



CITY OF VANCOUVER

A7

ADMINISTRATIVE REPORT

Report Date: September 12, 2006
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VanRIMS No.: 02-3000-10
Meeting Date: September 26, 2006

TO: Vancouver City Council

FROM: Directors of the Housing Centre and Real Estate Services

SUBJECT: 65 E. Hastings St. Lease Terms (formerly 55 E. Hastings St.) and Other Arrangements

RECOMMENDATION

- A. THAT Council approve the ground lease for 65 East Hastings, legally described as Lot C, Block 8. D.L. 196, Plan LMP 45514 to the Triage Emergency Services and Care Society for 60 years for \$862,500 in accordance with the terms and conditions described in this report, as well as other terms and conditions satisfactory to the Director of the Housing Centre, the Director of Real Estate Services and the Director of Legal Services.
- AND FURTHER approve a grant to Triage Emergency Services and Care Society of \$862,500, source of funds, the Affordable Housing Fund which will reimburse the PEF upon project completion.
- (The above motion requires 8 affirmative votes).
- B. THAT Council approve the sub-leasing of the retail space in the building, totaling approximately 6,722 square feet including one shared loading bay, 5 parking stalls and other terms as determined by the General Managers of Corporate Services, Community Services and Director of Legal Services, from the Triage Emergency Services and Care Society to the City of Vancouver for 60 years less a day at a prepaid cost of \$1.045 million plus GST (equal to the construction cost), disbursed at time of first construction loan advance as advised by BC Housing; source of funds, PEF.
- C. THAT Council approve a budget of up to \$360,000 plus GST for tenant improvements, the amount to be negotiated by the Director of Real Estate

Services as part of the retail lease negotiations with prospective tenants, source of funds, PEF.

- D THAT the Director of Legal Services be authorized to execute all necessary agreements, plans and other documents on behalf of the City and that no legal rights or obligations are hereby created and none shall arise hereafter except upon execution of all legal documents required to complete these transactions to the satisfaction of the Director of Legal Services.

GENERAL MANAGER'S COMMENTS

The General Managers of Community Services and Corporate Services recommends approval of the foregoing recommendations.

COUNCIL POLICY

It is Council policy to purchase privately-owned sites for non-market housing projects and lease them to non-profit societies or co-operative associations for 60 years at 75% of market value.

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.

PURPOSE AND SUMMARY

The purpose of this report is to obtain Council approval of:

- The terms of the ground lease of the City-owned site at 65 East Hastings to the Triage Emergency Services and Care Society (Triage);
- The sublease of the retail space to the City;
- An expenditure of \$1.045 million plus GST to cover the estimated construction and soft costs for the retail component; and
- An expenditure of up to \$360,000 plus GST to cover additional construction and soft costs for the retail component as determined by the tender process.

BACKGROUND

On September 29, 1998, Council approved the acquisition of this site for a social housing project for low-income urban singles at a cost of \$1,150,000. The source of funds was the PEF, with the PEF to be reimbursed for 75% of the land cost upon completion of the project, and the site was to be leased for 60 years at no cost.

On May 2, 2000, Council approved the zoning (CD-1[403]) for this site to accommodate a variety of uses including social housing with a maximum floor space ratio of 4.58.

On April 18, 2002, the City approved a development application (DE 405409) for 97 units of social housing on this City owned site. That application did not proceed when the provincial government housing program for this type of project was cancelled.

In December 2005, funding for the project was announced by the Government of B.C. and the Government of Canada, as part of the Premier's Task Force on Homelessness, Mental Illness and Addictions, of which the Mayor of Vancouver is a member. The project was made possible because the City had purchased the land and was able to provide the site for a nominal rent.

On November 29, 2005, Vancouver City Council named Triage Emergency Services & Care Society as the sponsor of this new application for this City owned site.

The project is consistent with the City's *Homeless Action Plan* and the *Housing Plan for the Downtown Eastside*. It is part of the implementation of the one-for-one policy, with the gradual replacement of SROs with better quality housing. It will provide both housing for homeless people and the needed supports and assistance for people to live with more stability.

This is a partnership project with BC Housing, Vancouver Coastal Health and the City, and Triage who will manage the housing and provide tenant services.

