

CITY OF VANCOUVER

ADMINISTRATIVE REPORT



Report Date: September 28, 2006
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Meeting Date: November 2, 2006

TO: Standing Committee on City Services and Budgets

FROM: The Director of the Housing Centre in consultation with the Project Manager of the SEFC Project Office, the Directors of Financial Planning and Treasury, Planning and Real Estate Services, and the Manager of the Sustainability Group

SUBJECT: Affordable and Modest Market Housing: Sub-Area 2A of Southeast False Creek (the Olympic Village)

RECOMMENDATION

- A. THAT Council allocate VANOC's \$30,000,000 contribution for the Olympic Village, plus the estimated \$2,000,000 for replacement housing from the Development Cost Levies generated by Sub-Area 2A of Southeast False Creek (SEFC) as a capital contribution to the 250 units of Affordable Housing to be developed in the Olympic Village, and instruct the Director of the Housing Centre and the Project Manager of the SEFC Project Office to report back to Council on the level of affordability that can be achieved once the costs to build the Affordable Housing have been determined;
- B. THAT Council authorize the City Manager to approve expenditures for the design of the Affordable Housing in the Olympic Village to a maximum total of \$3,000,000 with the source of funds to be the \$30,000,000 VANOC contribution to the Olympic Village, and instruct the Director of the Housing Centre and Project Manager of the SEFC Project Office to report back to Council for approval of the capital budgets and development arrangements for the Affordable Housing projects;
- C. THAT Council approve the development by the City of the Affordable Housing on Parcel 9 of the Olympic Village as a Net Zero Energy Healthy Housing Initiative (Net Zero) demonstration project in collaboration with Canada Mortgage and Housing Corporation (CMHC) and Millennium Southeast False

Creek Properties Ltd. (Millennium) as described in this report, and authorize the Manager of the Sustainability Group and Project Manager of the SEFC Project Office to negotiate the necessary arrangements with CMHC for report back to Council for final approval;

- D. THAT Council approve in principle the City undertaking the development of the Modest Market Housing on Parcel 9 of the Olympic Village by itself or with development partners as described in this report, and instruct the Director of the Housing Centre and Project Manager of the SEFC Project Office to explore developing such Modest Market Housing as either market rental or affordable home ownership, for report back to Council before the end of 2006 for final approval; and
- E. THAT approval of A, B, C and D are subject to approval of the proposed CD-1 rezoning for Sub-Area 2A of SEFC at a forthcoming Public Hearing, and that no legal rights or obligations shall arise or be created until all required Council approvals have been received and all legal documentation has been executed on terms and conditions to the satisfaction of the Director of Legal Services.

GENERAL MANAGER'S COMMENTS

The General Manager of Community Services RECOMMENDS approval of A, B, C, D and E.

CITY MANAGER'S COMMENTS

The City Manager notes that the City has made a commitment to develop 250 units of Affordable Housing in the Olympic Village. The City would lease the land for the Affordable Housing for a nominal prepaid rent, and would commit VANOC's contribution to the Olympic Village to the Affordable Housing to achieve affordability. The City does not generally subsidize affordable housing beyond making land available at a discount, and it is appropriate that VANOC's contribution to the Olympic Village be used to generate affordability beyond what can be generated by 'free' land. The City would be the developer of the Affordable Housing, and potentially of one of the Modest Market Housing projects. There are risks inherent in development, such as escalating construction costs or soft markets, and it is important these risks be managed. Staff will report back to Council for final approval on the specific arrangements proposed for the Affordable Housing and the Modest Market Housing prior to any legal commitments.

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 Southeast False Creek Official Development Plan (SEFC ODP) requires that 20% of the potential units in Sub-Areas 1A, 2A and 3A combined be developed as Affordable Housing. It requires that 33% of the potential units in Sub-Areas 1A and 3A be developed for Modest

Market Housing. For Sub-Area 2A, Modest Market Housing is not required, however staff were instructed to work with developers to provide Modest Market Housing in that neighbourhood. At least half of the Affordable Housing in Sub-Areas 1A, 2A and 3A and a quarter of the Modest Market Housing in Sub-Areas 1A and 3A must be designed for families.

