



ADMINISTRATIVE REPORT

Report Date: October 5, 2016
Contact: Kathleen Llewellyn-Thomas
Contact No.: 604.871.6858
RTS No.: 11597
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Meeting Date: October 19, 2016

TO: Standing Committee on City Finance and Services

FROM: General Managers of Community Services and Real Estate and Facilities Management

SUBJECT: Modifications to Lease Terms and Other Arrangements Fire Hall No. 5 / YWCA Project

RECOMMENDATION

THAT the Recommendation A (RTS 10217) approved by Council on December 18, 2013 for the execution of a 60-year Lease Agreement with the YWCA Metro Vancouver (“YWCA”) as the lessee of a non-market (affordable and below market) rental housing facility comprised of 31 residential units (the “Residential Component”) to be constructed as part of the project to construct a new Fire Hall No. 5 be revised to approve:

- (a) the execution of a nominal basic rent lease of 27 of the 31 residential units in the Residential Component, together with the exclusive common areas of the Residential Component, to the YWCA and a licence to use six parking spaces for a term of 60 years;
- (b) the execution of a pre-paid basic rent lease of 4 residential units to the British Columbia Housing Management Commission or its affiliate Provincial Rental Housing Corporation (collectively, “BCHMC”) for a term of 60 years, such lease to require the pre-payment of basic rent by BCHMC in the amount of \$1.3 million; and
- (c) in respect of the Residential Component in this project, any rental and other income generated from the 4 residential units leased to BCHMC (“b” above) will be retained within the Residential Component to service mortgage financing (if applicable), support all operating expenses and contributions to applicable reserves, cover all operating and capital maintenance, and maintain or enhance housing affordability.

The nominal basic rent lease granted to the YWCA constitutes a grant which must be approved by the affirmative vote of not less than eight members of Council.

REPORT SUMMARY

The purpose of this report is to seek Council approval to modify the lease structure of the Residential Component to enable the YWCA to leverage BCHMC funding towards the cost of construction of the Residential Component at Fire Hall No. 5.

The Residential Component at Fire Hall No. 5 includes 16 units of family housing for single mothers and their children and 15 units of second stage transitional housing on the four floors above Fire Hall No. 5 which will be located on the ground floor levels. The Residential Component will provide both transitional and longer-term accommodation to single women with families who are resident in Vancouver and who have low to moderate incomes. RTS 10217 required the YWCA to secure a minimum of \$1.3 million toward the cost of construction of the Residential Component. The YWCA wishes to have BCHMC fund the \$1.3 million and BCHMC has agreed to provide this funding on the condition that the lease structure for the Residential Component be modified such that the City will grant a 60-year lease for 4 of the 31 residential units. Any rental and other income generated from BCHMC's units will be retained within the Residential Component to service mortgage financing (if applicable), support all operating expenses and contributions to applicable reserves, cover all operating and capital maintenance, and maintain or enhance housing affordability. The \$1.3 million contribution from BCHMC will be paid to the City, as pre-paid basic rent at the time of lease registration, subject to executive approval.

The modified lease structure proposed in this Report will not otherwise alter the previously approved Fire Hall No. 5 / YWCA project. The City will own the Fire Hall No. 5 and the Residential Component, but will lease a portion of the Residential Component to the YWCA (27 of the 31 residential units) and another portion of the Residential Component to BCHMC (4 of the 31 residential units).

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.

GENERAL MANAGER COMMENTS

The YWCA wishes to have BCHMC fund \$1.3 million which requires a modification to the lease structure to provide for a 60-year lease for 4 of the 31 residential units directly between the City of Vancouver and BCHMC. The modified lease structure provides a solution that expands the amount of funding available for this project.

The General Manager of Real Estate and Facilities Management and General Manager of Community Services recommend approval of the foregoing recommendation.

CITY MANAGER COMMENTS

The City Manager RECOMMENDS approval of the foregoing.

REPORT

Background/Context

At the Council meeting of December 18, 2013, Council passed a number of motions including one that authorized City staff to negotiate and execute a 60-year Lease Agreement with the YWCA as the lessee of a non-market rental housing facility to be included as part of the project to construct a new Fire Hall No. 5 building at 3090 East 54th Avenue.

The City and the YWCA, as project partners, have worked together to come to an agreement regarding the general form of the development. The property has been rezoned and a development permit has been issued. Once a building permit is issued, construction will commence.

In order for the YWCA to secure BCHMC funding towards the cost of construction of the Residential Component, BCHMC has requested a registrable interest in the land proportionate to its contribution (i.e., a 60-year pre-paid basic rent lease for 4 of the 31 residential units). Approval is sought to vary the lease arrangements previously approved in order to lease 4 of the residential units to BCHMC for a 60-year term.

The Residential Component will be comprised of 31 units on four floors in a mix of 28 two-bedroom and 3 three-bedroom units, which will provide both transitional and longer-term accommodation to single women with families who are resident in Vancouver and who have low to moderate incomes.

Strategic Analysis

The YWCA has recently received confirmation from BCHMC that, in order to provide funding for this project, BCHMC must account for their interest according to the Public Sector Accounting Board accounting standards in the public sector. In effect, this means that BCHMC must hold a lease for the portion of the Residential Component that relates to their contribution. The option of creating two leases, one to the YWCA and one to BCHMC, accommodates this requirement. BCHMC would also enter into an agreement with the YWCA to manage the 4 residential units leased to it, renewable at BCHMC's option, every 10 years. The City and BCHMC have the same interest to preserve the use of the residential units for social housing serving those in need for the long term. If such agreement is not renewed, the YWCA will have the option to buy out the BCHMC lease.

