



CITY OF VANCOUVER

ADMINISTRATIVE REPORT

Report Date: December 15, 2006
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Meeting Date: January 30, 2007

TO: Vancouver City Council

FROM: The Director of the Housing Centre and the Project Manager for South East False Creek in consultation with the Director of Real Estate Services

SUBJECT: Modest Market Housing: Sub-Area 2A, South East False Creek

RECOMMENDATION

- A. THAT Millennium Southeast False Creek Properties Ltd. develop all of the Modest Market Housing (as defined in the South East False Creek Official Development Plan) in Sub-Area 2A of South East False Creek (the Olympic Village) as market rental housing built to maximum unit size limitations and subject to a rental restriction covenant to be registered on title requiring that such housing be rented for 20 years as outlined in this report; and
- B. THAT the Director of Legal Services be authorized to execute the necessary legal agreements on terms and conditions to the satisfaction of the City Manager and the Director of Legal Services, provided that no legal rights or obligations shall arise or be created until all the legal documentation has been fully executed.

GENERAL MANAGER'S COMMENTS

The General Manager of Community Services recommends the foregoing.

CITY MANAGER'S COMMENTS

The City Manager advises that additional complexity should be avoided in the development of the Olympic Village. While affordable homeownership or having the City develop market

rental housing may be worth pursuing in later phases of South East False Creek's development, allowing Millennium to develop the Modest Market Housing in the Olympic Village as market rental housing is appropriate. The development of over 100 units of market rental housing secured for 20 years and with limitations on unit sizes is a significant enhancement of the affordability objectives for the Olympic Village.

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 provision of Modest Market Housing is not a requirement of the South East False Creek Official Development Plan (SEFC ODP) for Sub-Area 2A (the Olympic Village) but the ODP encourages staff to work with developers to provide Modest Market Housing. At least 25% of any Modest Market Housing units must be designed for families.

The SEFC ODP definition Modest Market Housing is:

- "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

This report addresses the question of whether the City should be the developer of some or all of the Modest Market Housing to be developed in the Olympic Village and if not under what terms Millennium South East False Creek Properties Ltd. (Millennium) should be allowed to develop the Modest Market Housing.

BACKGROUND

In August 2006 Millennium submitted a CD-1 rezoning application for Sub-Area 2A of the South East False Creek Official Development Plan (the Olympic Village). Millennium proposed additional density beyond the SEFC ODP residential maximum which would be developed as Modest Market Housing. They proposed that Modest Market Housing be developed on Parcels 3, 6 and 9 (as shown of Figure 1) with Millennium to develop the Modest Market Housing on Parcels 3 and 6 as market rental housing and the City, if it chose, to develop the Modest Market Housing on Parcel 9 as either market rental housing or affordable homeownership.

Figure 1: The Olympic Village



At the October 17, 2006, Public Hearing Council approved the CD-1 rezoning for the Olympic Village in principle and subject to conditions. The proposed CD-1 includes 8,342 m² (89,800 sq. ft.) of bonus floor area designated for Modest Market Housing.

On November 2, 2006, Council considered a report regarding the development of the Affordable and Modest Market Housing in the Olympic Village that is being developed in South East False Creek. As regards the Modest Market Housing, Council approved:

“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, and instruct the Director of the Housing Centre to explore developing the Modest Market Housing on Parcel 9 as either market rental or affordable home ownership, for report back to Council by the end of 2006 for final approval.”

CITY AS DEVELOPER OF MODEST MARKET HOUSING

Following on the November 2, 2006, Council meeting, staff reviewed the option of the City undertaking the development of the Modest Market Housing on Parcel 9 as either affordable homeownership or market rental housing.

The City has very limited experience in developing affordable homeownership and a development partner would be required. Bringing a new partner into the development of the

Olympic Village, given the complexity of the project and the need to complete the project for the 2010 Winter Games, would be impractical. Consequently the option of the City developing Parcel 9 as affordable ownership housing is not recommended. As well, market rental would be more affordable to middle income households, as was noted in the report Council considered on November 2, 2006.

