



URGENT 1

ADMINISTRATIVE REPORT

Report Date: November 4, 2010
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Meeting Date: November 4, 2010

TO: Vancouver City Council

FROM: The Managing Director of Social Development in consultation with the Director of Finance, the General Manager of Business Planning and Services and the Director of Legal Services

SUBJECT: Update on Olympic Village Southeast False Creek Affordable Housing and Selection of Lessee/Operator for Parcel 2

RECOMMENDATION

- A. THAT, subject to Recommendation F, Council approve a special purpose Housing Co-operative ("HC") established by the Co-operative Housing Federation of BC (CHFBC) as Lessee and Operator of the City-owned 84 unit affordable rental housing project commonly referred to as "Parcel 2" of the Southeast False Creek Olympic Athletes Village development, the principal civic address of which is 151 West 1st Avenue, and which is now legally known and described as The Owners, Strata Plan BCS3905 (and formerly, as PID: 027-607-453; Lot 330 False Creek Plan BCP37641 Except Air Space Plan BCP44689) ("BCS3905" or "Parcel 2").
- B. THAT Council authorize the City Manager to enter into a Memorandum of Understanding ("MOU") with CHFBC outlining the general relationship to be established between the City and HC for the lease and operation of Parcel 2 on terms and conditions as generally outlined in this report.
- C. THAT, subject to Recommendation F, Council authorize the Director of Real Estate Services to enter into a 60 year Lease of Parcel 2 to HC generally on terms and conditions outlined in this report and requiring a prepaid rent to the City of not less than \$21,202,745.
- D. THAT, subject to Recommendation F, Council authorize the Director of Finance to provide the required payment guarantee ("Guarantee") to the provider of the financing to the HC (the "Lender").

- E. THAT, subject to Recommendation F, Council authorize the General Manager of Community Services to concurrently enter into a 60 year Operator Agreement with the HC to govern the operations under the lease for Parcel 2 generally on the terms and conditions outlined in this report.
- F. THAT no legal rights or obligations shall arise or be created by Recommendations A, C, D, or E until the Lease, Guarantee and Operator Agreement have been entered into by the duly authorized signatories of all parties, on terms and conditions satisfactory to the Director of Legal Services.

CITY MANAGER'S COMMENTS

The City Manager recommends APPROVAL of the foregoing.

COUNCIL POLICY

Council's affordable housing objectives are to maintain and expand housing opportunities in Vancouver for low and modest income households with priority being given to 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.

Council requires that 20% of the units to be developed in new neighbourhoods be designated for the development of affordable housing and secured by the City through options to purchase.

The Southeast False Creek Official Development Plan (the "SEFC ODP" as amended in 2006) requires that 20% of the units on the City owned lands would be available for affordable housing, with a strong emphasis on units suitable for families and consideration also being given for low and moderate income singles, seniors and persons with special needs. For the privately owned lands, Council has pursued the achievement of housing affordability through the purchase of available sites.

PURPOSE AND SUMMARY

The purpose of this report is to recommend a Lessee/Operator for the 84 units of rental housing in BCS3905 (Parcel 2) of the Southeast False Creek Olympic Village project. A separate report on the remaining affordable housing sites (Parcel 5 and 9) will be submitted at a future date.

BACKGROUND

On April 22, 2010, Council considered a report from the Managing Director of Social Development relating the options available for the 252 units of affordable housing in the Olympic Village. Council approved a proposal to proceed with permanent mixed-income housing on the three sites in the village (Parcels 2, 5 and 9) with management contracted to a not-for-profit operator(s).

To ensure the viability of these parcels as mixed income affordable housing, Council also committed up to an additional \$32.1 million of City equity, for a total of \$64.1, leaving a minimum of \$46 million to be provided by mortgage financing taken by the non profit operator(s).

Following Council approval to continue with the affordable housing projects in the Olympic Village, staff engaged BC Housing ("BCH") to determine their interest in managing these buildings as part of their housing portfolio. In May 2010, BC Housing agreed to participate by taking on selection and ongoing management of the affordable housing operators in cooperation with the City.

On August 16, 2010, BC Housing issued a *Request for Proposals #1080-1011/519 to Societies and Housing Cooperatives for Operators for the Olympic Village Affordable Housing*. The RFP closed on September 27, 2010 with three respondents:

- one from a non-profit society seeking to operate all three parcels;
- one from an individual seeking to operate Parcel 9; and
- one from the Co-operative Housing Federation of BC (CHFBC) on behalf of a co-operative to be established for the operation of Parcel 2.

On September 28th a selection committee comprised of staff representatives from BC Housing and the City of Vancouver reviewed the proposals based on an Evaluation and Scoring Matrix, provided by BCH and identified one potential proponent however BC Housing decided that they were unwilling to accept any proponent and the RFP was cancelled.

City staff involved in the selection process concluded that the proposal of CHFBC for Parcel 2 to have merit and subsequently, with the approval of the Director, Supply Chain Management and Chief Procurement Officer, entered into direct discussions with CHFBC. Staff and CHFBC have since worked out the basic details of an arrangement whereby CHFBC would incorporate the HC for the specific purpose of entering into 60 year Lease and Operator Agreements with the City to manage Parcel 2 essentially on the basis contemplated by the RFP.

The balance of this report deals with concluding agreements for Parcel 2, and provides information for Council on staff's plan for managing the transition for parcels 5 and 9.

