

# Whitmore Square Apartment Complex - Leasing

ITEM 12.2.1 14/07/2020  
Council

Strategic Alignment - Thriving Communities

**Program Contact:**  
Tom McCreedy, AD Property & Commercial 8203 7313

2010/03833-6

Confidential - s 90(3) (b) & (d) commercial advantage/prejudice commercial position of council/commercial information of a confidential nature

**Approving Officer:**  
Ian Hill, Director Growth

## EXECUTIVE SUMMARY

The purpose of this report is to seek Council's direction regarding the future leasing model for the 20 apartments in the Whitmore Square Complex located at 42-56 Whitmore Square, Adelaide. The apartments are currently leased as affordable housing under the National Rental Affordability Scheme (NRAS). The NRAS agreement for this apartment complex has reached its 10-year maximum time limit and will conclude on 20 October 2020.

Administration has prepared three options for Council consideration.

Consideration in confidence is sought as information in this report, including certain financial information and further direction, may prejudice the City of Adelaide's future dealings regarding this asset and other residential stock.

## RECOMMENDATION

### THAT COUNCIL

1. Approves **Option 1**: leasing of the 20 Council owned apartments in the Whitmore Square Apartments located at 42-56 Whitmore Square, Adelaide, at market rental from 21 October 2020 and securing a service provider for the supply of residential leasing and management services of the 20 Council owned apartments in the Whitmore Square Apartments from 21 October 2020, or;
2. Approves **Option 2**: leasing of the 20 Council owned apartments in the Whitmore Square Complex located at 42-56 Whitmore Square, Adelaide as affordable housing up to 30 June 2021 and the extension of Cornerstone Housing Ltd Supply of Land Agent Service contact for the 20 Council owned apartments in the Whitmore Square Complex up to 30 June 2021, or.
3. Approves **Option 3**: Bridging Arrangement of the 20 Council owned apartments in the Whitmore Square Complex located at 42-56 Whitmore Square, Adelaide at 80% of Market Rent totalling circa \$395,200 per annum or \$380 per week, per apartment depending on apartment size.
4. Authorises the Chief Executive Officer to execute the apartment lease agreements and associated documentation.
5. In accordance with Section 91(7) & (9) of the *Local Government Act 1999 (SA)* and because Item 12.2.1 [Whitmore Square Apartments] listed on the Agenda for the meeting of the Council held on 14 July 2020 was received, discussed and considered in confidence pursuant to Section 90(3) (b) & (d) of the *Local Government Act 1999 (SA)*, this meeting of Council do order that:
  - 5.1. The resolution, the report, the discussion and any other associated information submitted to this meeting and the Minutes of this meeting in relation to the matter remain confidential and not available for public inspection until 31 December 2027.
  - 5.2. The confidentiality of the matter be reviewed in December 2021.
  - 5.3. The Chief Executive Officer be delegated the authority to review and revoke all or part of the order herein and directed to present a report containing the Item for which the confidentiality order has been revoked.

## IMPLICATIONS AND FINANCIALS

City of Adelaide 2020-2024 Strategic Plan	<b>Strategic Alignment – Thriving Communities</b> A safe, affordable, accessible, well-connected city for people of all ages and abilities, and all transport modes
Policy	No changes to Council policy or procedure are required as a result of this report.
Consultation	Not as a result of this report.
Resource	The next steps as contained within this report will be undertaken by the Property & Commercial Program.
Risk / Legal / Legislative	This report supports the <i>Local Government Act 1999 (SA)</i> ensuring that Council's resources are used fairly, effectively and efficiently. Moving away from the affordable housing model in the current financial climate may pose a reputational risk, in that we are not renewing leases for an affordable housing option given the community impacts from those affected by the Covid-19 pandemic.
Opportunities	Retaining the Whitmore Apartments as affordable housing provides the opportunity to support our current tenants for an extended period of 9 months in the current economic climate and afford council time to prepare to go to a market related leasing model.
20/21 Budget Allocation	Rental income \$337,787 and NRAS incentive of \$69,168 (up to 20/10/2020) equates to circa \$407,000 per annum. If we move to market rental from 21 October 2020 with full occupancy rental can increase notionally to \$515,234.
Proposed 21/22 Budget Allocation	Rental income \$494,000 at full market rental, plus 3% equates to \$508,820 per annum.
Life of Project, Service, Initiative or (Expectancy of) Asset	As long as the apartments are in Council ownership.
20/21 Budget Reconsideration (if applicable)	Not as a result of this report.
Ongoing Costs (eg maintenance cost)	Maintenance and leasing costs as long as apartments are in council ownership. Matters relating to water egress in the basement will be managed by the Community Corporation in conjunction with the FMG Engineering and CoA
Other Funding Sources	No other funding source available when NRAS Scheme expires on 20 October 2020.

