

# CITY OF VANCOUVER

## POLICY REPORT HOUSING

Report Date: November 26, 2007  
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Meeting Date: December 13, 2007

TO: Standing Committee on Planning and Environment

FROM: The Director of the Housing Centre in consultation with the Directors of Real Estate Services and Legal Services

SUBJECT: Lease Extension - Paloma Housing Co-operative  
(1580 - 1638 East 3<sup>rd</sup> Avenue)

### RECOMMENDATION

- A. THAT Council approve a 20-year extension to the lease for Paloma Housing Co-operative (1580-1638 East 3<sup>rd</sup> Ave.) at a nominal prepaid rent based on the terms and conditions set out in this report and authorize the Director of Legal Services to execute the necessary legal documents on behalf of the City, and

THAT no legal rights or obligations shall arise or be created until all the required legal documentation is fully executed on terms and conditions to the satisfaction of the City's Director of Legal Services.

Recommendation A represents a grant of \$840,000 and requires 8 affirmative votes.

- B. THAT Council advise Canada Mortgage and Housing Corporation (CMHC), the Province, and the Co-operative Housing Federation of BC (CHFBC) that the City is prepared to consider, on a case by case basis, 20-year lease extensions with a nominal prepaid rent for non-profit housing co-operatives with 40- or 41-year leases with the City, where CMHC's and BC Housing's enhanced assistance is required to ensure the viability of co-operatives undergoing building envelope repair, and that 20-year extensions at nominal prepaid rents are the City's maximum financial contribution.

## GENERAL MANAGER'S COMMENTS

The General Manager of Community Services recommends approval of A and B.

## COUNCIL POLICY

Council's priorities for social housing are to maintain and expand housing opportunities with priority being given to families with children, SRO residents, and the mentally ill, physically disabled, and others at risk of homelessness.

The City leases sites for non-market housing for 40- or 60-year terms and currently 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.

Grants require 8 affirmative votes of Council.

## PURPOSE AND SUMMARY

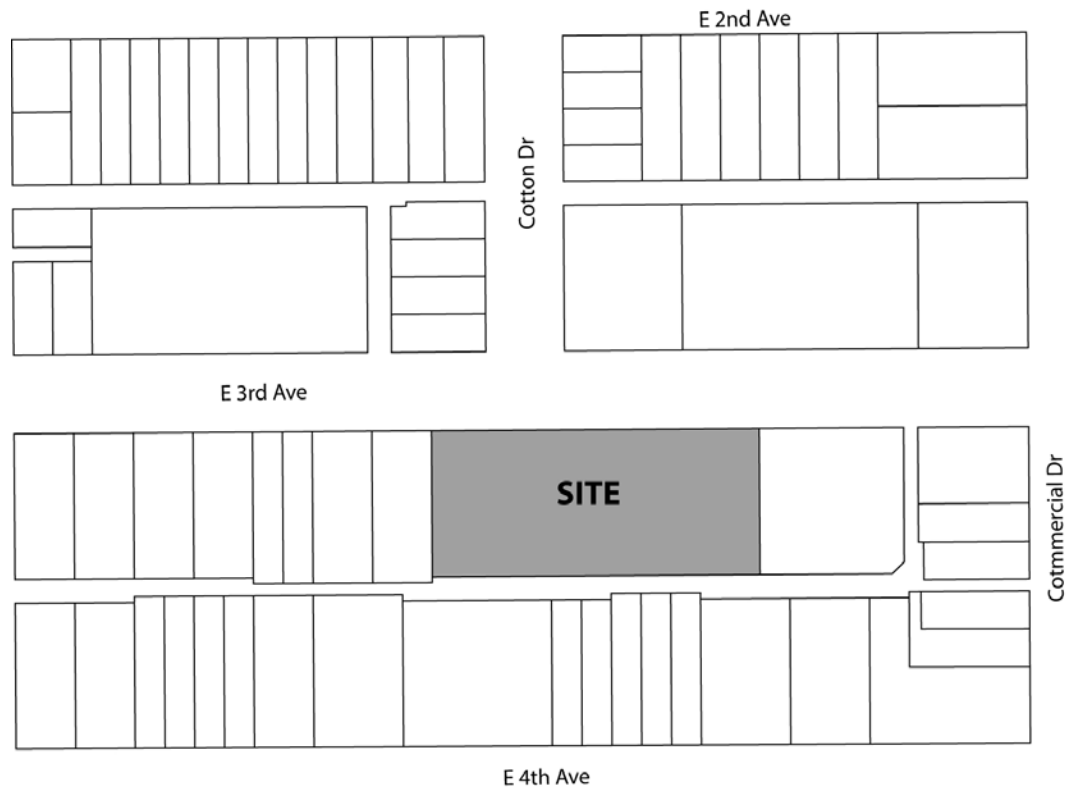
This report recommends that Council approve a 20-year extension to the lease of Paloma Housing Co-operative with a nominal prepaid rent. This extension is provided subject to requirements that, upon expiry of the co-op's operating agreement with CMHC, at least 25% of the units are occupied by core-need households and that the balance of co-op members pay a low-end of market rent for the duration of the lease term. A nominal prepaid rent is recommended for the lease extension because the cost to repair the building envelope is requiring substantial subsidies from CMHC and the Province (through the Home Owners Protection Office and BC Housing). The Federal and Provincial enhanced assistance requires extending the financing repayment well beyond the existing 40-year lease term, and assumes that there is no land cost during the term of the lease extension.

