



## ADMINISTRATIVE REPORT

Report Date: November 22, 2011  
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Meeting Date: November 29, 2011

TO: Vancouver City Council

FROM: Chief Librarian, Vancouver Public Library, in consultation with the General Managers of Community Service Group and Business Planning & Services, Director of Real Estate Services, and Director of Social Development

SUBJECT: Downtown Eastside/Strathcona Branch Library - YWCA Metro Vancouver Housing Component: 720-730 East Hastings Street

### RECOMMENDATION

- A. THAT the recommendations approved by Council on March 9, 2011 be revised to approve a nominal gross air space parcel lease inclusive of rent in lieu of property taxes to the YWCA (the "Air Space Parcel Lease") for a term of 99 years with an option to renew for a further 30 years, of the air space parcel to be created following construction of the Strathcona Library and YWCA Family Housing at this site, which air space parcel will contain the family housing component and related amenity, office and common areas for providing supportive housing and associated social services.
- B. THAT to enable the YWCA to manage the development of this site as previously approved by Council, that the City enter into a nominal gross ground lease inclusive of rent in lieu of property taxes (the "Ground Lease") of the site with the YWCA for the term of the design and construction phase, which Ground Lease will be replaced by the Air Space Parcel Lease, upon registration of the Air Space Parcel Lease in the Land Title Office.
- C. THAT the YWCA's rights and responsibilities during the design and construction phase be set out in, and subject to, a development management agreement (the "Development Management Agreement") to be entered into with the City.
- D. THAT upon air space subdivision, an agreement (the "Building Management Agreement") be entered into between the City as owner of the air space parcel and the City as owner of the remainder parcel, pursuant to which the air space parcel owner will take on the primary obligations in respect of the ongoing repair, maintenance and management of the overall development, and will include indemnities and releases, and THAT the YWCA then assume the rights and obligations of the air space parcel owner under the Building Management Agreement upon entering into the Air Space Parcel Lease.

- E. THAT each of the Air Space Parcel Lease, the Ground Lease, the Development Management Agreement, the Building Management Agreement and such other related legal agreements as may be considered appropriate by the Director of Legal Services, be approved and entered into by the City, as represented by the Director of Legal Services or her nominee, on such other terms and conditions as the General Manager of Community Services, the Director of Real Estate Services, the City Librarian and the Director of Legal Services may negotiate and agree to with the YWCA or are further described in the body of this Report or in the Administrative Report approved by Council In-Camera on March 9, 2011.

The nominal gross rent inclusive of rent in lieu of property taxes for this City-owned property, recommended for each of the Ground Lease and Air Space Parcel Lease, constitutes a grant and must be approved by the affirmative vote of not less than eight members of Council.

#### **GENERAL MANAGER COMMUNITY SERVICES COMMENTS**

The Joint City-Library-YWCA Project team has met to review different ownership and operating models for the new Library - Supportive Housing project and has agreed that the long term lease of the residential air space parcel is the most suitable development model to pursue. Although most typical housing development agreements with the non-profit housing sector are predicated on lease terms of 60 years, it was decided that the \$6.0 million private equity being invested by the YWCA warranted a longer lease term of 99 years (plus renewal). As the City will now retain ownership of the air space parcel instead of transferring fee simple ownership to the YWCA, this will ensure the long-term use of the air space parcel for supportive housing purposes pursuant to the Air Space Parcel Lease, while maintaining the City's flexibility and control over the redevelopment potential of the property in the future as owner. This deal structure provides a win/win solution and enables the project to proceed in a mutually beneficial manner.

#### **CITY MANAGER COMMENTS**

The City Manager RECOMMENDS approval of the forgoing.

#### **COUNCIL POLICY**

Council's priorities for social housing are to maintain and expand housing opportunities in Vancouver for low and modest income households with priority being given to families with children, seniors on fixed incomes or in need of support; SRO residents; and the mentally ill, physically disabled and others at risk of homelessness. This project will help to advance this policy in respect of single mothers with young children.

#### **PURPOSE**

The purpose of this report is to seek Council approval for the form of tenure to be provided to the YWCA for its supportive residential project being developed jointly with the new Strathcona Branch Library.

## BACKGROUND

At the Council meeting of October 7, 2010, Council passed the following motions;

*THAT City Council authorize the Library Board to proceed with the design of a stand-alone branch library at 720-730 East Hastings Street, with construction costs subject to approval of funding in the next Capital Plan. The source of funding for the design work in 2010 is \$300,000 approved in the 2010 Capital Budget for Downtown Eastside/Strathcona Branch Library Planning.*

*THAT should the City Manager find an opportunity for inclusion of housing on the library development site, that does not jeopardize the timelines, she return to Council with a proposal for consideration.*

At the Council meeting of March 9, 2011, Council passed the following further motions;

*THAT City Council authorize the Library Board to work with the YWCA to develop the approved DTES/Strathcona library with an additional four floors of housing for single mothers with children, on City-owned lands at 720-730 East Hastings Street.*

*THAT rezoning, development permitting and building permit fees for this project be included in the Library's 2012 capital budget submission.*