## GROUNDS AND BASIS FOR CONSIDERATION IN CONFIDENCE

### Grounds

Section 90(3) (b) & (d) of the *Local Government Act 1999 (SA)*

- (b) information the disclosure of which –
  - (i) could reasonably be expected to confer a commercial advantage on a person with whom the council is conducting, or proposing to conduct, business, or to prejudice the commercial position of the council; and
  - (ii) would, on balance, be contrary to the public interest;
- (d) commercial information of a confidential nature (not being a trade secret) the disclosure of which-
  - (i) could reasonably be expected to prejudice the commercial position of the person who supplied the information, or to confer a commercial advantage on a third party; and
  - (ii) would, on balance, be contrary to the public interest;

### Basis

This Item contains certain information of a confidential nature (not being a trade secret) the disclosure of which could reasonably be expected to confer a commercial advantage on a person with whom the council is conducting business, prejudice the commercial position of the council and prejudice the commercial position of the person who supplied the information and confer a commercial advantage to a third party.

More specifically, the disclosure of certain information in this report could reasonably prejudice the commercial position of the Council including its future commercial dealings given that it contains financial information and further direction with regard to Council's assets.

### Public Interest

The Council is satisfied that the principle that the meeting be conducted in a place open to the public has been outweighed in the circumstances given that the information in this report, including certain financial information and further direction, may prejudice its future commercial dealings within regard to its assets. On this basis, the disclosure of such information may severely prejudice the City of Adelaide's ability to influence the proposal for the benefit of the City of Adelaide and the community in this matter.

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## DISCUSSION

### Development

1. The Whitmore Square Apartment Complex (the Complex) was constructed in 2010 by Council as developer.
2. The Complex comprises of one commercial premise and 26 apartments of which six apartments were sold to private owners and 20 apartments remained in Council ownership. Council decided that the apartments would be leased out as affordable housing.

### National Rental Affordability Scheme (NRAS)

3. We entered into a National Rental Affordability Scheme (NRAS) agreement for the 20 Council owned apartments for the maximum term of 10-years. This NRAS agreement will conclude on 20 October 2020.
4. NRAS is a long-term commitment by the Australian Government in partnership with the States and Territories to invest in affordable housing.
5. The NRAS (which commenced in 2008), seeks to address the shortage of affordable rental housing by offering financial incentives to persons or entities, such as the business sectors and community organisations, to build and rent dwellings to low and moderate income households at a rate that is at least 20% below the Market Value rent. Essentially, the Lessor can charge the tenant 80% of market rent with the shortfall to be made up by the NRAS incentive.
6. The NRAS incentive has two components: an Australian Government contribution and a State Government Contribution.
7. These contributions for the 2020-21 NRAS year are \$8,452.94 and \$2,817.65 respectively equating to an NRAS incentive of \$11,270.59 per apartment.
8. The NRAS incentive has increased from \$8,000 in 2008/09 to \$11,270.59 in 2020/21.
9. The NRAS scheme applies eligibility criteria assessed by the Department of Social Services for tenants based on their income (Link 1 view [here](#)).
10. Under the NRAS agreement Council's incentive for the Whitmore Square Complex for 2018/2019 was \$223,405 and is expected to be a similar amount calculated for 2019/2020.

### Apartment Lease Arrangements

11. All the current apartment leases expire on or before 20 October 2020 and aligned with the expiry of the NRAS Scheme agreement.
12. Cornerstone Housing Ltd is a not-for-profit Community Housing organisation and were engaged by Council through a tender process in 2010 to manage the affordable housing leasing of the Complex.
13. Their current Land Agent Service Contract is aligned with the NRAS Scheme to conclude on 20 October 2020.
14. The Complex has maintained a high occupancy rate throughout the 10-year term.
15. We have observed that many tenants have remained in the Complex long term (more than two years), paying rent on time, maintaining their apartments in good order and would continue renewing their lease for a further 12-month term.
16. The Complex and Apartments are in good condition with only minor works with the exception of a water pooling issue in the basement. FMG Engineering (FMG) has been engaged by the Community Corporation to investigate the source of the pooling and to recommend treatment.
17. Matters relating to water egress in the basement will be managed by the Community Corporation pending the outcomes of an engineering report from FMG.
18. It is important to note that Cornerstone Housing Ltd have indicated that the current tenants are stable with secure incomes and no significant issues have arisen, which is ideal in the current times.
19. Council has three rental options (Table 1) available post 20 October 2020.