DISCUSSION

The Site and Project

The site is 100 x 122 feet with a total area of 12,200 square feet. The site is vacant. A Phase I environmental site assessment has been conducted by Hemmera Resource Consultants Ltd and the potential for environmental contamination is minimal. However a limited sampling of the site fill material is recommended and this will occur during the site preparation for building construction.

Appendix A shows the site and the ground floor layout.

This is a 9 storey concrete/masonry building, comprised of 92 dwelling units, up to 4 retail units at grade and one level of underground parking off the lane at the rear. The building design for this application is the basically the same as the design proposed and approved on April 18, 2002. A new application (DE 410284) was considered by the Development Permit Board on July 17, 2006 and conditional approval was received. The Development Permit is expected to be issued in October.

Two floors in the building with 25 units will be used to house currently homeless people who need more support to transition from homelessness to being housed. The remaining 67 units will be for people who require less support. The studio suites range in size from roughly 370 s.f. to 582 s.f. and are designed for single occupancy.

There are amenity spaces with outdoor areas on the main, 2nd and 6th floor.

There are 17 parking spaces in total and 25 bicycle storage spaces.

The retail area can be divided into up to 4 separate retail spaces, all fronting onto Hastings Street. Five designated retail stalls will be separated from the residential parking stalls. The retail spaces are served by one loading bay off the lane, shared with the housing.

It is expected that the project will be ready for occupancy in the spring of 2008.

The total project capital cost, including land, is \$20 million.

License

This project is being developed through a construction management at-risk approach which will become a fixed price contract. The fixed prices are time sensitive, so it may be necessary for the contractor to get on site in advance of the lease being executed. As in other similar circumstances, a license to use the land may be issued. This license will be approved by the Director of Real Estate Services following usual procedures.

Lease Terms

There are two leases involved in this project. The first is a ground lease from the City to the Triage Emergency Services and Care Society for 60 years for \$862,500. (The City will provide a grant to Triage for \$862,500.) The leasehold rent represents 75% of the original purchase price. The second lease is a sublease of the ground floor retail space from the Triage Emergency Services and Care Centre to the City (PEF) for 60 years less a day for a nominal rent.

Ground lease to Triage

The site will be leased to Triage in accordance with the standard terms and conditions agreed to between the City and B.C. Housing for social housing development. Two terms (4 and 5 below) have been added which are unique to this project and deal with the retail space.

1. Term of 60 years.
2. Prepaid lease rent will \$862,500 and the City will provide a grant to Triage for \$862,500.
3. Lease to be signed within 180 days after Council approval, or such later date as may be approved by the City Manager.
4. Property taxes will be paid by Triage for the residential portion of the property.
5. Triage will sublease the retail space on the ground floor to the City for a term of 60 years less a day at nominal rent, in accordance with the sublease terms described below.
6. Such further and other terms as are acceptable to the Director of the Housing Centre and the Director of Legal Services. No legal obligation shall arise or be created until execution of the lease to the satisfaction of the Director of Legal Services.

Retail Sublease to the City

The retail component of the building includes approximately 4,000 square feet of storefront, one shared loading bay and 5 retail parking stalls. It is proposed that Triage sublease the ground floor retail component to the City for 60 years less a day at nominal rent. In return, the City (PEF) will pay Triage the construction and soft costs for the retail space (but no land cost). The cost of the City's space is \$1.045 million, including hard and soft construction costs plus contingency. The City will not incur further costs regardless of price increases.

A Memorandum of Understanding has been negotiated among the City, Triage and BC Housing, and is attached in Appendix B.

There may be opportunities to lease out the retail space to social enterprises to help meet the economic revitalization goals for the Hastings corridor. This will be considered closer to the time of building occupancy. Any subsidies required would be provided from the DTES capital fund or other sources (e.g., the Vancouver Agreement).

Arrangements will be made with Triage to fairly attribute and pay, over the term of the sublease, common building expenses attributable to the retail component. As is the normal practice, the housing sponsor, in this case Triage, will pay property taxes on the residential portion of the property.

