



## CITY OF VANCOUVER

### ADMINISTRATIVE REPORT

Report Date: July 2, 2008  
Author: Cameron Gray  
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RTS No.: 07524  
VanRIMS No.: 08-2000-20  
Meeting Date: July 22, 2008

TO: Vancouver City Council  
FROM: The Director of the Housing Centre  
SUBJECT: Lease Extension: Grace McInnis Housing Co-operative

#### **RECOMMENDATION**

- A. THAT Council approve a 20-year extension to the lease for Grace McInnis Housing Co-operative (825 Salsbury Drive) at a nominal prepaid rent 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.
- B. THAT no legal rights or obligations shall arise or be created from the approval of A 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 capital grant of approximately \$500,000 and requires 8 affirmative votes.

#### **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 for low and modest income households 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 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**

This report recommends that Council approve a 20-year extension to the lease of Grace McInnis Housing Co-operative (825 Salsbury Drive; PID: 007-067-364; Lot K of Lot 9, Block D, Plan 19133, DL 183, New Westminster District) with a nominal prepaid rent 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 co-op members who can afford to 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 the Canada Mortgage and Housing Corporation (CMHC) and the Province's Home Owners Protection Office (HPO). 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.

## **BACKGROUND**

On December 13, 2007, Council considered a recommendation that the lease term for Paloma Housing Co-operative (1580-1638 East 3<sup>rd</sup> Ave.) be extended for 20 years, with a nominal prepaid rent for the lease extension, to allow for the cost to repair the buildings to be amortized. Paloma suffered from severe envelope failure and the 17 years remaining in the term of the 40-year lease was insufficient to pay off the loans required for the envelope repairs. CMHC and BC Housing were willing to provide the financing, including additional capital grants, to cover the cost of the repairs, but a no cost extension to the lease was required for the work out to be viable.

Council was advised that there were other non-profit housing co-operatives in the same situation: experiencing severe envelope failure and with 40 or 41 year leases dating from the mid 80s with an insufficient term left to pay off the repairs. Council approved a recommendation:

"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."

With the approval of this recommendation, the City has established two formulas for determining the prepaid rent required for 20 year extensions to 40 or 41-year leases for non-market housing projects, including non-profit housing co-operatives, where lease extensions are required to amortize the cost of building envelope repairs. For those projects that do not require enhanced funding and financing from the Federal and Provincial governments, the

prepaid rent for the 20-year lease extension is based on 50% of the freehold value of the site and the City's cost of borrowing. For those projects which require enhance funding and financing from the Federal and Provincial governments, because of the scale and cost of the repairs, Council will consider a nominal prepaid rent for the lease extension.

**DISCUSSION**

Grace McInnis Housing Co-operative is a 31 unit (27 family units and 4 units for seniors or the disabled) non-market housing project located at 825 Salsbury Drive as noted on Figure 1.