### Leasing Model Option 1 - Market Rental

20. Council could elect to proceed with a market related rental model from 21 October 2020.
  - 20.1. This would see the 20 units introduced to the market via a traditional lease arrangement and based on current estimates reflecting a market rental income in the order of \$475 per apartment, per week post 20 October 2020 and reflecting a total rental income of \$515,324 per annum.

20.2. Note NRAS finishing 20 Oct 2020 / market rent commencing on the 21 Oct 2020.

### Leasing Model Option 2 - Affordable Rental

21. Council may elect to continue after the expiry of the NRAS Scheme to rent the apartments as affordable housing up to 30 June 2021 (subsidised).
- 21.1. This option would reflect a budget negative impact of circa \$139k for the 2020/21 budget period compared to the previous financial year and if a market rent was introduced would reflect a negative impact of circa \$30k based upon NRAS expiry on 20 October 2020.
- 21.2. We are currently achieving \$308 per week per apartment, plus \$216 per week through the NRAS scheme, totalling \$525 per week or circa \$546k per annum.

### Leasing Model Option 3 – Bridging Arrangement

22. Taking into consideration the conclusion of NRAS and the current impact of Covid-19 we have contemplated an alternative option for Council which would be based on offering a 20% discount on the proposed Market Rent and would reflect a weekly rental of \$380 per apartment (subject to scale of apartment).
- 22.1 Whilst this does not reflect a true market rent it assists those through the Covid-19 period and closes the funding gap pre / post NRAS.

**Table1. Rental Options**

	<i>Rental income</i>	<i>NRAS incentive</i>	<i>Market Rent</i>	<i>Total income</i>
<i>Current Status -2019/20 with NRAS - 12 months of affordable housing</i>	\$320,734  <i>(80% of Market rent, \$308 per week, per apartment)</i>	\$224,962  <i>(\$11,248 per apartment)</i>	<i>Nil</i>	<b>\$545,696</b>
<i>Leasing Model Option 1 - Market Rental 20/21 with NRAS up to 20/10/2020 (112 days)</i>	\$103,650  <i>(80% of Market rent) (112 days)</i>	\$69,168  <i>NRAS (112 days)</i>	\$342,416  <i>100% Market rent re-valued at \$475 per week (253 days)</i>	<b>\$515,234</b>
<i>Leasing Model Option 2 - Affordable Rental 20/21 with NRAS concluding on 20/10/2020</i>	\$337,787  <i>(80% of Market rent, based on year on year increase / \$325 per week, per apartment)</i>	\$69,168  <i>(\$11,271 per apartment pa for 112 days)</i>	<i>Nil</i>	<b>\$406,955</b>
<b>Leasing Model Option 3 – Bridging Arrangement</b>  <b>Based on 80% of Market Value</b>	\$395,200 / \$380 per week, per apartment	<i>Nil</i>	<i>80% pf Market rent</i>	<b>\$395,200</b>

### Strategic Property Review

23. On 14 April 2020 Council resolved to receive the Strategic Property Action Plan report and approved the identified asset and City shaping opportunities. This incorporated the recommended sale of under-performing assets including the Whitmore Square Apartments.
24. This will be a matter of future investigation with a divestment strategy relating to Affordable Rental Housing, including the Whitmore Square Apartments, anticipated to be finalised in late 2020 for Council's consideration, noting the cessation of NRAS and current clientele exceeding the Affordable Housing Criteria threshold.

## DATA & SUPPORTING INFORMATION

**Link 1** - Table with 2019/2020 and 2020/2021 NRAS threshold limits

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## ATTACHMENTS

Nil

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- END OF REPORT -



extension of Cornerstone Housing Ltd Supply of Land Agent Service contact for the 20 Council owned apartments in the Whitmore Square Complex up to 30 June 2021, with no increase in rental for the financial year 2021.