FINANCIAL IMPLICATIONS

The estimated costs of the retail space will be \$1.045 million plus GST for construction and soft costs and up to \$360,000 plus GST for fit-up costs. There is currently only a small demand for retail space in this area of Hastings Street and it is anticipated that the retail units could have high vacancy rates and provide a modest rate of return for the foreseeable future. However, the development of quality retail space will assist in the continued revitalization of Hastings Street and it is hoped that eventually the City will realize a reasonable return from these retail units.

Real Estate Services will sublease the retail space to commercial tenants on a triple net basis whereby the tenants would be required to pay additional rent in lieu of property taxes, plus utilities and maintenance.

CONCLUSION

65 E. Hastings is a partnership project between BC Housing, Vancouver Coastal Health, the City of Vancouver and Triage, made possible by the Premier's Task Force on Homelessness, Mental Illness and Addiction. It will be an asset to the Downtown Eastside by providing both housing for homeless people and the needed supports and assistance for people to live with more stability. The project is consistent with the City's *Homeless Action Plan* and *Housing Plan for the Downtown Eastside*. Up to four retail spaces will be available for lease to businesses and agencies, which will also assist in revitalizing Hastings Street.

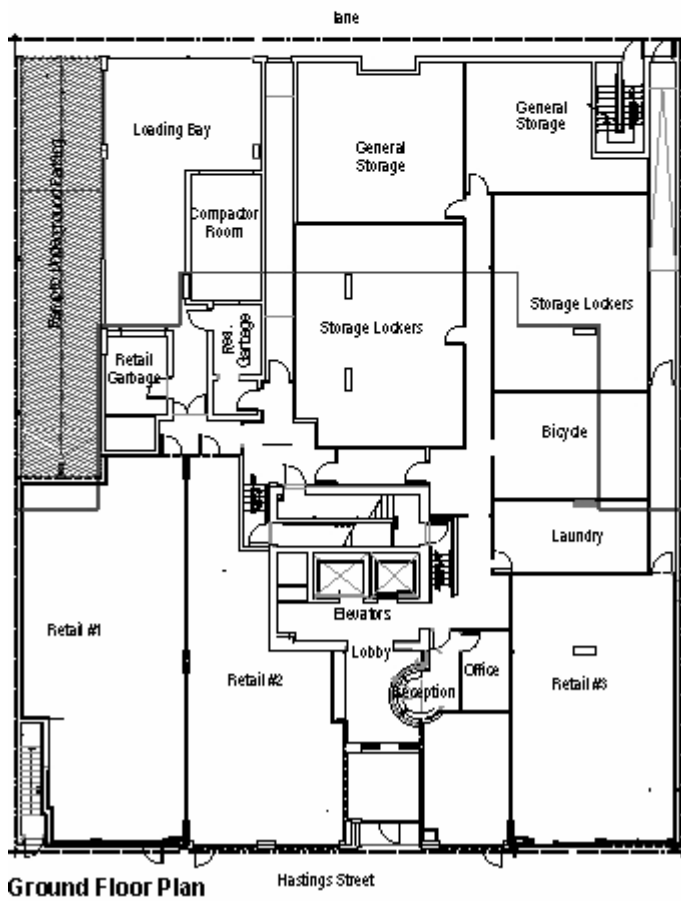
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Appendix A

Site and Ground Floor Layout



Site Plan



Ground Floor Plan

September 18, 2006

Memorandum of Understanding
between
BC Housing,
City of Vancouver (the City), and
Triage Emergency Services and Care Society (Triage)

The Site

The Site is located at 65 East Hastings. It has an area of 12,200 sq. ft. and is zoned CD -1 (403). Its legal description is Lot C, Block 8, D.L. 196, Plan LMP 45514.

Project

It is proposed to develop a nine-storey mixed use building (the AProject®) with retail on the main floor and 92 units of social housing on the upper eight storeys, with underground parking. This is a housing project for low-income people from the Downtown Eastside who are homeless or at-risk of homelessness.

City Council Approval

Vancouver City Council, at its September 29, 1998 meeting (In Camera), approved the acquisition of the Site at a purchase price of \$1,150,000 plus applicable taxes. On November 29, 2005 Council named Triage Emergency Services and Care Society (Triage) as the sponsor for the development of this project.