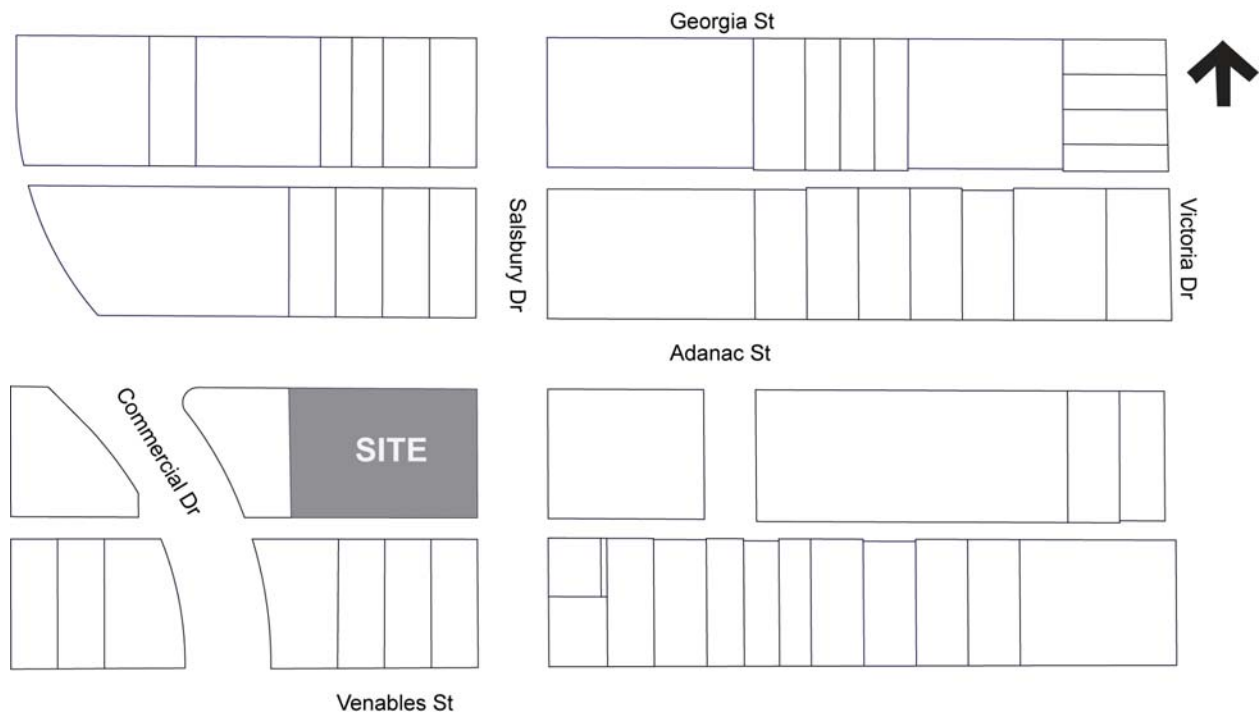


Figure 1

The co-op is on a site leased from the City. The 41-year lease term commenced on September 19, 2005 and will terminate on September 18, 2026. The City purchased the site for \$708,732 and the prepaid rent for the lease to the co-op was \$527,655, or 75% of freehold market value. NOTE: the current policy that a 40-year lease term equates to 50% of freehold market value was not adopted by Council until 1988. 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.

The repairs required to Grace McInnis Housing Co-operative are extensive and, with increasing construction costs, enhanced funding and financing from CMHC and, for the Province, from

the Homeowner Protection Office (HPO) is required for the co-op to remain viable and to sustain the affordability the co-op currently provides. Grace McInnis Housing Co-operative has reached an agreement with CMHC, the lead agency, which will allow the renovations to proceed under the enhanced funding structure. The agreement assumes that there is no land cost during the extended amortization period required to pay off the costs of the renovation. Grace McInnis Housing Co-operative 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 will be extended by 33 years commencing when the renovations are completed. CMHC will buy down the existing mortgage by \$354,439 and this, plus the extended mortgage term, will reduce the debt service costs from \$174,610 to \$85,082/year. CMHC will provide a second mortgage with preferred interest rates of \$2,377,144. The HPO will provide an interest contribution of \$960,488. CMHC is also providing a third mortgage of \$381,520 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 \$125,000, on the third mortgage, and may forgive the other half if necessary. BC Housing will provide the technical expertise required for the renovations (paid for by CMHC).

The beneficial financing and grants will enable the envelope repairs to be undertaken and the co-op to maintain the affordability it currently provides. At this time, 40% of the 31 units are occupied by households receiving subsidies. The subsidies are provided by the other members of the Co-op and represent 16% 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 \$536/month for a 1-bedroom unit, \$730/month for a 2-bedroom unit, and \$888/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 so that by 2012 the rents will rise to \$743 for a 1-bedroom unit, \$814 for a 2-bedroom unit and \$1220 for the 3-bedroom units (apartments and townhouses). These are the estimated market rents. The subsidy potential will be 13% of total revenue in 2012 on the basis that subsidized members pay 30% of their gross household income on housing charges and all other rents are at the low-end of market rents for the area.

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, Grace McInnis Housing Co-operative has agreed that the lease be amended to require that in 2021, upon termination of the operating agreement with CMHC which currently regulates how housing charges are set and affordability achieved, 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 requiring at least 10% of the gross rental revenues to be used to subsidize the core-need members;
- 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.