There are other non-profit housing co-operatives that will require the enhanced funding from CMHC and the Province to cover the cost of repairs for building envelope failure. A couple are on City-owned sites with leases of 40 or 41 years. It is expected that the City will receive requests for similar lease extensions of 20 years at nominal prepaid rent. Each co-op will be evaluated individually but it is expected that 20-year extensions to the existing leases at a nominal prepaid rent will be supportable. To define the limit of the City's support, it is recommended that CMHC, the Province and CHFBC be advised that 20-year lease extensions at nominal prepaid rents is the maximum contribution the City will make to the renovation of non-profit housing co-operatives with 40 or 41 year lease terms.

## BACKGROUND

Paloma Housing Co-operative is a 44 unit (32 family units and 12 units for seniors or the disabled) non-market housing project located at 1580-1638 East 3<sup>rd</sup> Avenue as noted in Figure 1.

Figure 1



The co-op is on a site leased from the City (PEF). The 40-year lease term commenced on October 20, 1984 and will terminate on October 20, 2024. The City purchased the site for \$1,000,000 and the prepaid rent for the lease term was \$750,000 equal to 75% of freehold market value.

In 1998 Council adopted the current policy related to the lease of non-market housing sites which states that a 40-year lease term equates to 50% of freehold market value and a 60 year lease equates to 75% of market value. Financing for the co-op was provided by CMHC under the co-operative housing program of the day. CMHC provided a 35-year mortgage which it subsidized (the difference between market interest rates and the 2% the co-op paid), and which allowed the co-op to subsidize some of the households with the rest of the households paying a low-end of market rent.

On February 16, 2005, Council considered a report that addressed the need to extend the leases for non-market housing projects needing major repairs due to envelope failure and leaks. The report dealt with non-profit rental housing as well as non-profit housing co-operatives. The focus of the report was the housing projects on land leased from the City for 40 or 41 years. Most of these projects were developed in the early 80s and had 20 or so years left in their lease term. Repairing the building envelopes and dealing with leaks was expensive and the refinancing to pay off the additional debt required mortgage terms that extended beyond the original lease terms.

To accommodate the need for the lease terms to exceed the term of the mortgage, Council approved extending the terms for those projects with 40 or 41 year leases by 20 years with the lease rent for the extension to be paid at year 45 of the extended lease term and based on the City's cost of borrowing. As the buildings are not stratified and can only be used for rental housing, the land has been valued at 50% of its freehold value, as freehold value reflects the potential for condominium development.