2. Authorises the Chief Executive Officer to execute the apartment lease agreements and associated documentation.
3. In accordance with Section 91(7) & (9) of the *Local Government Act 1999 (SA)* and because Item 12.2.1 [Whitmore Square Apartments] listed on the Agenda for the meeting of the Council held on 14 July 2020 was received, discussed and considered in confidence pursuant to Section 90(3) (b) & (d) of the *Local Government Act 1999 (SA)*, this meeting of Council do order that:
  - 3.1. The resolution, the report, the discussion and any other associated information submitted to this meeting and the Minutes of this meeting in relation to the matter remain confidential and not available for public inspection until 31 December 2027.
  - 3.2. The confidentiality of the matter be reviewed in December 2021.
  - 3.3. The Chief Executive Officer be delegated the authority to review and revoke all or part of the order herein and directed to present a report containing the Item for which the confidentiality order has been revoked.

Discussion ensued

The motion was then put and lost

Councillor Martin requested that a division be taken on the motion

#### Division

#### For (5):

Deputy Lord Mayor (Councillor Hyde) and Councillors Donovan, Martin, Moran and Simms.

#### Against (6):

Councillors Abrahamzadeh, Couros, Hou, Khera, Knoll and Mackie.

The division was declared against the motion

It was then -

Moved by Councillor Simms,  
Seconded by Councillor Donovan -

#### THAT COUNCIL

1. Approves **Option 4**: Stepped Arrangement of the 20 Council owned apartments in the Whitmore Square Complex located at 42-56 Whitmore Square, Adelaide commencing 21 October 2020 at the same rental as at 20 October 2020 circa \$337,787 per annum or \$325 per week per apartment depending on apartment size with an increase of \$20 per week per apartment every 6 months from 1 January 2021 (resulting in rental of \$345 from 1 January 2021, \$365 from 1 July 2021, \$385 from 1 January 2022 until rental reflects market rental). Also securing a service provider for the supply of residential leasing and management services of the 20 Council owned apartments in the Whitmore Square Apartments from 21 October 2020.
2. Authorises the Chief Executive Officer to execute the apartment lease agreements and associated documentation.
3. In accordance with Section 91(7) & (9) of the *Local Government Act 1999 (SA)* and because Item 12.2.1 [Whitmore Square Apartments] listed on the Agenda for the meeting of the Council held on 14 July 2020 was received, discussed and considered in confidence pursuant to Section 90(3) (b) & (d) of the *Local Government Act 1999 (SA)*, this meeting of Council do order that:
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The motion was then put and lost

Councillor Donovan requested that a division be taken on the motion

**Division**

**For (4):**

Councillors Couros, Donovan, Mackie and Simms.

**Against (7):**

Deputy Lord Mayor (Councillor Hyde) and Councillors Abrahamzadeh, Hou, Khera, Knoll, Martin and Moran.

The division was declared against the motion

It was then -

Moved by Councillor Abrahamzadeh,  
Seconded by Deputy Lord Mayor (Councillor Hyde) -

THAT COUNCIL

1. Approves **Option 1**: leasing of the 20 Council owned apartments in the Whitmore Square Apartments located at 42-56 Whitmore Square, Adelaide, at market rental from 21 October 2020 and securing a service provider for the supply of residential leasing and management services of the 20 Council owned apartments in the Whitmore Square Apartments from 21 October 2020, or;
2. Authorises the Chief Executive Officer to execute the apartment lease agreements and associated documentation.
3. In accordance with Section 91(7) & (9) of the *Local Government Act 1999 (SA)* and because Item 12.2.1 [Whitmore Square Apartments] listed on the Agenda for the meeting of the Council held on 14 July 2020 was received, discussed and considered in confidence pursuant to Section 90(3) (b) & (d) of the *Local Government Act 1999 (SA)*, this meeting of Council do order that:
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Carried

Councillor Martin requested that a division be taken on the motion

**Division**

**For (6):**

Deputy Lord Mayor (Councillor Hyde) and Councillors Abrahamzadeh, Couros, Hou, Khera and Knoll.

**Against (5):**

Councillors Donovan, Mackie, Martin, Moran and Simms.

The division was declared in favour of the motion

16. I [REDACTED]
- [REDACTED]