

LATE DISTRIBUTION FOR COUNCIL - FEBRUARY 17, 2009

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ADMINISTRATIVE REPORT

Report Date: February 16, 2009
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TO: Vancouver City Council

FROM: The Managing Director of Social Development, the General Manager of Business Planning and Services, and the Southeast False Creek Project Office

SUBJECT: The Cost and Affordability of the City's Affordable Housing: Southeast False Creek Area 2A (Olympic Village)

RECOMMENDATION

THAT the Managing Director of Social Development report back to Council by April 15, 2009, on financial and operational options for the affordable housing/community centre component of the Olympic Village.

GENERAL MANAGER'S COMMENTS

The General Manager of Business Planning and Services and the General Manager of Community Services RECOMMEND approval of the foregoing.

COUNCIL POLICY

Council requires that 20 percent of units in new neighbourhoods be developed as affordable housing with a priority to accommodate core-need households.

PURPOSE AND SUMMARY

Making affordable housing and other key public amenities available for the citizens of Vancouver is one of Council's priority agendas. The usual business model for affordable housing is illustrated in Appendix 1 and involves a close partnership with BC Housing. It is the normal practice in the partnerships with BC Housing for the City of Vancouver to contribute land on which affordable housing can be built.

Construction and financing of construction is usually undertaken by BC Housing, allowing the advantage of their ability to lever low cost financing. BC Housing identifies a sponsor/operator to manage the facility, arranges mortgage financing and provides, from their operating budget, "operating subsidies" which cover staffing, maintenance, utilities, taxes, insurance, and mortgage costs. The rest of the dollars needed to fund these costs are recovered by the sponsor/operator through rents.

The affordable housing component (252 units) of the Olympic Village was undertaken on a model that differed in the following ways:

- In addition to free land, the City invested \$30M received from VANOC as part of the Host City Agreement, as well as \$2M from SEFC-related Development Cost Levies.
- The City undertook financing and project management of the construction of these units (Developer is Millennium).

The City has also overseen the construction of the community centre—a part of the public amenities on the SEFC/Olympic Village project.

The purpose of this report is to update Council on the cost of these two elements of the Olympic Village; to provide insight into the drivers of these cost increases, and to discuss the impact of these cost increases on the affordable housing project.

Currently, the cost of the affordable housing has risen from \$65M in 2006 to a projected \$110M. Council has already approved an interim increase to \$95M (2007). The impact of this 70 percent cost increase over the original estimate eliminates the ability to utilize the normal business model (discussed above and in Appendix 1) to allow affordable rents. Current estimates from BC Housing project that anywhere from \$56M to \$77M (depending on the renter mix) in additional City equity would be required to sustain affordable housing in the Olympic Village project.

The community centre was originally estimated to cost \$28.5M and is now projected to cost \$35M. Council has already approved an interim increase to \$30.5M (December 2007).

BACKGROUND

In 2002, the City agreed to develop 250 units of affordable housing in the Olympic Village as a legacy of the 2010 Winter Games.

On October 17, 2006, Council approved the CD-1 By-law for the Olympic Village which required the Developer (Millennium) to accommodate 250 affordable housing units of which 125 must be designed for families with children. Council also approved a total budget of \$24.5M for the community centre (\$19.5M) and the childcare facilities (\$5M).

On November 2, 2006, Council allocated VANOC's \$30M contribution for the Olympic Village, plus \$2M from the Development Cost Levies generated by Sub Area 2A of Southeast False Creek (SEFC) as a capital contribution to the 250 affordable housing units.

On December 13, 2007, Council (In Camera) approved interim financing of up to \$63M (bringing the total funding available for completion of the affordable housing up to \$95M); financing to be provided from the Capital Financing fund ("CFF") with the expectation of recovery from BC Housing.

CAPITAL COST OF THE AFFORDABLE HOUSING

While the final work is still being done on tendering and change orders, there is now sufficient information to generate a fairly accurate total cost for the affordable housing component, as shown on Table 1, below. These are all costs, excluding land, and include contingencies, financing fees, Property Purchase Tax, etc.

Table 1: Affordable Housing Cost Estimates

Parcel	Total Capital Cost	Gross Floor Area (sq. ft.)	# of Units
2	\$38,662,085	103,263	84 (81 family)
5	\$44,204,229	112,504	101 (42 family)
9	\$26,676,585	62,154	67 (6 family)
Total	\$109,542,900	277,921	252 (129 family)

Explanation of Cost Increases

a) Form of Development

Based on preliminary building massing, in 2006 the City estimated the total cost of the Olympic Village affordable housing at \$65M (including the \$30M received from VANOC) for the cost of constructing the three buildings. This cost represented an average of \$320/sq.ft. on a gross basis. This is 30 percent more than the \$250/sq.ft cost at the time for higher tower forms. The increased cost for this form of construction included: non-repetitive “unit footprints” (more time to construct); longer corridors, multiple cores and more stairways—resulting in reduced building efficiency (the ratio of the net rentable or saleable space in the units to the overall building size). Taller and more repetitive construction normally achieves efficiencies of between 85 and 90 percent versus the Olympic Village affordable housing which has an average efficiency of 81 percent.