Funding

In December 2004, funding for the project was announced by the Government of B.C. and the Government of Canada, as part of the Premier's Task Force on Homelessness, Mental Illness and Addictions. Vancouver Coastal Health has agreed to provide operating funds indicated in their letter to the City dated August 23, 2006.

Development Permit

Gomberoff Bell Lyon Architects, architects for the Project, submitted an application for a Development Permit (DE410284). The Development Permit Board gave conditional approval to the project on July 17, 2006.

Lease

The City will lease the whole of the Site to Triage on the standard charge terms for non-market housing funded by BC Housing for a term of 60 years for \$862,500 as prepaid rent, and the City will give Triage a grant for that amount. The effect is that this Site is to be leased at no cost to the sponsor. The lease will commence on the earlier of the date the lease has been executed by all parties, or 180 days from Council approval of lease terms, provided that, in either case, all of the prerequisite conditions described in this MOU have been satisfied. The lease may be terminated if construction has not begun within 12 months of Council approval of the lease terms.

Triage will sub-lease the retail space to the City of Vancouver for 60 years less a day. The City will divide the space into up to 4 separate retail units, all fronting onto Hastings Street and will rent the space to tenant(s).

Parking and Loading

There are 17 residential parking spaces. Five designated parking spaces will be allocated to the retail units and separated from the residential parking stalls with a gate. The one loading bay will be shared.

Cost Sharing

Price estimates have been obtained from the contractor, Progressive Builders Ltd, based on the following architectural drawings which have been reviewed by the City: A-0.00, A-1.01 to 1.05, A-3.01 to 3.04, A-4.01 to 4.02, A-5.01; A-9.01 to 9.05; A-10.01 to 10.02; all dated April 21, 2006 ; L1, dated April 10, 2006.

The Retail Space includes the following associated facilities and has an approximate gross floor area of 6,722 sq. ft as follows:

- Retail Unit 3,861 sq. ft
- Garbage and Vent Shaft 170 sq. ft
- Shared Loading Bay 315 sq. ft
- Retail Parking Stall 1,715 sq. ft
- Shared Parking Stall 543 sq. ft
- Shared Common Areas 119 sq. ft

Architectural plans to reflect the above items and areas (A0.00 and A1.01) and are dated April 21, 2006.

These plans were modified slightly in drawings A-1.01 dated August 30, 2006 but this does not significantly alter the above calculations.

The Retail Space will comprise the following:

4 retail units comprising approximately 3,861 sq.ft. of rentable space as shown on plan number A-1.01 dated August 30th 2006. In addition there will be an area dedicated for garbage for the retail units, a corridor (minimum width 4 feet) to a shared loading bay, provision of 5 underground parking stalls shown as stall numbers 1 - 5 all as shown on the above noted plan. These stalls are to be separated by a security gate from the

stalls for the residential facility. Access to the underground parking stalls for the retail tenants will be provided by the staircase in the south west corner which will be fitted with a security card access system.

The construction costs have been allocated between the residential and the retail space. The City of Vancouver will pay Triage a fixed price of \$1.045 million plus GST representing the construction costs and soft costs. The City will forward the funds to BC Housing who will administer the funds. The City will pay BC Housing 100 % of the total cost at the time of first construction loan advance as advised by BC Housing. The City will not incur further costs regardless of price increases. BC Housing will approve invoices, not the City. The fixed price includes contingency for all aspects of the City's space, including \$40,000 to cover possible changes in non-fixed price items. The breakdown of the City costs for the project is attached as Appendix A-1. The space will be finished to the stage where it is ready for tenant improvements. A description of the principle features of the retail space is attached in Appendix A-2. A more detailed specification and updated plans of the retail space is to be provided by Gomberoff Bell Lyon Architects Ltd. and will be agreed upon by the parties signing this MOU, prior to the commencement of construction. The Real Estate Services and Facility Development and Management Departments will represent the City in this matter.

No changes will be made to the retail space without the City's consent. The City will pay for any changes it initiates.

During construction, the City may make inspections as it deems appropriate, and as arranged with BC Housing and Triage. After substantial completion and before an occupancy permit is issued, an inspection will be done by the City. Should deficiencies occur, the City will bring these to the attention of the architect, and BC Housing will be responsible for delivering the space according to the plans and specifications, and represent the City's interest in rectifying any deficiencies, including any hold back of final payment.

