



## ADMINISTRATIVE REPORT

Report Date: June 20, 2017  
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Meeting Date: June 28, 2017

TO: Standing Committee on Policy and Strategic Priorities

FROM: The General Manager of Community Services in consultation with the General Manager of Financial Services, the General Manager of Real Estate and Facilities Management, and the Director of Legal Services

SUBJECT: 955 East Hastings Street - Social Housing Operator Selection and Lease Terms

### *RECOMMENDATION*

- A. THAT Council approve Lookout Emergency Aid Society ("Lookout") as the selected non-profit partner to operate the 70 unit social housing Air Space Parcel ("ASP") to be created from the parent parcel located at 955 East Hastings Street legally described as PID: 029-260-558, Lot 1 Block 62 District Lot 181 Group 1 New Westminster District Plan EPP26162.
- B. THAT Council authorize the General Manager of Real Estate and Facilities Management to negotiate and execute a lease (the "Lease") for the ASP located at 955 East Hastings Street on terms and conditions outlined in this report including:
  - A term of 60 years;
  - A lease payment of \$3.8 million, subject to confirmation of financing, to be paid to the City by the end of the first year of operation;
  - At least one-third of social housing units must be rented at shelter component of Income Assistance for low-income households who are eligible for Income Assistance or a combination of Old Age Pension and Guaranteed Income Supplement. Of the remaining social housing units, at least one-third are to be at rents affordable to people who earn up to "Housing Income Limits" or HILs, and the remaining units to be at affordable market rents ("Low End of Market" rents);
  - Adherence to the Operating Agreement and Service Level Agreement;

- All revenues generated from the project to be reinvested to: (i) fund the Operating Reserve, and/or (ii) augment the Capital Replacement Reserve, and/or (iii) maintain and enhance housing affordability throughout the life of the project, and/or (iv) create or acquire new affordable housing within the City of Vancouver, and/or (v) fund payment of identified capital maintenance or replacement costs;
- The operator to provide insurance required by the City of Vancouver; and
- A requirement to pay a proportionate share (to be negotiated and defined within the Reciprocal Easement and Indemnity Agreement) of maintenance and replacement costs for common aspects of the development.

As the prepaid lease of \$3.8 million or the amount of mortgage that can be secured is below the applicable market rate of approximately \$10 million, Recommendation B constitutes a grant valued as approximately \$6.2 million and approval requires eight affirmative votes of Council.

- C. THAT no legal rights or obligations shall arise or be created by Recommendations A and B unless and until all legal documentation has been executed and delivered by respective parties.

### ***REPORT SUMMARY***

This report seeks Council authorization to enter into a lease agreement with Lookout to operate the 70 unit social housing Air Space Parcel at 955 East Hastings Street based on the lease terms outlined in this report.

### ***COUNCIL AUTHORITY/PREVIOUS DECISIONS***

The *Housing and Homelessness Strategy 2012-2021* ("Strategy") outlines the overall strategic direction for housing, including how much is needed, and how the City will enable the delivery. The Strategy sets targets for delivering housing units across the housing continuum, with 5,000 units of new social housing units targeted by 2021.

The Downtown Eastside Plan ("DTES Plan") supports the provision of a mix of safe, diverse and inclusive housing that is affordable, particularly to low-income singles, seniors and families, as well as contributing to the replacement of the aging Single Room Occupancy ("SRO") stock.

On October 30, 2012, Council approved the rezoning of 955 East Hastings Street to a CD-1 12 storey mixed-use development including 70 social housing units in 4 floors on the podium level.

### ***CITY MANAGER'S/GENERAL MANAGER'S COMMENTS***

The General Manager of Community Services recommends APPROVAL of the foregoing recommendations.

## *REPORT*

### *Background/Context*

The site containing the social housing Air Space Parcel (ASP) is located at 955 East Hastings Street, on the corner of Hastings Street and Raymur Avenue in the Downtown Eastside community ("DTES"). In 2012, Council approved a rezoning of the site to permit a 12-storey mixed-use development, including industrial flex space and commercial uses at grade and residential units above. The project contains 352 residential units including 282 market condominium units and 70 (20% of the units) social housing units required as part of the rezoning.

The social housing is expected to provide a deep level of affordability, and 24% of the units will be suitable for families with young children, meeting the intent of the DTES Local Area Plan. As approved during the rezoning, and in accordance with the DTES Plan, one third of units will rent at the shelter component of Income Assistance, one third will rent at rents-g geared-to-income to households with incomes below the Housing Income Limits, and the remaining units will rent at the low end of market rent.