The SEFC ODP definitions for Affordable and Modest Market Housing are:

- “Affordable Housing” means dwelling units designed to be affordable to persons who make up a core need household where such persons pay more than 30% of their combined gross annual income to rent an adequate and suitable rental unit, including utilities, to meet the basic housing needs of the household at an average market rent;
- “Modest Market Housing” means dwelling units designed to be affordable to persons who make up a household, and whose combined gross annual incomes fall within the middle third of income distribution for the Greater Vancouver region published by Statistics Canada in the then current Canada Census at the time of any applicable CD-1 rezoning.

PURPOSE AND SUMMARY

This report seeks Council approval to allocate a total of \$32,000,000 (in addition to providing nominal 60-year leases) to the Affordable Housing to be developed in the Olympic Village; approval to develop one of the Affordable Housing projects as a Net Zero demonstration project; and approval in principle for the City to take on the role of developer of one of the Modest Market Housing projects. Council’s approval of these recommendations is subject to approval of the proposed CD-1 rezoning of Sub-Area 2A at an upcoming Public Hearing, and this report is a companion report to the referral report for the proposed CD-1 rezoning.

BACKGROUND

On March 7, 2006, Council amended the SEFC ODP to require 20% Affordable Housing across Sub-Areas 1A, 2A and 3A combined, with an instruction to staff to work toward an objective of up to 33% if senior government funding becomes available. While Council retained the 33% Modest Market Housing requirement in Sub-Areas 1A and 3A, it was removed from Sub-Area 2A, with an instruction to staff to work with the developers to develop a strategy to develop Modest Market Housing in Sub-Area 2A with an objective of achieving up to 33%.

On April 3, 2006, Council approved the selection of Millennium as the developer of the buildings in the Olympic Village. The Request for Proposals (RFP) required that 250 units of Affordable Housing be developed in the Olympic Village and asked the developer to provide options for developing Modest Market Housing in the neighbourhood as well.

On September 26, 2006, Council referred the application from Merrick Architecture on behalf of Millennium and the City of Vancouver for the CD-1 rezoning of Sub-Area 2A to Public Hearing. It identifies three sites for Affordable Housing with a capacity of 250 units (half of which would be designed for families) and three sites for the development of Modest Market Housing with a capacity of approximately 100 units (almost half of which would be designed

for families), noting that Modest Market Housing was not a requirement of the SEFC ODP or the RFP.

Figure 1:



AFFORDABLE HOUSING

The 3 sites proposed for the required 250 units of Affordable Housing are located as shown on Figure 1 above and accommodate the mix of units as set out in Table 1 below:

Table 1 - Affordable Housing Parcels

Parcel	Floor Space	# of Units	# of Family Units
Parcel 2	8,640 m ² (93,000 sq. ft.)	88	88
Parcel 5	6,782 m ² (73,000 sq. ft.)	92	37
Parcel 9	4,366 m ² (47,000 sq. ft.)	70	0
Total	19,788 m ² (213,000 sq. ft.)	250	125

The City has committed to developing 250 units of Affordable Housing in the Olympic Village as an Olympic legacy. Millennium has agreed to develop the Affordable Housing on behalf of the City on a fee for service basis. The City will ensure financing is available to construct the Affordable Housing and, in collaboration with BC Housing, will provide design and program direction to Millennium and select the non-profit housing sponsors who will operate the Affordable Housing post-2010 Winter Games. The City will own the land component of the Affordable Housing projects and will lease the sites to the non-profit housing sponsors for 60 years at a nominal prepaid rent. BC Housing will oversee the on-going operation of the

Affordable Housing as part of their overall management of social housing in the province but will not provide on-going subsidies to the projects.

The intent of the Affordable Housing is to accommodate core-need households, households that must pay more than 30% of their gross household income to rent a median priced rental unit in the region. The current core-need income thresholds are:

Table 2 - Core Need Income Thresholds (2006)

Unit Type	Core Need Income Threshold	Max. Affordable Rent
Studio	\$27,500/Year	\$688/Month
1-Bedroom	\$31,000	\$775/Month
2-Bedroom	\$37,500	\$938/Month
3-Bedroom	\$44,000	\$1100/Month
4-Bedroom	\$48,500	\$1213/Month

The value of a 60-year lease is 75% of its freehold market value. Based on the price Millennium paid for the rights to develop the buildings in the Olympic Village, the land component of the three Affordable Housing projects identified in the proposed CD-1 rezoning has a leasehold value of approximately \$30,000,000.