Soil Contamination and Remediation

A Phase I environmental site assessment has been conducted and the potential for environmental contamination is minimal. However a limited sampling of the site fill material is recommended and this will occur during the site preparation for building construction.

BC Housing will be responsible for costs of soil remediation.

License Agreement

A license agreement will likely be required to use the site in advance of the execution of the lease. The City will obtain a description of activities to be undertaken from Progressive Builders and expedite the agreement as much as possible. Potential activities include site preparation, drilling, excavation and shoring.

Common Building Maintenance Expenses

The intent is that Triage and the City of Vancouver are each responsible for the cost of operating and maintenance expenses of their respective spaces. Triage will have a caretaker on site who will be maintaining Triage's areas. The City will compensate Triage for expenses related to the City's occupation of the Retail Space. Triage will invoice the City annually in arrears for these expenses, which are to be as follows:

Taxes

It is expected that BC Assessment Authority will assess the residential and retail space separately. The City is responsible for paying taxes for the Retail Space and Triage is responsible for the residential areas.

Utilities

The City will pay for the cost of utilities: water, electricity and gas based on the separate metering of the Retail Space.

Insurance

Triage will insure the Leased Premises and the City will reimburse them for the additional costs. A copy of the policy showing the City as a named insured will be sent to the City for review by the Risk Management Department. Triage will then invoice the City for any incremental increase in their policy costs relating to the Retail Space, at the time of the annual billing mentioned above.

Cost of maintaining the exterior and interior of the building

The City will be responsible for graffiti removal on the first floor of the building. Triage will be responsible for graffiti removal on the garage level and upper floors.

It is expected that maintenance of other exterior and internal areas could take up to 12 hours per month and it is agreed that the City will pay 8% of the costs of a full-time equivalent janitorial position. Triage will include this expense in its annual invoice to the City.

For the exterior, this relates to daily litter removal at the front and rear and occasional snow removal.

For the interior, the common areas shared by the Retail Space and Triage include:

- Area 1: the small passageway to the loading dock and the loading dock
- Area 2: the emergency access corridor between retail units 1 and 2 and the rear lane
- Area 3: the front emergency access stairs between the parking garage and the street

(As background information, the above figure of 8% was based on the following:

- For the exterior, it is expected that maintenance could take up to 8 hours per month of janitorial time and the City will pay 6% of these costs. (This figure is based on the percentage of 3,861 sq. ft divided by 59,775 sq.ft, the total above ground area of the building)
- For Area 1, it is expected it could take 6 hours per month of janitorial time and the City will share these costs based on 50% of the cost.
- For Area 2, it is expected it could take 1 hour per month of janitorial time and the City will pay 6% of these costs. (This figure is based on the percentage of 3,861 sq. ft divided by 59,775 sq.ft, the total above ground area of the building).
- For Area 3, it expected it could take no more than 1 hour per month of janitorial time and the City will pay 100% of the cost because it will be the City's primary access from the car park.)

Parking Area

There will be a total of 17 parking stalls in the car park and 5 will be dedicated to the City. Costs are anticipated to include cleaning, line painting, litter removal, resurfacing and possibly security patrols if implemented by Triage. The City will pay 30% of these costs, based on the City effectively occupying approximately 30% of the parking areas. In addition the City will pay 30% of the cost of occasional repairs. These repairs will be approved in advance by the City. Payment will be made at the time when Triage submit their annual invoice to the City and copies of invoices for the work will be provided.

Fire Alarm / Sprinkler System

The costs of the fire alarms, pull stations and sprinkler system maintenance costs will be shared on the basis of the percentage that the number of sprinkler heads in the Retail Space represents as a percentage of the total number in the building.

Security Card Access System

The costs of the card access system will be shared on the basis of the degree to which the Retail Space uses this facility .

