



## CITY OF VANCOUVER

### ADMINISTRATIVE REPORT

Report Date: Sept. 30, 2005  
Author: Cameron Gray  
Phone No.: 604.873.7207  
RTS No.: 05356  
CC File No.: 5104  
Meeting Date: October 18, 2005

TO: Vancouver City Council

FROM: Director of Housing Centre in consultation with Directors of Finance and Real Estate Services

SUBJECT: Lease Extension: Helen's Court Housing Co-operative

#### RECOMMENDATION

THAT Council approve an amendment to the lease for Helen's Court Housing Co-operative (2137 West First Avenue) to provide an option for the co-op to extend the lease by twenty years with an annual rent to be equal to 50% of the freehold market value of the site, as if vacant, multiplied by the City's cost of borrowing 10-year funds, with the additional rent to be determined at commencement of the extension and reviewed ten years later, and on the terms and conditions as set out in this report and such other terms and conditions to the satisfaction of the Director of Legal Services; and

THAT no legal rights or obligations shall arise or be created until the execution of the necessary legal documentation to the satisfaction of the Director of Legal Services.

#### GENERAL MANAGER'S COMMENTS

The General Manager of Community Services recommends approval of the foregoing.

#### COUNCIL POLICY

The City's social housing priorities are low and modest income 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.

The Property Endowment Fund (PEF)'s first priority is to achieve a reasonable rate of return, and secondly to achieve non-financial public objectives. Non-market housing on land leased from the City is held in the PEF.

The City leases sites for non-market housing for 40 or 60 year terms, and considers a prepaid rent of 50% of freehold value to be the market value of a 40 year lease and 75% of freehold value to be the market value of a 60 year lease.

## **PURPOSE AND SUMMARY**

This report recommends that the lease between the City and Helen's Court Housing Co-operative be amended to allow the co-op to extend the lease by 20 years with additional annual rent to be paid during the lease extension equal to 50% of the freehold market value of the site, as if vacant, multiplied by the City's cost of borrowing, with the additional rent to be determined at commencement of the extension term and reviewed 10 years later.

The option to extend the lease by 20 years would provide the co-op's members with security that they will not have to move when the current lease term expires in 2024. Fifty percent of freehold market value reflects the restriction on the use of the project to a mix of market and subsidized rental housing, and will ensure that the current level of affordability provided by the co-op can be maintained.

## **BACKGROUND**

In 1982 the City purchased the site at 2137 West First Avenue for \$1.2 million with the intent of leasing it to Helen's Court Housing Co-operative for the development of a 44 unit project. The City leased the site to Helen's Court Housing Co-operative for 41 year lease and a prepayment of \$1.1 million. The project was completed in March 1984 and the lease will expire in June 2024. The lease does not include a right to renew or extend.

From 1980 to 1988, 37 non-market housing projects were developed on land leased from the City for either 40 or 41 year terms and with the lease rent prepaid for the full term. Eighteen of these leases include a right to renew the lease for a further 20 years at the expiration of the initial term, with additional lease rent to be paid at that time.

On March 1, 2005, Council approved a recommendation that authorized 20 year extensions to non-market housing projects with 40 or 41 year leases to accommodate the refinancing of the co-ops for renovations required by envelope failure. The additional lease rent for the extensions was set at the market value of the site (land only) multiplied by the City's cost of borrowing with payment to commence on year 45 of the extended lease.

## **HELEN'S COURT HOUSING CO-OPERATIVE LEASE EXTENSION**

In April 2005 Helen's Court Housing Co-operative requested a 20 year lease extension to the 40 year lease on the property at 2137 West First Avenue. As the Co-op is concerned about its tenure on the site and its ability to continue to provide affordable housing options to its members, they also requested that the City consider a discount to the lease payments that would be required based on Council's policy of using market value as the basis for valuing lease extensions from 40 years to 60 years.

It is reasonable for the City to consider extending Helen's Court Co-op's lease. The co-op has recently been extensively renovated to address envelope issues, and the building will have a viable life well beyond the lease expiry date in 2024. Moreover, most of the City's non-market leases are for a 60 year term and Council has established a policy of providing such extensions to lessees with 40 year leases. It is recommended, therefore, that the lease be amended to provide an option to extend the lease by 20 years when the current term ends.

Helen's Court is a non-profit housing co-operative. It is unstratified and the co-op members cannot sell their homes to realize any equity or capital gain. The co-op members may operate and control the co-op but non-profit co-operative housing is a form of rental housing in terms of the land values it supports.

Sites restricted to rental housing are not as valuable as sites that could be developed for condominiums. The Director of Real Estate Services advises that rental housing in the higher value areas of Vancouver such as Kitsilano will on average support a land value of approximately half the land value that would be supported by condominium development. For this lease renewal, "market value" should be determined based on this mixed affordability rental value rather than freehold value.

Basing the land rent for the 20-year extension on a lower than freehold market value would, if the extension were to commence today, result in rents comparable to today's rents and allow the Co-op to sustain the affordability it currently provides. Currently, 22 out of 44 households are receiving subsidies because they cannot afford the market rents established for the Co-op, and the other 22 households are paying a low-end of market rent approximately equal to 70% of average market rents for Kitsilano. Helen's Court Housing Co-operative believes that the members should be able to afford to pay additional land rent based on 50% of the market value of the site, and are prepared to commit to maintaining the affordability within the co-op for the duration of the lease extension.

It is recommended that Helen's Court Co-op's lease be amended to allow the Co-op to extend the lease by 20 years on the following terms:

- Additional rent to be paid monthly by the co-op during the extension equal to the 50% of the 2024 appraised freehold market value of the property as if vacant and available for redevelopment to its economic highest and best use under the zoning in place at the time i.e. land value only, multiplied by the City's cost of borrowing 10-year funds at the time divided by 12;
- A recalculation of the additional rent to be paid 10 years into the extension i.e. in 2034 on the same basis;
- That the lease is amended to require that, for the duration of the extension, 50% of all the units in the co-op be occupied by core-need households paying no more than 30% of their gross household income on housing charges;
- That the market rent for each unit, for the duration of the extension, will be at least 70% of average market rents in Kitsilano; and
- That, should it not be possible for Helen Court Co-op to operate without a deficit during the extension, while complying with the extension requirements, the Co-op will be able to adjust the percentage of core-need, the percentage of household income that core-need households must pay, increase the market rent for the units, and/or seek a restructuring of the additional rent payable for the extension, subject to the approval of the City such approval not to be unreasonably withheld.

## FINANCIAL IMPLICATIONS

The extension for Helen Court will result in a total lease term of 60 years which is the standard term for social housing leases. As with other non-market housing on land leased from the City, the site and buildings will revert to the City at the end of the 60 year term. At that time the City will be free to consider all options including sale, redevelopment or further lease extensions, and will be free to seek a return based on freehold market value or to provide a discount to achieve social objectives.

## SOCIAL IMPLICATIONS

Basing the additional lease rent required for the extension on the restricted value of the land rather than its freehold value, as requested by Helen's Court Co-op, should allow the current level of affordability to be maintained and ensure that low and modest income families can continue to live in Kitsilano.

\* \* \* \* \*