## DISCUSSION

In the February 2005 report to Council, Paloma Co-op was one of the non-profit housing co-operatives identified as needing lease extensions to accommodate the amortization period required to pay off the costs of repairing the building. It was hoped that the financing package put together by CMHC and the Province along with the lease extension to be paid at year 45 of the extended lease term would enable the repairs to proceed. This, however, has proved not to be the case. With increasing construction costs, some of the co-ops cannot pay off the financing for the repairs under the original funding structure and still remain viable, even if all the units are paying full market rent. And in those co-ops where it would be feasible, it means that all the households that are unable to afford market rents would have to move or face unaffordable rents.

In response, CMHC and the Province developed an enhanced funding structure for those co-ops that could not be renovated under the original funding structure. Paloma and CMHC have reached an agreement that will allow the renovations to proceed under the enhanced funding structure. The agreement assumes that there is no land cost during the extended amortization required to pay off the costs of the renovation. Paloma has asked the City to approve a 20-year extension to their lease at a nominal prepaid rent and their letter is attached as Appendix A.

Under the original funding structure, all the costs of the repairs had to be paid off within the original 35 year mortgage term. Under the enhanced funding structure the original mortgage can be extended up to 35 years commencing when the renovations are completed. In the case of Paloma, this reduces the debt service costs from \$221,000 to \$9,000/year. CMHC will provide a second mortgage with preferred interest rates, which in the case of Paloma is approximately \$5.4 million. CMHC is also providing a third mortgage for repairs that go beyond the Home Owner Protection office requirements for envelope repairs, and also to cover any operating deficits. CMHC will waive half the interest, estimated at \$143,000, on the third mortgage, and may forgive the other half if necessary. In addition to the financing secured by mortgages, CMHC will provide a capital grant to the Co-op of \$1.8 million to buy down the first mortgage.

The Province through BC Housing will provide the technical expertise required for the renovations (paid for by CMHC) and the Home Owner Protection Office will pay the interest on CMHC's 2<sup>nd</sup> Mortgage for the year of the repairs and ten years thereafter, which would total \$2.2 million in the case of Paloma.

The beneficial financing and grants will enable the repairs to be undertaken and the co-op to maintain the affordability it currently provides. At this time, 18 of the 44 units are occupied by households receiving subsidies. The subsidies are provided by the other members of the Co-op and represent 17% of the gross potential housing charges (of all the rent that could be

collected if the units were all rented at market rents). The current gross housing charges for the unsubsidized households are \$687/month for a 1-bedroom unit, \$845/month for a 2-bedroom unit, and \$934/month for a 3-bedroom unit. These housing charges reflect the current state of disrepair in the co-op and, once the renovations are completed, they will increase over time to \$749 for a 1-bedroom unit, \$1000 for a 2-bedroom unit and \$1228-\$1436 for the 3-bedroom units (apartments and townhouses).

As the amortization period required to pay off the renovation costs under the enhanced financing proposal will extend almost to the end of the extended lease term, there is little opportunity for the City to receive any lease rent, and therefore a nominal prepaid rent for the extension is recommended. If approved this would be a grant from the City. In return for the grant, Paloma has agreed that, upon termination of the operating agreement with CMHC in 2019 which currently regulates how housing charges are set and affordability achieved, the lease will be amended to require that:

- At least 25% of the households will be core-need households who will pay a rent equal to 30% of their gross household incomes;
- Households not in core-need will pay housing charge equal to 85% of the rents for comparable market rental housing in the area (this is the % CMHC has used for the low end of market rent in its co-operative housing programs);
- Any surpluses that accumulate in addition to those required for the replacement reserve will be placed in a separate fund for capital upgrades if the lease is renewed, or for investment in affordable housing as the co-op and the City mutually agree if the lease isn't renewed;
- An annual letter from the auditor for the co-op confirming the number of core-need households and the housing charges for those residents not receiving subsidy; and
- If the co-op experiences financial difficulty following the termination of CMHC's operating agreement, the City will allow the above constraints to be amended to ensure the co-op continues to be financially viable.

