

January 7, 2004

Dear Housing Partners:

RE: 1125 Pendrell Street - Watson House - Letter of Understanding

**Preamble**

This is a Letter of Understanding (the "Letter") between the City of Vancouver (the "City"), the B.C. Housing Management Commission ("B.C. Housing"), and the Vancouver Coastal Health (the "VCH"), collectively referred to as the "Funders"; and, Mole Hill Community Housing Society ("Mole Hill"), and the Coast Foundation Society (1974) ("Coast"), collectively referred to as the "Operators"; the Funders and Operators to be collectively referred to as the "Partners"; regarding the development and operation of an 8 unit Housing Project, referred to as the "Project", on a City-owned site at 1125 Pendrell Street (the "Land") in the West End neighbourhood of Vancouver.

This Letter describes the Project to be built on the Land, and the arrangements between the Partners on financing, developing, funding and operating the Project. By signing the Letter, the Partners acknowledge that they are aware of their respective roles and responsibilities, as well as the general terms and conditions under which the Project will be developed and operated. Further, the Partners believe that with the exercise of due diligence and good will on their behalf, it is reasonable to expect that the project will be successfully implemented as proposed in the Letter.

Notwithstanding anything contained in this Letter, the Partners agree that their responsibilities and obligations described herein are subject to acceptance and approval of the terms and conditions of the construction contract, the lease and mortgage contemplated in this Letter.

## **Overview**

The City is the owner of the Land and will lease it to Mole Hill on the same lease terms as their current project on the block, with a duration to match the remainder of the lease, about 58 years, at nominal rent for development of the Building. B.C. Housing will provide interim financing and will arrange for the take-out mortgage for developing the Building. BC Housing and the City will provide capital grants to Mole Hill. The grants and loans will be provided in the amounts indicated and no further grant money, loans or subsidies will be forthcoming from the City or BC Housing. Mole Hill will operate the Project. The Project is designed to operate without any subsidy and Mole Hill must manage the scope of the project to ensure the available budget is sufficient to complete the project. Mole Hill will make all 8 units available to Coast. VCH will select tenants and Coast will place them, using Mole Hill applications and procedures. Coast will provide a Support Living Program to the clients housed in the Project. VCH will provide funding for the operation of the support program for 10 years.

## **Terms and Conditions**

### **1. The Land**

The Land, legally described as LOT I, BLOCK 23, DISTRICT LOT 185, PLAN LMP53604 (PID 025-399-829), is a mid-block site with a 47 foot frontage along the North side of the 1100 Block Pendrell Street in the Westend area of Vancouver. The existing building has been designated a SNRF and will continue to operate as such.

### **2. The Building**

The building will be renovated to include 8 housekeeping units, 3 bathrooms and amenity space on three floors.

### **3. PDF**

BC Housing will provide PDF to Mole Hill following approval by City Council of the grant and lease.

### **4. Lease**

**Lease.** The City will lease the Land to Mole Hill, with a termination date of January 2, 2062, for a prepaid rent of \$10.00. The terms will be similar to the lease registered in Vancouver LTO under lease no. BR14663. The operating agreement between Mole Hill and BC Housing (the "Operating Agreement") will be a schedule to the lease and a default under the Operating Agreement will be a default under the lease.

## **5. B.C. Housing Funding Commitment**

B.C. Housing will provide a grant of \$200,000 to Mole Hill (the "BC Housing Grant") and a mortgage loan to Mole Hill to finance construction of the Building in the amount of up to \$220,000 subject to confirmation of the economic sustainability of the Project and other underwriting requirements (the "Mortgage Loan").

The Operating Agreement between Mole Hill and BC Housing will be entered into and which will set out the tenant eligibility criteria and rental rates.

The BC Housing Grant will be secured by way of a second mortgage loan registered against the Lease, in a form provided by BC Housing, and including the following terms:

- The Land is to be used only in accordance with the Operating Agreement.
- The second mortgage loan amount is \$200,000.00.
- The second mortgage loan is forgivable at the rate of 1/25<sup>th</sup> of the face loan amount on each anniversary.
- The interest rate while the mortgage is not in default is 0% and the interest rate if the mortgage is in default is at the prime rate of the banker to BC Housing plus 2%.

## **6. City of Vancouver Funding Commitment**

The City will provide the Land to Mole Hill by way of the Lease, and a capital grant of \$280,000 (the "City Grant"). The City Grant to be paid to BC Housing within 30 days of approval by City Council of the grant and lease. The City's maximum contribution will be \$280,000. If the total cost of the Project is lower than currently projected, the amount of the Mortgage Loan will be reduced accordingly.

## **7. Vancouver Coastal Health Funding Commitment**

The VCH will enter into an operating agreement with Coast whereby VCH will provide monthly payments to Coast to operate the support program.