The newly proposed approach presents a valuable opportunity for both the YWCA and the City because BCHMC will contribute \$1.3 million to the Residential Component of the Fire Hall No. 5 / YWCA project.

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

- The City will prepare two separate leases covering the Residential Component and shared amenity space in favour of the YWCA and BCHMC. That is:
 1. a nominal basic rent lease of 27 of the 31 residential units in the Residential Component, together with the exclusive common areas of the Residential Component, to the YWCA and a licence to use six parking spaces for a term of 60 years; and

2. a pre-paid basic rent lease of 4 residential units in the Residential Component, together with a licence to use the exclusive common areas of the Residential Component to BCHMC for a term of 60 years, such lease to require the pre-payment of basic rent by BCHMC in the amount of \$1.3 million;
- Lease area plans will be prepared and attached to these leases identifying the appropriate premise lease areas in favour of YWCA and BCHMC; and
 - The YWCA and BCHMC will enter into an Operating Agreement for the 4 residential units leased to BCHMC whereby the YWCA will assume responsibility for ongoing management and operation of those residential units and areas. This Operating Agreement will be subject to periodic review and renewal not longer than every 10 years, at the discretion of BCHMC, for the duration of the BCHMC lease term.

The following summary points provide further clarity on this modified arrangement.

- The two leases will not impact the ongoing viability of the project; rather it will be improved with funding from BCHMC;
- All rental revenues generated from BCHMC's units will be retained within the Residential Component to service mortgage financing (if applicable), support all operating expenses and contributions to applicable reserves, cover all operating and capital maintenance, and maintain or enhance housing affordability.. The amount that BCHMC is contributing is not a loan, it is a pre-payment of basic rent, thus the need to have their interest secured through the long-term lease. It is not anticipated by the YWCA that any debt financing will be required for the construction of this project;
- In the unlikely event that the project ceases to operate within a certain period of time the YWCA will buy out the unamortized balance of BCHMC's pre-paid basic rent;
- During the term of their respective leases, both the YWCA and BCHMC will have capital replacement reserve obligations to ensure long term asset sustainment; and
- The YWCA, BCHMC and the City will be party to a tripartite agreement that ensures smooth operation of the project, allocating surpluses, and prescribe other terms as outlined in this report.

Implications/Related Issues/Risk (if applicable)

Financial

Capital Funding

Providing non-market housing above Firehall No. 5 exemplifies an opportunity to leverage a civic facility for multi-purpose use, and allows for housing to be provided without incremental land cost.

The capital budget for the Residential Component of the project has increased from \$9 million (2013\$) to \$13 million (2016\$), and the funding strategy is summarized as follows:

Land (60-year Lease @75% of Freehold Value)	\$ 2.2M
Construction	\$ 10.8M
	<u>\$ 13.0M</u>

Proposed Funding Sources:

City Contribution			
Land (60-yr Lease @75% of Freehold Value)	\$	2.2M	
Construction	\$	<u>6.1M</u>	\$ 8.3M (64%)
YWCA Contribution			\$ 2.5M (19%)
BCHMC Contribution			\$ 1.3M (10%)
Streetohome Foundation			\$ 0.9M (7%)
			<u>\$ 13.0M (100%)</u>

Nominal Basic Rent Lease

The Director of Real Estate has determined that the value of the nominal basic rent for a 60-year lease to the YWCA equates to \$1.92 million (equivalent to the 75% of freehold market value of the 27 residential units leased to the YWCA).

This nominal basic rent lease represents a grant and must be approved by the affirmative vote of not less than eight members of Council.

Operating Funding

Consistent with Council policies on all non-market housing projects, the Residential Component is expected to be self-sustaining and does not require further operating subsidies. YWCA will be responsible for all operating costs related to the Residential Component. For clarity, all rental revenues generated from BCHMC’s units) will be retained within the Residential Component to service mortgage financing (if applicable), support all operating expenses and contributions to applicable reserves, cover all operating and capital maintenance, and maintain or enhance housing affordability.

The YWCA will contribute an operating endowment of \$1 million to fund the onsite support services, and will continue to fundraise to cover all operating costs. The City and the YWCA will enter into an agreement on an operating model to ensure financial sustainability and operating viability of the Residential Component. The proposed model will contribute towards achieving Council’s housing objectives set out in the Housing and Homelessness Strategy.

Capital Maintenance & Life Cycle Replacement

As lessees, the YWCA and BCHMC are responsible for all capital maintenance and life cycle replacement for their proportionate share of the Residential Component, including structural elements and major building systems.

CONCLUSION *

It is recommended that upon completion, the Residential Component of the project be leased under separate leases to:

1. the YWCA under a nominal basic rent lease of 27 of the 31 residential units in the Residential Component, together with the exclusive common areas of the Residential Component, to the YWCA and a licence to use six parking spaces for a term of 60 years; and
2. to BCHMC under a pre-paid basic rent lease of 4 residential units in the Residential Component, together with a licence to use the exclusive common areas of the

Residential Component to BCHMC for a term of 60 years, such lease to require the pre-payment of basic rent by BCHMC in the amount of \$1.3 million;

The participation of the YWCA and BCHMC with contributions to build non-market family housing for single mothers and their dependent children serves to achieve the objectives to efficiently utilize City of Vancouver-owned land and add to the affordable family rental housing stock in the city.

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