## FUTURE REQUESTS

CHFBC advises that there are two other non-profit housing co-operatives on land leased from the City with 40- or 41-year lease terms which will likely require the enhanced funding package from CMHC and the Province. They will need their leases extended by 20 years and will likely not be able to pay any rent for the extension.

It is recommended that CMHC, the Province and BC Housing be advised that the City is prepared to consider nominal 20-year lease extensions on a case by case basis for those co-ops with 40- or 41-year leases which require the enhanced funding package for building envelope renovations, and that a 20-year lease extension is the maximum contribution that the City is prepared to provide. CHFBCs also advise that there may be a couple of co-ops which are not salvageable and where redevelopment may be the appropriate response. CHFBC are working with all the co-ops requiring building envelope repairs and staff will bring forward reports to Council as CMHC and CHFBC's evaluation of individual co-ops is completed.

## FINANCIAL IMPLICATIONS

The current assessment for Paloma is \$4,468,000 (\$4,244,000 land/\$224,000 improvements). Based on the 50% of the current assessed land value and applying the formula set out in the February 2005 Council report, the 20-year extension to Paloma's lease at a nominal prepaid rent, represents a grant of \$840,000 from the City. As the 20-year extension represents a grant, 8 votes in support are required for approval of the recommendation.

## SOCIAL IMPLICATIONS

The building envelope for Paloma Housing Co-operative has been seriously compromised and must be repaired or 44 units of affordable housing, including housing that accommodates core-need households are at risk. The enhanced funding provided by CMHC will enable the co-op to be repaired and the affordable housing preserved. The repairs are extensive and will extend the life of the building for the extended lease term which would end in 2044.

## CONCLUSION

CMHC and Paloma Housing Co-operative have agreed to the terms of the financing for the renovation of co-op. The enhanced funding structure requires an extension to the City's lease at a nominal prepaid rent. Staff recommend the co-op's request for a 20-year extension at a nominal prepaid rent be approved with conditions that will ensure the co-op continues to accommodate core-need households and that any surplus that may be generated over the extended lease term is reinvested in affordable housing.

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## **PALOMA HOUSING COOPERATIVE**

**307 – 1638 East 3<sup>rd</sup> Avenue  
Vancouver, BC V5N 1G9**

October 16, 2007

### **To the Mayor and Members of the Vancouver City Council**

I am writing this letter on behalf of the Paloma Housing Co-op to formally request a 20 year lease extension of our current landlease with the City of Vancouver at a nominal prepaid rent.

Paloma Housing Co-op represents 44 units of affordable housing situated at 1580 and 1638 East 3<sup>rd</sup> Avenue in East Vancouver. The two buildings were built in 1985 on land owned by the City and held in trust for affordable housing. Our initial lease was for 40 years, and is due to end in 2024.

We are an active, diverse, and functioning co-op that reflects our neighbourhood. In our courtyard you'll hear several languages spoken among people of all ages. Some residents have lived here since the Co-op's founding, others have arrived to our buildings and to our country much more recently. All of us believe in mutual assistance, and take pride in the kind of care we show others. Forty percent of our units receive some level of internal subsidy on their monthly housing charge, while the remaining sixty percent are paying market rates, or close to it, as established on a comparative basis with other housing in the area. Two apartments are specifically designed and allocated for wheelchair accessibility, and a third is dedicated to a member with HIV. In aggregate, roughly eighteen percent of the value of our annual rents is provided through subsidy.

Unfortunately, due to design and construction flaws, our buildings have suffered from envelope failure almost since the date of construction. For more than ten years we have been eligible for, and have vigorously sought, remediation, but were unable to arrange financing through the Canada Mortgage and Housing Corporation, the lender of last resort for cases such as ours.

