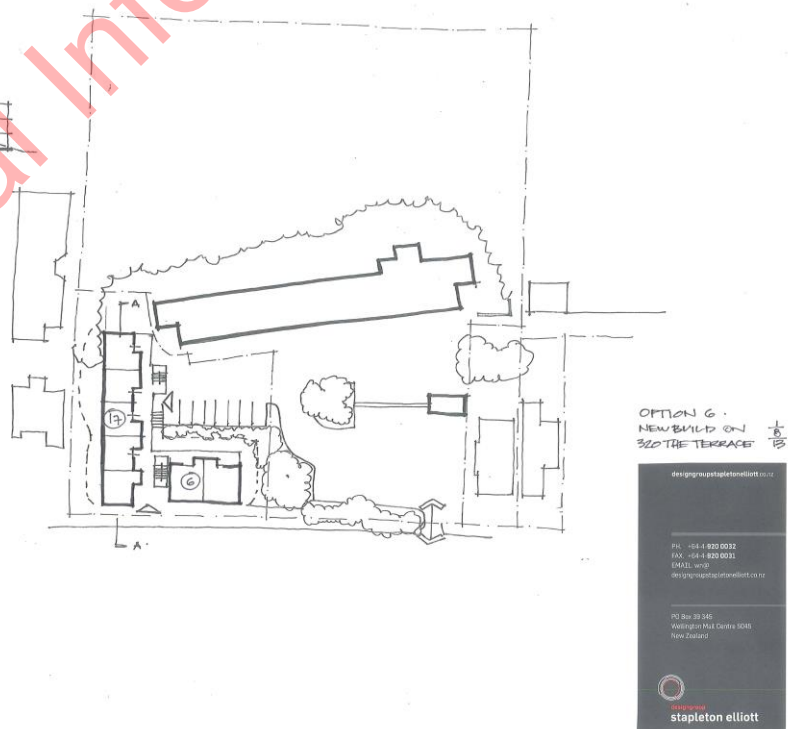
25 The University wants to obtain rights over at least the Gordon Wilson site to enable a 'front door' to the Terrace and CBD. This may result in an easement granted to Housing New Zealand over the site entrance and drive way.

26 The option for Housing New Zealand to retain the McLean site is recommended because:

- this option allows Housing New Zealand to replace existing high rise with a new lower density community which in turn will return greater opportunities and reduce social isolation of low income individuals and families, sooner rather than later
- it will transform the existing development into lower density higher quality housing and attract higher income families to rent and purchase, enabling flexibility and a blend of low, middle and high income households
- it provides an opportunity to divest and demolish buildings that are problematic in terms of maintenance, management, economic viability and architectural significance
- the University's desire to develop a front door to the campus through the Gordon Wilson site is accommodated comfortably alongside quality public housing and it's synergies with student accommodation
- selling the Gordon Wilson property will be less controversial with the presence retention and reinvestment on the site components
- this option shows logical progression towards solving the Gordon Wilson problem in a clever and sensible way
- it offers an opportunity of a resource consent concession enabling development of an optimal number of units on the McLean site.

27 Figure 1 below provides an example of a replacement McLean Flats based upon current planning rules.

Figure 1 – Development of 23 one-bedroom units utilising existing McLean site boundaries



28 [Redacted] 9(2)(i),9(2)(j)
[Redacted]
[Redacted]
[Redacted]

29 There is a risk that the buildings could become registered with the NZHPT. In this situation there may be an opportunity to receive grants to assist with any building upgrade.

30 [Redacted] 9(2)(i),9(2)(j)
[Redacted]

31 There is a political risk and potential negative media to Government by divesting and demolishing the Gordon Wilson Flats, mitigated by improving the McLean site.

32 The anticipated time frame for delivery of the proposed McLean option is up to 3 years (circa 1 year negotiation / resource consent / plan change, 7 to 9 months design, and 8 to 11 months build). The RFR process has potential to lengthen this timeframe.

33 A new McLean Flats would enable best practice design features to be incorporated, such as access, outdoor spaces and carparking. These environmental design features will contribute to increased crime prevention and improved CPTED principles, technology future proofing, asset management, life-cycle maintenance, and place-making.