Completion of construction and occupancy for this social housing is anticipated for late October 2017.

### *RFP Process*

In 2016, the City pre-qualified 12 non-profit housing operators through a Request for Qualifications process. In February 2017, the City invited the 12 non-profit partners that were shortlisted to participate in the Request for Proposals ("RFP") to operate the 70 unit social housing ASP at 955 East Hastings Street.

The City received two RFP submissions which were evaluated by an inter-departmental staff team with representatives from Community Services, Financial Services, and Real Estate and Facilities Management, under the guidance of Supply Chain Management. Evaluation criteria included assessment of the proposed rental housing program, the proposed staffing, capacity and property management models, affordability and financial information, and strategic fit and innovation.

Through the evaluation and consideration of submissions in accordance with the terms, conditions and criteria stated in the RFP, Lookout Emergency Aid Society has been selected as the lead proponent for the social housing ASP at 955 East Hastings Street.

### *Lookout Background*

Lookout was founded in 1971 to meet the needs of a growing number of homeless adults in Vancouver's Downtown Eastside (DTES). Lookout extended its services to include shelters, supported housing, independent housing, and outreach. They operate 32 facilities serving thousands of individuals through their 74 support programs across 11 municipalities in Metro Vancouver and the Fraser Valley. Through property acquisitions and program diversification, Lookout plans to provide stronger solutions that address tenant needs, leading to their greater sustainability and self-sufficiency.

Currently Lookout’s housing portfolio sits at the supportive housing end of the continuum. With the addition of the social housing ASP located at 955 East Hastings, Lookout intends to provide homes for people ready to move along the continuum and free-up much needed shelter and supportive housing units that that they already manage.

*Affordability*

The minimum affordability requirements of the DTES Plan that apply to this social housing are:

- At least one third of units must be rented at the shelter component of Income Assistance for low-income households who are eligible for Income Assistance or a combination of Old Age Pension and Guaranteed Income Supplement (currently \$375 for single occupants).
- At least one third of units to be rented at rents affordable (rent geared to 30% of income) to people who earn up to “Housing Income Limits” (HILs) as defined by BC Housing; and
- The remaining units to be at affordable market rents (“Low End of Market” rents).

Table 1: Proposed rent structure for social housing units at 955 East Hastings

Unit Type	Total Number of Units	Shelter Rate (2017)	Below HILs Rents as per BC Housing (2017)	90% Low End of Market (LEM) Rents **
Studio	24	24	0	0
1 bedroom	29	0	15	14
2 bedroom	17	0	10	7
<b>Total</b>	<b>70</b>	<b>24 (34%)</b>	<b>25 (36%)</b>	<b>21 (30%)</b>

\* Maximum Housing Income Limits (HILS) as per BC Housing

\*\*LEM Rents to be confirmed through market appraisal

The above table demonstrates that the breakdown of the types of units meets the DTES Plan requirements, with 34% (24) of units rented at shelter rates, 36% (25) of units renting below HILs and 30% (21) of units renting up to 90% of market. Lookout intends to rent all 24 studio units at the shelter rate of \$375. HILs rate units are expected to rent at \$1,060 for 15 1-bedroom units and \$1,300 for 10 2-bedroom units, noting that rents will be adjusted to reflect individual and family income. The remaining 21 units will rent at the LEM rate, which will be determined after a market rent appraisal is completed.

*Tenant Client Group*

Given its location within the DTES, the social housing at 955 East Hastings Street is expected to contribute towards the long term replacement strategy for the City’s SRO stock. Lookout will support delivery of the DTES plan objectives and prioritise existing low-income tenants, particularly in the 24 shelter rate studio units. A mix of 29 one-bedroom and 17 two-bedroom apartments will be rented to low income singles, couples, seniors and families who meet the necessary income criteria at either a HILs rate or a rate at no more than 90% of the market rents for the area.

As the City is currently progressing the redevelopment of the City-owned social housing building at 124 Dunlevy Street, known as Roddan Lodge, the City is seeking to provide suitable alternative options to rehouse the existing tenants. The existing tenants at Roddan Lodge are primarily low-income seniors (aged 55 and over) with rents at shelter rates or lower. Given the location of 955 East Hastings within the DTES, the City has recognized the opportunity to provide Roddan Lodge tenants with the option of moving into the shelter rate studio units at 955 East Hastings. Lookout has committed to prioritizing existing Roddan Lodge tenants for initial tenancy in the 24 shelter rate studio units. As part of the Tenant Relocation Plan for Roddan Lodge, these tenants will be offered the right of first refusal to move back into the newly constructed Roddan Lodge upon completion.