After a workman's foot went through a third floor walkway in early 2006, an Engineer's assessment on the state of the buildings was commissioned. Dated February 28, 2006, it was sent to the BC Housing Management Commission. It stated that both of our buildings:

“...are suffering from severe systemic building envelope failure with numerous structural elements (beams, columns, walkways, joists, studs, guard walls) all suffering from severe rot.... it is our strong professional recommendation that full repairs to the entire building envelope, as well as the effected structural components, be carried out as soon as possible. We emphasize that, based on the condition we have observed, we recommend that the various agencies responsible for overseeing such repairs give the highest priority to expediting the required repairs.” (*attached*)

Now, more than a year and a half after that report, all of the walkways and some of our interior walls are supported by emergency shoring. All of the balconies and some of the walkways have been sealed off. However, due to this shoring, the entrances of many units are impeded in their accessibility to wheelchairs and emergency medical services, and furniture can neither be moved in or out without first removing the emergency support.

Placed in March of 2006, the emergency shoring was meant as an interim measure, to last not more than a year.

The structural failure of the buildings are an obvious and urgent safety issue for all who live here. However, it is not the only safety issue, as the respiratory problems associated with severe mould are a related health risk. We have one apartment which is unfit for human habitation, and has been held vacant for several years, and two other units have been vacated by persons under doctor's orders. There is no solution to these problems other than appropriate and extensive repairs.

As a community, it is difficult to maintain full occupancy and market rents in a building in such a deteriorated and deteriorating condition.

However, after years of struggle, negotiation, and many false starts, Paloma Co-op has finally received a conditional offer from CMHC for the financial assistance we need to repair the buildings, with a repayment schedule that we can manage.

The outstanding condition, which, if successfully met, will allow us to immediately initiate a remediation project of an estimated five point eight (5.8) million dollars, is that we extend our lease with the City of Vancouver for the required period of time, and do so on terms that maintain the co-op's long term financial viability.

It is for that specific reason that we make this appeal.

We understand that our proposed lease extension with a nominal payment will be treated as a grant by the City of Vancouver, and that it will be evaluated in relation to appropriate and comparable support we have managed to obtain from provincial and federal funding sources.



Accompanying this request, therefore, is an analysis by Darren Kitchen, the Government Relations Officer of the Canadian Housing Federation of British Columbia (CHF BC), precisely addressing this issue in our case.

I and another representative of Paloma Housing Co-op met with Cameron Grey, Head of Housing for the City of Vancouver, Darren Kitchen (as above) and Thom Armstrong, Executive Director of CHF BC, on September 25<sup>th</sup>, 2007, to discuss the terms and arrangements the City of Vancouver might seek to enable our request.

I am pleased that the principles discussed at that meeting were genuinely appropriate to the situation in which we find ourselves. We, like the City of Vancouver and CHF BC, are committed to maintaining affordable housing, and are more than willing to enter into an operating agreement with the City that, in a reasonable way, embraces such principles, and ensures their application into the future.

We would like to thank, too, Council member Kim Capri, who has met with us several times to directly address our concerns. We are grateful for her understanding and effort on our behalf.

All of the members at Paloma Housing Co-op are anxious to live in a safe building. We have roots here, and have built a functioning community wherein we try to reflect the best of ourselves and our city. We believe it is time, now, to leave behind the institutional paralysis of the past. We believe our story can have, and will have, a positive ending, reflecting the appropriate actions and good faith of all parties.

We sincerely thank you for considering our case, and for your support.

Respectfully,

Carolyn Combs  
President of the Board of Directors  
PALOMA HOUSING COOPERATIVE  
210 – 1580 East 3rd  
Vancouver, BC V5N 1G9

Attached: letter from JRS Engineering Limited, February 28<sup>th</sup>, 2006  
To Come: Comparative analysis from Darren Kitchen, CHF BC