Finance inputs

34 [Redacted] 9(2)(i),9(2)(j)
[Redacted]
[Redacted]

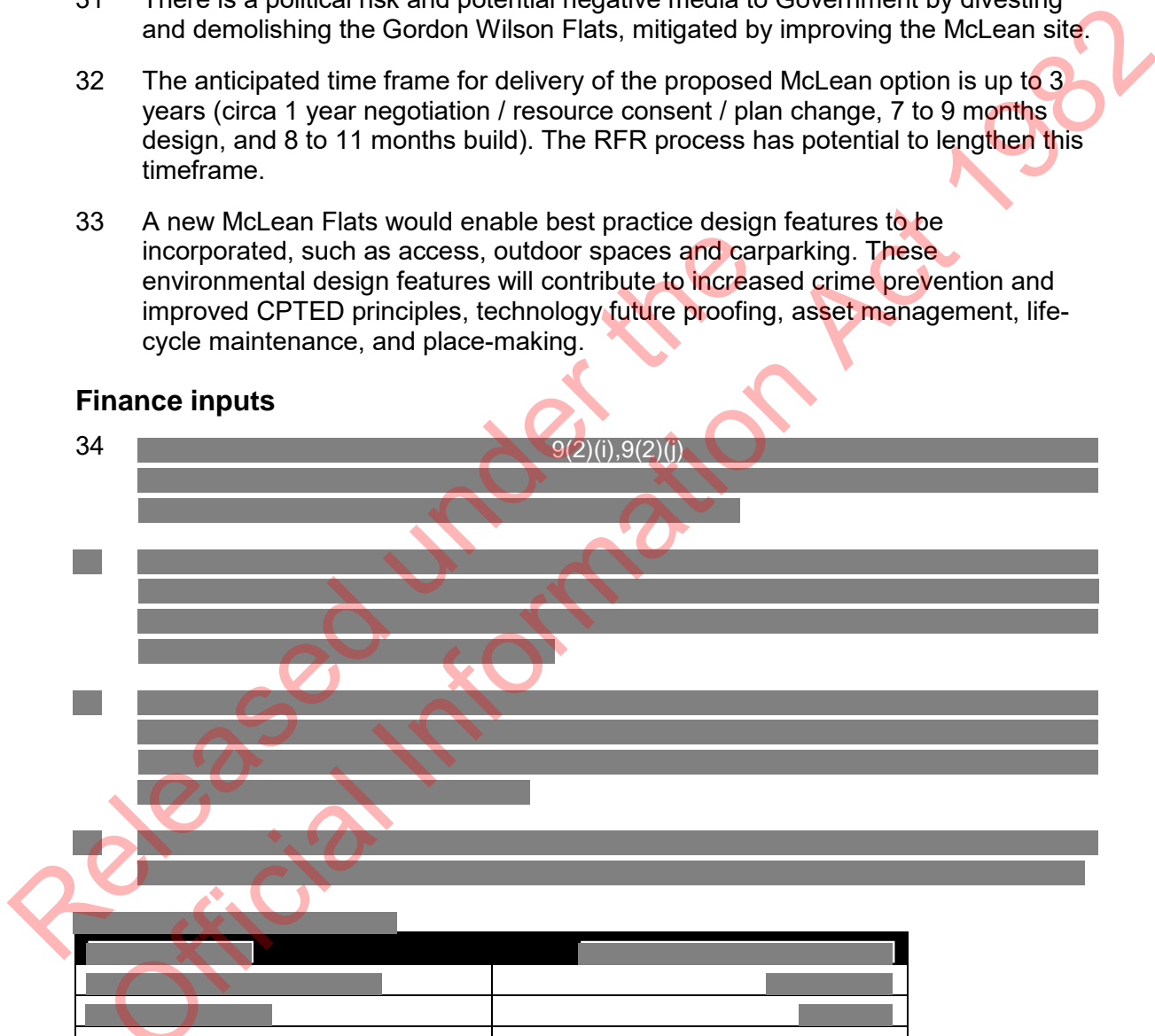
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- 39 Should this option be considered viable we would recommend an updated valuation be completed on the basis of the sale offer to check for potential impairment to the recent revaluation.
- 40 Detail surrounding the proposal to re-build McLean Flats is very limited at this early stage in the project.
- 41 A full financial analysis will be completed once redevelopment designs providing number and size of units, and costing and value estimates have been obtained.