Electricity Bill for the Common Areas and Parking Garage

The City's Manager of Environmental Services will estimate the Retail Area's annual consumption and cost of electricity for the lights in the two areas of shared corridor, the loading dock, retail garbage area, car park and emergency exit from the car park. The estimated consumption will be used to calculate the percentage that the Retail Area's use represents of the total electrical consumption of the building, using the first year's electrical invoices. The percentage will then be applied to the total cost of electrical consumption in each year. It is expected that the consumption should be the same each year as

our calculation will assume that the lights are on 24 hours per day, 7 days per week and so the percentage can reasonably be used in each and every year and applied to the total electricity bill.

Restaurant Ventilation System

The kitchen venting system in the retail space goes out the back of the retail units and cleaning must be done on a periodic basis. The City and/or its retail tenants will pay the costs of this and if access is needed, Triage will provide access to this part of the building at mutually agreeable times.

Changes in Operating Patterns or Unforeseen Expenses

If there any changes to the operating patterns which affect expenses identified in this MOU or any new shared cost items come up over the term of the lease, these will be shared, based on the appropriate percentage according to the City's use of the area.

Project Commitment

Project Commitment has been obtained from BC Housing. If the construction does not start within one year from signing of this Memorandum of Understanding, the City may cancel the Project with all parties responsible for their own costs incurred to the date the City cancels the Project. The City will not share in any of the costs incurred by BC Housing or any other party.

Triage will enter into an operating agreement with BC Housing.

Development Process and Schedule

Development Permit Conditional Approval	July 17, 2006
Report to Council	September 26, 2006
Development Permit Issuance	October 12, 2006
License Agreement	October 16, 2006
Partial Building Permit (excavation)	October 16, 2006
Start of excavation	October 17, 2006
Execution of Lease	October 23, 2006
Building Permit Approval	November 3, 2006
Construction Start	November 6, 2006
Occupancy	April 2008

Once signed, this Memorandum of Understanding will be submitted to City Council, to the Board of Directors of Triage and to BC Housing's Development Committee for approval.

No legal rights or obligations shall arise or be created until all legal documentation has been fully executed on terms and conditions to the satisfaction of the solicitors for BC Housing, the City and Triage.

September 18, 2006
Memorandum of Understanding
between
BC Housing,
City of Vancouver (the City), and
Triage Emergency Services and Care Society (Triage)

Authorized signatory
for Triage Emergency Services and Care Society
(Triage)

Date

Authorized signatory
for BC Housing

Date

Cameron Gray
for the City of Vancouver

Date

Memorandum of Understanding

Appendix A-1 - Cost Allocation for the City's space

Building Construction	\$846,820
Acquisition & Servicing	\$ 27,213
Development Fees	\$ 76,493
Cost escalation	\$ 25,405
Project contingency fixed price items	\$ 28,516
Project contingency non-fixed price items	\$ 40,000
TOTAL	\$1,044,447 rounded to \$1.045 million

Memorandum of Understanding

Appendix A-2 - Description of Principle Features of Retail Space

- Walls to be taped and sanded ready for paint
- Floors to be smooth trowel finished ready for floor finishes
- Ceilings to be exposed with a minimum height of 13ft 6 inches
- Each retail unit to have its own electrical panel with main breaker and all remaining electrical fixtures related to the commercial space to also be on a separate electrical panel with main breaker.
- A ventilation shaft to be constructed to second floor (to serve retail units 1 and 2). This should be 2-hour fire rated shaft with commercial kitchen exhaust duct with electrical conduit and access panels as required for servicing.
- A water supply will be roughed in and capped
- Connection for a gas supply will be provided to all the retail units.
- All mechanical and electrical wiring, piping and fixtures to comply with National and Municipal Building Codes.
- Separate hydro and gas meters to each retail unit and separate water information meters will be installed to prevent future management problems.
- Fire protection system (alarms and sprinklers) to be designed to include all code equivalencies as outlined by the code consultant.
- Security - conduit will be provided as part of the base building costs. Rough in for door contacts will be provided at the commercial entry doors and doors leading to the service corridors.
- Secure mail slots to be provided in 4 retail doorways
- Sanitary to be roughed in and capped off under the slab, so as to provide a rough in for washrooms in each retail unit as follows: rough ins for 2 washrooms in each of retail units 1, 2 and 4 and one in unit 4, all in locations to be agreed with a representative of City of Vancouver Real Estate Services.