b) Added Floor Area

Due to the unique and non-repetitive design of the buildings, the amount of floor area allocated to the affordable housing was increased by 26,160 sq.ft. This added approximately \$8.4M to the original estimate (13 percent), bringing the total to \$72.4M.

c) Meeting the LEED® Gold building standards

LEED® Gold requires thicker walls, high performance glazing, solar shades, “hydronic” or water-based heating, a radiant heating system, and green roofs. These and other green initiatives have added about \$5M to the original estimate (7.7 percent), bringing the total to \$77.4M.

d) Exterior Finishes

In order to have the City's affordable housing buildings align with the rest of the SEFC/Olympic Village exterior finishes and architectural quality, there was a conscious decision by the design team to compensate with high quality materials on the exterior. The recommended materials included: Swiss pearl panels, fritted (etched) glass, and stainless steel in multiple applications. It is estimated that the premium paid for the quality of these materials is about \$3M (4.6 percent), bringing the total to \$80.4M.

e) Escalating Costs in the Vancouver Construction Market

Statistics Canada has documented inflation in the BC construction market at 6.6 percent in 2008, and 10 percent in 2007. Our estimate is that this has contributed approximately \$9.75M (16 percent), bringing the total to \$91M.

f) Limited Time and a Firm Deadline

A strong real estate and construction market combined with innovative design meant reduced response to tender calls, and the firm deadline meant limited or no ability to re-tender. It is estimated that this combination of factors have added \$6.5M (10 percent) to the cost, bringing the overall total to \$97.5M.

g) Millennium's Fee

The structure of the arrangement with Millennium for this project was a "cost plus 8 percent" contract. The developers' fees (including the cost of consultants) were not part of the original budget. The estimated fee of \$7.5M (11.5 percent) brings the overall total to \$105M.

h) BC Housing Fees:

Closing contingencies, BC Housing fees, and Property Purchase Tax adds approximately \$4.85M (7.5 percent), bringing the overall total to \$110M (\$395/gross sq.ft.)

Table 2: Breakdown of Cost Drivers

Item	% Increase (over original \$65M budget)	\$ Increase	Running Total
Development Agreement Estimate			\$65,000,000
Increase in Floor Area (26,000 sq ft)	13 percent	\$8,400,000	\$73,400,000
LEED Gold	7.7 percent	\$5,000,000	\$78,400,000
Exterior Finishes	4.6 percent	\$3,000,000	\$81,400,000
Construction Market Increase	16 percent	\$9,750,000	\$91,150,000
Limited Time, Firm Deadline	10 percent	\$6,500,000	\$97,650,000
Millennium's Fee	11.5 percent	\$7,500,000	\$105,150,000
BC Housing Fees	7.5 percent	\$4,850,000	\$110,000,000

AFFORDABLE HOUSING: IMPACT OF INCREASED COST

The original business plan was based on a budget of \$65M for the 252 affordable housing units. The \$30M contribution from VANOC and the \$2M Development Cost Levies were applied against this and this made the usual business case with BC Housing feasible in terms of affordability. It was planned that no additional City equity would be required for the projects, and that it would be possible to subsidize 30 to 50 percent of the units for core-need households (i.e. households that would have to pay more than 30 percent of their gross household income to rent a unit of appropriate size and in decent repair at an average market rent).

The increase in capital cost outlined above means that \$35M in City equity (in addition to the \$32M that has already been committed), needs to be invested for the affordable housing to be viable at average market rents, and none of the units would be subsidized (i.e. affordable to core-need households.)

In order to achieve a 50:50 core-need, average market rent distribution of the units, a further \$56M in City equity, in addition to the original \$32M contribution, will be required.

In order to achieve the full 100 percent core-need subsidy, a further \$77M would be the required additional investment by the City. This was never contemplated by the City at the inception of the project.

COMMUNITY CENTRE/CHILDCARE FACILITY COST INCREASES:

In October 2006, Council approved a total of \$24.5M for the community centre and childcare centre in the Olympic Village project. The location of the community centre was subsequently changed on the site and the estimate for construction of the complex increased to \$30.5M (approved by Council in December 2007). Currently it is estimated that construction of the community centre/child care complex, including excavation, consultant costs and development fees will cost \$34.6M.

ENVIRONMENTAL IMPLICATIONS

The affordable housing in the Olympic Village is being developed to the same LEED® Gold requirements as the market and commercial components of the project.

SOCIAL IMPLICATIONS

Depending on the option selected, the affordable housing component of the Olympic Village will generate a different income mix within the Olympic Village. The income mix implications will be reported to Council in March.

CONCLUSION

There have been significant cost increases on both the community centre/childcare and affordable housing elements of the SEFC/Olympic Village project since original budget estimates were set by Council in 2006.

The impact on the affordable housing initiative is of significant concern as the viability of the business model for affordable housing has been compromised.

Staff must now review a number of options that can be brought to Council for a decision related to the plan for delivering on the affordable housing commitment. Careful cost control is necessary to prevent any further construction cost increases in both aspects of the City project.

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Typical Business Model for City of Vancouver and BC Housing Partnership