Logistics and next steps

- 42 The existing buildings are vacant – so no tenant logistics plan is required. Once the proposed option planning is at an advanced stage, a full Communications and Stakeholder plan will be completed and enacted.
- 43 The ADG will:
- progress RFR discussions with The Port Nicholson Trust on the sale of the Gordon Wilson Flats property.
 - prepare a site optimising concept design, cost estimate and valuation for the McLean Flats property.

Released under the
Official Information Act 1982

Fact Sheet

McLean and Gordon Wilson Flats

Proposal	314-320 The Terrace, Wellington – partial sale and redevelopment		Cash-flow	Accounting Impact	Total Investment	NPV (20yr)	
			TBC	TBC	TBC	TBC	
	Current Configuration		Planned Configuration		Planned Delivery Cycle		
	105 apartments over two multi-story buildings: 25 one-bedroom 80 two-bedroom		Up to 40 new terraced houses on the McLean site: Configuration TBC		Start	Completion	
					Sep-13	TBC	
Strategy	AMS Market Segment & Segment Response		Property Demand		CAU Concentration		
	High density city suburb – portfolio acquisitions		Forecast Demand	Current Shortfall	Current	Target	Proposal
			1 Bed: TBC 2 Bed: TBC	1 Bed: 36 2 Bed: 18	10.47%	<15.0%	7.64%

McLean Flats and Gordon Wilson Flats comprise 105 vacant units lying vacant in critical disrepair on The Terrace in the Wellington Central Business District.

McLean Flats were vacated in October 2011 and Gordon Wilson in May 2012 following a seismic and strength assessment rating below the National Building Standard on Flats and falling masonry on Gordon Wilson.

Gordon Wilson is listed on the Wellington Council District Plan as a Heritage building.



The forecast demand for Wellington Central Business District and city fringe state housing over the next ten years is uncertain and the demand for private market housing is flat. Other opportunities have been activated including new redevelopment at Hanson Street and acquisitions throughout the city.

While demand is expected to remain high in The Terrace location, there is no longer an imperative to return 105 units to the Housing New Zealand portfolio in this location.

The properties at 314 and 320 The Terrace are located in front of the University of Victoria and behind the Wellington Central Business District. This creates an opportunity for Housing New Zealand to investigate a mixed tenure environment given the proximity to Victoria University and absolute prime location of this site.

The University has offered to purchase the McLean and or the Gordon Wilson properties outright from Housing New Zealand.

Complete sale is not the optimal solution, instead an opportunity for mixed tenure with Victoria University is to be pursued as the first priority.

Key Assessment Metrics

Table i – Project performance against Asset Management Strategy Goals

Asset Management Strategy Goal	Existing	Re-build
Goal 1: Increase the rate of churn of assets to at least 1 in 50 homes per annum	Fails	Improves
Goal 2: Ten year funds retention and reinvestment funding envelope	Fails	Improves
Goal 3: Better align the location of the housing portfolio with regional demand	Fails	Improves
Goal 4: Improve the match of asset types to applicant demand to 90 percent	Good	Improves
Goal 5: No community will have more than 15 percent state housing presence	Good	Improves by mixed ownership potential.
Goal 6: Increase the number of assets where the Property Quality Index rating aligns to the Corporation's future intentions for the property	Fails	Fixes
Goal 7: Reduce the cost of building by up to 25 percent	No Change	Improves by reduced maintenance costs and increased building life.
Other Considerations:		
Delivers decanting and relocation options	Fails	Improves
Infuses best practice management	Fails	Improves
Improves Tenant Amenity, reduces complaints	Fails	Fixes
Infuses best practice urban design	Fails	Improves
Enables lower lifecycle expenditure (maintenance + CAPEX)	Fails	Improves
Improves CPTED requirements	Fails	improves