Free land alone will not produce housing affordable to core-need (low-income) households, and deeper subsidies are required. It is recommended that the \$30,000,000 that the VANOC is contributing to the Olympic Village, plus the \$2,000,000 for replacement housing in Development Cost Levies that will be generated by the development of Sub-Area 2A, (for a total of \$32,000,000) be used to reduce the capital cost of the Affordable Housing. This is approximately half the cost of building the Affordable Housing and, depending on the degree of need, would allow a third to a half of the units to be occupied by core-need households without any on-going subsidies. The rest of the capital cost would be financed, with the mortgage payments covered by the rents generated from the Affordable Housing tenants.

Exactly what percentage of the units would be affordable to core-need households cannot be determined until the cost of building the units is known, and the Director of the Housing Centre and the Project Manager of the SEFC Project Office will report to Council at that time on the level of affordability that can be achieved as well as recommended non-profit housing sponsors, lease terms, etc. Other affordable housing programs, such as the Province's Shelter Assistance for Elderly Renters (SAFER), will be accessed to maximize the affordability that can be achieved in the 250 Affordable Housing units to be developed in Sub-Area 2A.

VANOC provided the \$30,000,000 contribution to the development of the Olympic Village to compensate the City for costs it might incur from making the site available for the 2010 Winter Games. In its bid, Millennium agreed to cover most of those costs, e.g. the holding costs of making the residential units available to VANOC for the duration of the games, and consequently VANOC's funds can be invested in the Affordable Housing so it can accommodate core-need households. Long standing Council policy has been that all the city-wide Development Cost Levies (DCLs) generated by the development of SEFC be reinvested in the development, and consequently it is appropriate to reinvest the replacement housing DCLs collected from the Olympic Village into the 250 units of Affordable Housing to be developed in the neighbourhood.

The Development Agreement between Millennium and the City requires that the City pay the cost of the consultants working on the Affordable Housing on a monthly basis. Consequently, funds need to be accessed to cover these costs, and it is recommended that the Project Manager of the SEFC Project Office be authorized to approve invoices up to a maximum of \$3,000,000 until the capital budgets have been prepared and reported to Council, with the source of funds to be VANOC's contribution to the Olympic Village.

NET ZERO

On May 26, 2006, the City and CMHC signed a Memorandum of Understanding proposing that one of the buildings in the Olympic Village be considered for a Net Zero demonstration project. A Net Zero building is one that is designed to generate as much energy as it consumes over the course of a year and offer superior indoor environmental quality to protect and enhance occupant health. At times during the year it may require energy from the grid, but at other times it generates more energy than it needs and the surplus is fed back into the grid. CMHC is developing a national Net Zero program and would like to collaborate with the City and the developer in developing one of the buildings in the Olympic Village to demonstrate how a multi-residential Net Zero building could be designed and constructed.

It is proposed that one of the Affordable Housing projects be developed as a Net Zero demonstration project in collaboration with CMHC and Millennium. The site selected is the 70-unit seniors' project proposed for Parcel 9. An Affordable Housing project is being proposed for the Net Zero demonstration as the energy savings achieved over the life of the building should translate into improved affordability and occupant health. BC Housing has been developing a 'green' strategy for its affordable housing programs and is also interested in exploring the Net Zero concept.

CMHC has committed to cover the increased design costs for a Net Zero building but will not contribute to the incremental capital costs beyond the LEED® Gold baseline established for the Olympic Village. Consultants with specialized expertise have been added to Millennium's team, and research needs to be undertaken to determine the appropriate design and systems to achieve Net Zero in the context of the Olympic Village development.

It is expected that a Net Zero building will cost more to develop than a standard multi-residential building. The capital costs associated with Net Zero will have to be justified through savings in operation costs or covered by funding from other sources. The City and developer have agreed that Net Zero must not compromise affordability or liveability, and therefore the capital cost to achieve Net Zero will not be covered by the \$32,000,000 that is being recommended to achieve affordability.