### ***FINANCIAL IMPLICATIONS***

The current assessment for Grace McInnis Housing Co-operative is \$2,686,000 for the land. Based on the 50% of the current assessed land value, as representing the market value for a site restricted by the lease to unstratified residential use, the 20-year extension to Grace McInnis Housing Co-operative's lease at a nominal prepaid rent represents a grant of approximately \$500,000 from the City. As the 20-year extension at a nominal prepaid rent represents a grant, 8 votes in support are required for approval of the recommendation.

### ***SOCIAL IMPLICATIONS***

The building envelope for Grace McInnis Housing Co-operative has been seriously compromised and must be repaired or 31 units of affordable housing including housing that accommodates core-need households is at risk. The enhanced funding provided by CMHC and the Province 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 2046.

### ***CONCLUSION***

CMHC and Grace McInnis 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.

\* \* \* \* \*

**GRACE MCINNIS HOUSING CO-OPERATIVE**

825 Salsbury Drive, Vancouver, BC

APPENDIX A

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May 21, 2008.

**RE: Lease Extension for Leaky Grace McInnis Housing Co-operative**

Dear Mayor and Council Members,

I am writing this letter on behalf of the Grace McInnis Housing Co-operative to formally request a 20-year lease extension of our current land lease with the City of Vancouver, with no additional costs to the co-operative.

If this request is granted, the co-op agrees that, on expiry of the CMHC operating agreement, Grace McInnis' lease with the City will be modified to reflect that the co-op will maintain:

- a minimum of 10% of the gross annual rental revenues be used to subsidize members who are in core housing need;
- core-need households pay a housing charge equal to 30% of their gross monthly household income;
- all households that are not in core-need pay a minimum housing charge equal to 85% of market rents for a comparable market rental unit in the area;
- all surplus revenue generated each fiscal year be accumulated in a replacement reserve;
- at the end of the extended lease term, the replacement reserve will either continue, should the lease be further extended, or be invested into affordable housing as Grace McInnis Housing Co-operative (Grace McInnis) may propose and the City may approve;
- Grace McInnis provide a schedule for expenditures to be funded from the replacement reserve over the next 10 years, with the schedule to be updated every 5 years;
- Grace McInnis provide annual audited statements to the City setting out the percentage of gross rental revenues used to subsidize core-need members, the number of households subsidized, confirming that the core-need households are paying 30% of their gross household incomes on housing charges, setting out the low end of market housing charges that the member households that are not in core-housing need are paying, the amount of any surplus revenue, the amount of funds accumulated in the replacement reserve, and the expenditures from the replacement reserve; and

## GRACE MCINNIS HOUSING CO-OPERATIVE

825 Salsbury Drive, Vancouver, BC

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- should Grace McInnis experience financial difficulties, Grace McInnis may propose mitigation measures that can include reducing the minimum percentage of gross rental revenue to be allocated to subsidies for core-need households, increasing the percentage of household incomes that core-need households pay in housing charges, and/or increasing the percentage of area market rents used to calculate the low-end of market-rent housing charges, with the City's approval not be unreasonably withheld.

Grace McInnis Housing Co-operative operates 31 units of affordable housing at 825 Salsbury Drive in East Vancouver. The building was built in 1986 on land owned by the City and held in trust for affordable housing. Our initial lease was for 41 years, and is due to end in September 30, 2026.

Approximately 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 we are applying for grants to make one more apartment accessible for another member who has developed disabilities due to aging.

In 2005, a significant part of the co-op's roof collapsed and the co-op discovered it was a leaky co-op. Since then modifications have been made to walls with significant evidence of water damage. Recently one of our carports, which is structural in nature, was found to be sinking and leaning. Our members are concerned about the safety of the structure.

CMHC has approved financing for building envelope remediation, with the condition that the City of Vancouver extend our lease. Without this extension, we will be unable to remediate the co-op. We believe it is important to maintain affordable housing, particularly as housing costs have risen sharply in Vancouver. We would appreciate your support so we may continue to provide affordable housing units to Vancouver residents.

If you have any further questions, you may contact our Board Chair, Cabot Lyford, at 604-873-0153 or [cabot@telus.net](mailto:cabot@telus.net).

Sincerely,

Gillian Allan

Board Member, on behalf of the members of Grace McInnis Housing Co-operative