The RFP for this site also identified a requirement for the successful proponent to work with Ray-Cam Co-operative Centre to prioritize seniors and families from the Strathcona area. Lookout has committed to work with Ray-Cam Cooperative Centre, the City and other levels of government in developing a robust tenancing process for 955 East Hastings, including an emphasis on local residents in need of suitable housing.

### *Lease Terms*

It is expected that Lookout will enter into a 60-year lease with the City of Vancouver for a lease payment of \$3.8 million, subject to confirmation of financing, to be paid to the City by the end of the first year of operation. The lease payment will be equivalent to the amount of mortgage that Lookout can secure against their leasehold interest and is proportionate to the rental income of the property based on target affordability. As it is below the estimated value of the ASP, a \$3.8 million lease constitutes a grant from the City and requires eight affirmative votes of Council. The social housing ASP will be leased to Lookout in accordance with the standard terms and conditions for long-term leases of City-owned social housing.

It is further expected that Lookout will enter into an Operating Agreement with the City to manage and operate the social housing project. A Service Level Agreement (SLA) that outlines the responsibilities of the City, non-profit (housing) operator, and adjacent landlords (owners of Air Space Parcels) makes up part of this Operating Agreement for 955 East Hastings. It is anticipated that the reporting requirements of the lease and Operating Agreement will be sufficient to provide oversight on the long-term operations and management of the building.

The key components of the lease between the City and Lookout include:

- A term of 60 years;
- A lease payment of \$3.8 million, subject to confirmation of financing, to be paid to the City by the end of the first year of operation;
- At least one-third of social housing units must be rented at shelter component of Income Assistance for low-income households who are eligible for Income Assistance or a combination of Old Age Pension and Guaranteed Income Supplement. Of the remaining social housing units, at least one-third are to be at rents affordable to people who earn up to "Housing Income Limits" or HILs, and the remaining units to be at affordable market rents ("Low End of Market" rents);
- Adherence to the Operating Agreement and Service Level Agreement;
- All revenues generated from the project to be reinvested to: (i) fund the Operating Reserve, and/or (ii) augment the Capital Replacement Reserve, and/or (iii) maintain and enhance housing affordability throughout the life of the project, and/or (iv)

create or acquire new affordable housing within the City of Vancouver, and/or (v) fund payment of identified capital maintenance or replacement costs;

- The operator to provide insurance required by the City of Vancouver; and
- A requirement to pay a proportionate share (to be negotiated and defined within the Reciprocal Easement and Indemnity Agreement) of maintenance and replacement costs for common aspects of the development.

### *Implications/Related Issues/Risk*

#### *Financial*

##### *Prepaid Lease*

The typical operating model for social housing projects secured through development entails leasing City-owned ASPs to housing partners at below market rent for 60 years or longer, who will operate and maintain the housing project at a prescribed affordability over the lease term. The estimated value of the social housing ASP is approximately \$10 million. It is anticipated that Lookout will be paying a lease of \$3.8 million, subject to confirmation of financing. The value of the 60-year lease (the City contribution) is therefore \$6.2 million.

##### *Operating*

Consistent with Council policies, all affordable housing projects are expected to be self-sustaining over the long-term where rents are set at levels that will cover mortgage payments (to finance the prepaid lease to the City), operating costs and capital replacement; and do not require further operating subsidies, property tax exemptions, and/or financial guarantees from the City.

Lookout's preliminary operating budget indicates that the operation of the social housing ASP will be financially sustainable while achieving the affordability target over the term of the project.

Additional discussion will take place between the City and Lookout to clarify the calculation and allocation of any operating surplus arising from the project such that all revenues generated from the project are required to be reinvested to: (i) fund the Operating Reserve, and/or (ii) augment the Capital Replacement Reserve, and/or (iii) maintain and enhance housing affordability throughout the life of the project, and/or (iv) create or acquire new affordable housing within the City of Vancouver, and/or (v) fund payment of identified capital maintenance or replacement costs.

### *CONCLUSION*

Staff recommend the approval of the proposed lease terms and authorization to enter into a lease agreement with Lookout as the non-profit partner to operate social housing at the City-owned social housing ASP at 955 East Hastings Street.

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