The option of the City developing the Modest Market Housing on Parcel 9 and possibly all the Modest Market Housing in the Olympic Village as market rental housing and as a Property Endowment Fund investment was also reviewed. Developing the 3,270 m² (35,200 sq. ft.) of floor space as market rental would cost on the order of \$11,000,000 and \$4,000,000 in equity would be required (even with no land cost). Ten million dollars in equity would be required if the City were to be the developer of all the Modest Market Housing in the Olympic Village.

The Property Endowment Fund's cash flow for the next several years has already been allocated to various priorities including covering the cost of servicing the Olympic Village and acquiring affordable housing sites, and the funds are not available for a market rental investment at this time. In addition, the City has already made a substantial investment in market rental housing in the #1 Kingsway project which will be completed within a year. As the City has not undertaken a rental investment of the scale of #1 Kingsway before, the Director of Real Estate Services advises that it would be wise for the City to see how #1 Kingsway performs before proceeding with further investments in market rental housing.

Consequently, it is recommended that the City not be the developer of the Modest Market Housing in the Olympic Village.

MILLENNIUM AS DEVELOPER OF MODEST MARKET HOUSING

Millennium, in its rezoning application, expressed its desire to be the developer of at least the Modest Market Housing to be developed on Parcels 3 and 6. They are prepared to develop all of the Modest Market Housing in the Olympic Village and in that case would develop it all as market rental housing. The Modest Market Housing is being accommodated in bonus density, and consequently there is no land cost to the market rental housing that Millennium proposes to develop. The savings in land cost should allow the developer to achieve market rental housing affordable to middle income households.

An economic analysis was undertaken to determine the level of affordability that could be achieved on the basis that the land cost is zero. Rental restricted for terms from 15 to 25 years was evaluated along with rental in perpetuity. The analysis indicates that, with a rental term of 20 years after which the units could be sold, the developer would achieve an internal rate of return of slightly less than 10%. This is considered a reasonable return for an investment in new market rental housing where there is both construction risk and the revenue and cost risks related to operating rental housing. If rental in perpetuity were required, the developer would not be adequately compensated for the investment risk.

The units would be restricted in size to ensure that the rents would be affordable to middle income households and to ensure that, when the units are sold, they are relatively affordable compared to the unrestricted market housing built in the Olympic Village. The maximum size for a studio would be 450 net rentable sq. ft.; for a 1-bedroom unit would be 650 sq. ft.; for a 2-bedroom unit would be 850 sq. ft.; and for a 3-bedroom unit would be 1050 sq. ft. The

modest market housing includes some 2-storey live/work units and townhouses and these units could be 50 sq. ft. larger to accommodate stairs. The plans for the Modest Market Housing are still in development but the current plans indicate 107 units can be developed.

Consideration was given to limited rent controls e.g. setting rents at market initially but restricting rent increases to increases in the Vancouver Consumer Price Index (CPI) except when a unit turns over at which time the rent could be increased to market. However, rents have generally tracked inflation for the past decade and the Province’s Residential Tenancy Act restricts rent increases to CPI plus 2%. As well, any rent control requires administration (audits, rent reviews, etc) and puts the City in the position of having to adjudicate landlord/tenant disputes. Consequently, rent control was not considered necessary or appropriate, noting that the Province is responsible for the regulation of rents in any event.

The Director of Real Estate Services advises that the terms of the market rental housing proposed for the Modest Market Housing are reasonable and should not result in a windfall profit. Millennium has agreed to develop the Modest Market Housing as market rental housing under the terms and conditions set out in this report.

FINANCIAL IMPLICATIONS

There are no financial implications.

SOCIAL IMPLICATIONS

The November 2, 2006, report to Council included the following tables of the incomes that could be accommodated in market rental housing developed in the Olympic Village. Market rental should be affordable to middle income households, in particular those with 2 incomes. Limited affordability is achievable for households with only one income.

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	

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	

CONCLUSION

After reviewing the options for the development of the Modest Market Housing in the Olympic Village, it is recommended that the City enter in an agreement with Millennium for the development of all the Modest Market Housing in the Olympic Village on the conditions that the units be restricted in size and that such market rental housing be subject to a 20-year rental restriction.

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