Designing the building to minimize its energy demand and enhance indoor environmental quality is not expected to add to the capital cost of the project. Active energy production systems, high efficiency equipment and advanced energy management systems such as photovoltaics and lighting controls, etc. will only be installed if capital funding can be found to cover their cost. The Manager of the Sustainability Group will undertake a fundraising campaign to cover the capital cost of the active elements. Potential sponsors include the Provincial and Federal ministries responsible for the environment and energy, BC Hydro, and 'green' technology providers.

The building will be designed to incorporate the technology required to achieve Net Zero at occupancy or in the future in the event that the funding for all the active elements cannot be secured in the coming year. Given that the Affordable Housing in Sub-Area 2A needs to be built by the end of 2009 in readiness for the 2010 Winter Games, construction must proceed whether or not the funding is in place to implement all the components for a Net Zero building. An adaptive design to accept Net Zero technologies in the future will allow construction to proceed on schedule while supporting the Net Zero goals over time.

The Manager of the Sustainability Group and the Project Manager for the SEFC Project Office will report back to Council on the details of the Net Zero demonstration project once the building is designed, costs have been determined and sources of funding identified.

MODEST MARKET HOUSING

Millennium's RFP submission for Sub-Area 2A identified five potential strategies for providing modest market housing. These were:

- Rent to own;
- Live/work;
- Investment rental;
- Smaller units with modest finishing; and
- Other options acceptable to the City.

The project as proposed by Millennium's rezoning application includes live/work and it is likely to include some units that will be purchased by investors and rented. However, it is not proposed to restrict the incomes of purchasers or occupiers of the live/work units, and, with changes to the regulations regarding rental units in strata-titled buildings, there is no guarantee that the percentage of investor rental (typically 20% to 40% in new buildings) will be sustained. As outlined in the referral report for the proposed CD-1 rezoning for Sub-Area 2A, Millennium proposes that three parcels be developed as Modest Market Housing through the additional density approach to ensure that middle income households can live in the neighbourhood. In the referral report, staff are recommending that the additional density as proposed by Millennium be approved so that the Modest Market parcels can be developed without any land cost.

Table 3 - Modest Market Parcels

Parcel	Floor Space	# of Units	# of Family Units
Parcels 3 and 6	5,072 m ² (54,600 sq. ft.)	62	20
Parcel 9	3,270 m ² (35,200 sq. ft.)	39	27
Total	8,342 m ² (89,800 sq. ft.)	100	47

Millennium proposes that they develop the Modest Market Housing on Parcels 3 and 6 as market rental housing, and that the City develop the Modest Market Housing on Parcel 9 as either affordable home ownership or market rental. The Modest Market Housing to be developed on Parcels 3 and 6 would focus on smaller households and the Modest Market Housing to be developed on Parcel 9 would focus on larger households, in particular families with children.

On the basis of no land cost and modestly sized and finished units, the Modest Market Housing developed as market rental would just be affordable to middle income households with one income (singles and seniors) but would be more affordable to households with two incomes (couples and families):

Table 4 - Modest Market Affordability for Middle Income Households with One Income:

	33 Income Percentile	Average Market Rent in City	Sub-Area 2A Est. Modest Market Rent	66 Income Percentile
Income Range	\$22,575/year			\$47,250/year
Rent Range	\$550/month			\$1,180/month
Studio Mkt. Rent		\$700/month	\$800/month	
1-Bdr Mkt. Rent		\$1,100/month	\$1,200/month	

Table 5- Modest Market Affordability for Middle Income Households with Two Incomes:

	33 Income Percentile	Average Market Rent in City	Sub-Area 2A Est. Modest Market Rent	66 Income Percentile
Income Range	\$58,860/year			\$98,100/year
Rent Range	\$1,470/month			\$2,250/month
2-Bdr. Mkt. Rent		\$1,190/month	\$1,500/month	
3-Bdr Mkt. Rent		\$1,450/month	\$1,800/month	

The term for the market rental that Millennium would develop on Parcels 3 and 6 has yet to be determined. Longer term market rental may be viable given that there is no land cost and assuming the units are smaller and of modest design. The Director of the Housing Centre and the Project Manager of the SEFC Project Office will report back on the details of the Modest Market Housing prior to enactment.