## **8. Coast Operating Agreement**

Coast will enter into a separate operating agreement with Mole Hill. The agreement will be based on the following principals. Coast will place tenants in the project as selected by VCH. Coast will provide services to those tenants and will work with Mole Hill to try and provide service to other tenants in the Mole Hill project. The Program will include a staff person based on 8 hours/day 7 days per week. The tenants will pay rent to Mole Hill at \$325 per month or 30% of their income whichever is greater. VCH will provide operating funding for the program for a minimum of 10 years. Such operating agreement will be to the satisfaction of the City, VCH and B.C. Housing.

## **9. Development Costs**

As of today, the total gross capital cost of the Housing Project is estimated to be \$1,403,371. Given the City's equity contribution of \$704,000 in foregone prepaid lease rent and \$280,000 toward the capital cost of the building and BC Housing capital grant of \$200,000 the loan required for the project is \$220,000. If the final costs are lower, the Mortgage Loan will be reduced accordingly. Attachment 1 is the Preliminary Capital Cost Budget for the Project.

## **10. Project Development**

Mole Hill will be the project developer. They will be responsible to contract and manage all consultants and for getting all necessary permits and approvals required to complete this project. Coast will review the project design to ensure that it meets the functional requirements of the client group and services program.

## **11. Construction Financing**

The Mortgage Loan will be registered against Mole Hill's leasehold interest in the Land in favour of B.C. Housing, in the form provided by BC Housing, as security for an interim construction loan insured pursuant to the National Housing Act (the "Mortgage Loan"), in the amount of \$220,000 and subject to BC Housing's underwriting requirements. The amount of the Mortgage Loan will be reduced if the net capital cost of the Project is reduced. On completion of the Project, B.C. Housing will assign its interest in the Mortgage Loan outstanding to a lender approved under the National Housing Act (the "Lender"). BC Housing will charge the following fees:

- The mortgage insurance fee of \$75 per unit;
- Mortgage administration fee of \$2000;
- Loan Commitment Fee of 1% of the total loan amount; and
- Legal and other fees incurred by BC Housing at cost.

## **12. Project Commitment**

Before leasing the Land and registering the Mortgage Loan, the Partners will require confirmation that the funding and financing is in place to cover the capital and operating cost of the Project.

**Capital Cost.** Undertakings to cover the capital cost include: (1) a loan commitment to Mole Hill from B.C. Housing for the Mortgage Loan; and, (2) council approval for their equity contribution and land lease. These undertakings are to be to the satisfaction of Mole Hill, the City and BC Housing.

**Operating Cost.** Undertakings to cover the operating cost include a letter from the VCH to Coast guaranteeing operating funding for the Support Program.

### **13. Construction Contract**

The procurement method for construction services will be a fixed price contract obtained through a competitive bidding process.

### **14. Construction Progress Draws**

During construction of the Project, Mole Hill will pay construction draws to successful bidder and other creditors by drawing advances from the BC Housing Grant and the City Grant first, and then the Mortgage Loan.

### **15. Debt Service and Operating Expense**

**The Project.** Mole Hill will be responsible for paying the on-going operating costs of the building, including but not limited to operating expenses relating to maintenance, fixed building components, tax levies, insurance, replacement reserve planning and the principle and interest on the Building mortgage.

**The Support Program.** Coast will be responsible costs and delivery of the Support Program including day to day interior maintenance and cleaning that the tenants can not do on their own. The Program will include a staff person based on 8 hours/day 7 days per week.

### **16. Property Taxes**

Since the City owns the Land, the Project will be exempt from property taxes. However, Mole Hill will pay the City rent-in-lieu of taxes as part of the terms of their lease.

### **17. General Maintenance**

Mole Hill will be responsible cleaning and maintaining the exterior of the building, including snow removal from stairs and public walkways adjoining the Building, and all other exterior common areas ("Common Area Maintenance"). This is a designated Heritage building and Mole Hill will be responsible for the heritage obligations in the lease with the City. In turn, Coast will be responsible for the cleaning and maintenance of the interior amenity spaces and will do nothing to compromise the its heritage character. Any changes to the building must be approved be Mole Hill.

\* \* \*

If you agree with the terms and conditions of the Letter which apply to your role and responsibility as a Partner in developing and/or operating the Building, please sign all six copies of the Letter and return them to the City. When the Letter has been signed by all of the Partners, one original fully executed Letter will be sent to each of the Partners by Registered Mail. The City's copy will be appended to the Report to City Council approval of lease terms the Housing Project.

All of the Partners acknowledge and understand that no legal rights or obligations are hereby created and none shall arise hereafter except upon execution of all legal documents by all of the Partners.

**City of Vancouver:**

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Cameron Gray,  
Director of the Housing Centre

**Vancouver Coastal Health:**

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Linda Thomas  
Director of Housing

**Coast Foundation Society (1974)**

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Darrell Burnham  
Executive Director

**B.C. Housing Management  
Commission:**

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Shayne Ramsay  
Chief Executive Officer

**Mole Hill Community  
Housing Society:**

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Don Allison  
Chair