*THAT upon construction of the building on the site, Council authorize the building to be subdivided to create separate legal title to the library component and the residential component, and thereafter authorize the residential component to either be leased for 60 years for nominal rent or transferred in fee simple to the YWCA on such terms and conditions as the General Manager of Community Services, the Director of Real Estate, the City Librarian and the Director of Legal Services may negotiate and agree to with the YWCA and are contained in the body of this Report.*

*THAT the Director of Planning be authorized to initiate a rezoning application in respect of this site to accommodate the proposed redevelopment authorized by the foregoing recommendations.*

Following the Council meeting in March 2011, the project partners have worked together to come to an agreement *in principle* regarding the nature of the joint project, general form of the development and nature of the tenures for the parties. The Joint City-Library-YWCA Steering Committee has also selected a project Architect through a formal RFP process to commence design work and the redevelopment process.

The proposed VPL-YWCA facility involves a mixed-use building which will include a new library on the first two floors and family residential units on the upper floors. The building will be developed in partnership with the YWCA managing the development process as previously approved by Council.

Upon construction of the building, the improvements will be subdivided to create separate legal air space parcels for the residential component and Remainder (which will house the Library).

## DISCUSSION

One of the fundamental considerations in the joint project is the form of tenure to be provided to the YWCA for the residential airspace to be created once the development is completed. The City and YWCA have agreed that:

- Development of the project will be managed by the YWCA with oversight by a Joint City-Library-YWCA Steering Committee and requiring the City to enter into a **Ground Lease** for the sites with the YWCA;
- Upon completion of the project, two airspace parcels will be created; one containing the residential component of the development; and the other containing common areas and the branch Library and referred to as the Remainder;
- Both airspace parcels will be owned by the City;
- The City will replace the Ground Lease with an **Airspace Parcel Lease** in favour of the YWCA over the residential airspace parcel, including administrative, support and common areas for providing supportive housing and associated social services, for an initial term of 99 years with an option to renew expected to be 30 years;
- The Remainder will contain the Council approved full-service Strathcona Library Branch, providing specialized programs and library services for the Strathcona/Downtown Eastside/Chinatown neighbourhoods;
- The City and YWCA will enter into a **Reciprocal Easement Agreement** under which the YWCA will take on responsibility for ongoing management and operation of the project for the period of the Airspace Parcel Lease. The City will essentially become a tenant in the building paying its share of the agreed upon operating costs.

This arrangement is a variation on the initial scope of proposals reported to Council and is being brought back for approval.

The management and decision making around operating costs, insurance, budget management, rules and regulations, parking, and associated air space parcel issues will be addressed in the Building Management Agreement. This document will set out the legal relationships, cost sharing formulas, dispute resolution mechanism, and will address the associated issues that typically arise within a multiple air space parcel relationship. Although both the Library and YWCA will bear their proportionate share of costs and expenses as set out in the Building Management Agreement, it is anticipated that the YWCA will be delegated the general care and conduct of managing the project, including common areas, and will have responsibility for the day to day property management of the development.

## FINANCIAL IMPLICATIONS

The Library has approximately \$500,000 available in existing capital funding to work with community, staff, and architects to plan and design the DTES/Strathcona branch. The Library component will be fully funded by the City, and is included in the 2012-2014 Capital Plan approved by Council September 22, 2011. As per the September 2011 Council Report, the anticipated City share for the branch library is estimated at \$15.3 million.

The YWCA will raise funds for its share of the residential component to a maximum of \$6.0 million which will enable them to create 12-14 family units. Because they will not have provincial mortgage subsidy and program funding through BC Housing, the YWCA must raise the entire capital value of the project in order to operate it. Accordingly, this capital

campaign goal will include a 10% premium to establish an operating legacy/endowment fund to help cover costs for the supports offered to residents.

A 99 year lease plus a 30 year renewal option is valued at 95% of freehold market value. The estimated market value of the residential component after subdivision is calculated by Real Estate Services as being equivalent to \$75 per buildable square foot. As currently planned and designed, the residential component (12 to 14 family housing units) will be approximately 16,330 square feet, including residential amenity, support staff offices and community planning space. Should the building design be expanded to reach a maximum of 23 units, the estimated size would be 23,000 square feet. Thus, if the residential component is leased for nominal rent, the value of the grant for the initial 99 year lease option plus a 30 year renewal option will be approximately \$1,224,000 for 12-14 units, up to \$1,800,000 for 23 units.

The amount of forgone rent-in-lieu of property taxes for the housing portion (Air Space Parcel) of the property is estimated at \$11,000 to \$22,000 per year (2011 dollars) during construction, depending on the final number of units, to \$25,000 to \$50,000 per year (2011 dollars) post completion.

## CONCLUSION

It is recommended that the DTES/Strathcona Library Branch proceed as scheduled and upon completion the building be subdivided into separate Air Space Parcels with the residential parcel leased to the YWCA at a nominal gross rent inclusive of rent in lieu of property taxes for a term of 99 years with an option to renew for a further 30 years.

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