Millennium is proposing that the City be the developer of the Modest Market Housing on Parcel 9, either for market rental or affordable home ownership. The City has limited experience developing market rental housing, and may want to bring in a partner, such as a pension fund or other institutional investor, who would purchase the completed project and operate it over the long term. The City has even less experience in developing affordable home ownership, and if that is the preferred direction, it would probably be appropriate for the City to partner with a developer experienced and interested in developing affordable home ownership. The exploration of the market rental or affordable home ownership options would include discussions with potential development partners. Millennium is willing to be the developer if being the developer proves to be infeasible for the City.

Table 6 - Affordable Home Ownership for Middle Income Households with One Income

	33 Income Percentile	Market Value	Modest Market Price	66 Income Percentile
Income Range	\$22,575/year			\$47,250/year
Price Range (10% down)	\$51,000			\$152,000
Price Range (25% down)	\$61,000			\$179,000
Studio Condo		\$240,000	\$170,000	
1-Bdr. Condo		\$360,000	\$250,000	

Table 7 - Affordable Home Ownership for Middle Income Households with Two Incomes

	33 Income Percentile	Market Value	Modest Market Price	66 Income Percentile
Income Range	\$58,860			\$98,100
Price Range (10% down)	\$200,000			\$360,000
Price Range (25% down)	\$235,000			\$425,000
2-Bdr. Condo		\$480,000	\$340,000	
3-Bdr. Condo		\$570,000	\$400,000	

There are risks and costs to developing affordable home ownership. There is the risk that the market may soften and the cost to produce the unit may not be much lower than its market value. There is not much risk, in this case, that the cost of the Modest Market Housing unit will be higher than its market value, because it will not include any land cost. However, a 30% discount may not be the outcome if market conditions change. Nevertheless, the fact that the units will be smaller and modestly finished should be sufficient to ensure that a degree of affordability will be achieved relative to other market units in the neighbourhood which will be larger with higher quality finishes. Developing modest sized and finished units was an approach adopted when the South Shore of False Creek was developed 30 years ago and those units have maintained their relative affordability since without any on-going resale controls.

There are administrative costs to an affordable home ownership program if a substantial discount below market value is achieved. Units need to be appraised whenever they are sold and potential purchasers income tested. Along with exploring possible partnerships with developers to build the affordable home ownership housing, partnerships will be explored with housing sponsors that may have the capacity and interest in administering the program.

It is recommended that Council approve in principle the City developing the Modest Market Housing on Parcel 9 and that both the market rental and affordable home ownership options be explored for report back to Council before the end of the year.

FINANCIAL IMPLICATIONS

This report recommends that VANOC's contribution to the Olympic Village (\$30,000,000) plus the DCLs allocated to replacement housing that will be generated from the development of the neighbourhood (approximately \$2,000,000) be allocated to achieving affordability in the 250 units of Affordable Housing that the City is to build in the Olympic Village. The report also recommends approval in principle of the City developing one of the Modest Market Housing proposals as well. Any further financial commitments would be subject to reports back to Council.

ENVIRONMENTAL IMPLICATIONS

All the Affordable Housing and Modest Market Housing will be built to Gold LEED® standards. It is also proposed that one of the Affordable Housing projects will be built as a Net Zero demonstration project in collaboration with CMHC and Millennium.

SOCIAL IMPLICATIONS

Developing a community that can accommodate a range of incomes is important to social inclusion. If the proposed CD-1 rezoning is approved at Public Hearing, there would be 250 Affordable Housing units (23% of the estimated total number of units) and approximately 100 Modest Market Housing units (9% of the estimated total number of units).

CONCLUSION

It is recommended that Council allocate a total of \$32,000,000 in addition to providing nominal leases for the sites (\$30,000,000 from VANOC for the Olympic Village and \$2,000,000 from DCLs generated from the Olympic Village) towards the cost of the 250 Affordable Housing units that the City will be developing in the Olympic Village. It is recommended that one of the Affordable Housing projects be developed as a Net Zero (energy efficient) demonstration project. Millennium is proposing that 100 units of Modest Market Housing units be developed in the Olympic Village and it is recommended that approval in principle be given to the City being the developer of one of the Modest Market Housing projects.

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