DISCUSSION

Parcel 2 Proposal

The Parcel 2 units are located in a five storey building with one level of underground parking and two accessible roof gardens areas and one non-accessible green roof area. Two of the ground floor 3 bedroom units are suitable for use as family home childcares. Ten of the units are townhouses, and the remaining 74 are apartments. CHFBC will fill the affordable housing units through first contacting the list of first responders who applied to the City and second through selecting applicants through the BC Housing Registry.

For the market units, priority for housing will be given to residents of Vancouver who are who are employed as providers of public safety and emergency services, health services or education within Vancouver. The rental rates generally reflect the size, design and location of the units, and the market units will be limited to families with a monthly household income of less than or equal to five times the rent payable.

Parcel 2 Agreements

It is anticipated that three agreements will be required to complete the arrangements among the City, CHFBC and the HC.

Memorandum of Understanding between City of Vancouver and CHFBC

To date, the HC has not been incorporated and the terms of the Lease and Operator Agreement have not been finalized, however it remains of utmost importance to the City to arrange for the City-owned rental housing units in the Olympic Village to be rented out and occupied as soon as reasonably possible. As a result, it is proposed that the City enter into the MOU with the CHFBC with the following general requirements:

- CHFBC will be authorized to immediately undertake specified commissioning services on behalf of the City to get Parcel 2 ready for rent-up with any costs being covered through the prepaid lease;
- CHFBC will agree to use its best efforts to take all steps reasonably required to promptly establish the HC as a properly incorporated legally entity with the power and authority to carry on the business contemplated by the Lease and Operator Agreement;
- CHFBC and the City will agree to use their best efforts to expeditiously settle the terms of a Lease and Operator Agreement to be entered into between the City and the HC in respect of Parcel 2 as soon as reasonably possible;
- the City will agree to assist the HC in securing the long term financing needed to enable it to prepay the rent payable under the Lease;
- the foregoing must be completed within 30 days, unless the City and CHFBC agree to extend that deadline; and
- such other terms and conditions as the parties may agree.

Lease for land and building (BCS3905) between the City of Vancouver and HC

It is proposed that Parcel 2 will be leased to the HC on the same basis as other affordable housing developed on City-owned land. The Lease will include the following key terms and conditions:

- a term of 60 years with prepaid rent to the City of not less than \$21,202,745, which will be financed by a commercial lender and secured by a mortgage of the Lessee's leasehold interest in Parcel 2;
- a guarantee by the City for the lease financing;
- such other terms and conditions as may reasonably be requested by the Managing Director of Social Development, the General Manager of Business Planning Services, the Director of Real Estate Services, and the Director of Legal Services.

Operator Agreement between the City of Vancouver, the HC and CHFBC

In addition to the Lease Agreement, an Operator Agreement will set out the terms and conditions under which the building will be operated by the Operator. This Agreement will generally include the following principal terms and conditions:

- A requirement for a 75:25 mix of market and non-market tenants with provisions for increasing the percentage of non-market units over time as operating surpluses are achieved;
- priority for the market units to be given to providers of emergency services, public health or public education within Vancouver whose monthly household income of less than or equal to five times the rent payable;
- requirement for the operator to manage the tenancies and tenancy turnover;
- requirement for the operator to develop and report on annual operating and capital budgets, to collect revenue and pay expenses and to develop a system of record keeping as determined necessary by the City;
- a requirement for building and systems repair and maintenance plans, both preventive and long-term capital asset preservation and replacement, including not less than annual pre-approval by the City of the Operator's written plans;
- a requirement to carry out all maintenance and repairs in a manner acceptable to the City;
- an operating reserve to be held by the City for use in specified circumstances ;
- requirements for appropriate building maintenance reserves to be provided by the HC
- provisions regarding the allocation and use of operating surpluses, as and when they are achieved
- requirements for appropriate property and liability insurance coverage;
- provisions regarding all other aspects of the operation and management of the facility, and performance of obligations under contracts by which Parcel 2 is bound; and
- such other terms and conditions as may reasonably be requested by the Managing Director of Social Development, the General Manager of Business Planning and Services, the Director of Real Estate Services, and the Director of Legal Services.

Plan for Parcels 5 and 9:

Unlike Parcel 2, in the BC Housing RFP process, there was no successful proponent identified following the review of submissions for the long term leasing and operation of Parcels 5 and 9. The RFP process took 6 months and therefore at this time there is a real urgency to enable utilization of the affordable housing units on parcels 5 and 9 by our target tenants. Therefore after extensive discussion and review by the cross-city team and its external partners, a decision has been made to put in place a property management contract for an interim term of up to 24 months which will allow tenants to be identified, aligned with council's direction, and will provide the City the time to clarify some of the issues which were identified both during the RFP process and in subsequent discussions with the BC Non-Profit Housing Association.

Following approval by the Chief Procurement Officer, the city has negotiated a sole source contract with COHO Management Services Society (an arm of CHFBC) to undertake the property management and expedited identification of tenants for these parcels. This contract has been approved by the Bid Committee under our Procurement Policy. Under the contract, selection of tenants by COHO will be aligned with Council's goals, and COHO will have access to the existing BC Housing registry for identification of core need tenants. The same process for identification of market rent tenants will be utilized as outlined for Parcel 2. At

approximately 18 months into the term of this property management contract, the City will issue an RFP for permanent operation and 60 year lease of these parcels. The City has already started discussions with the BC Non Profit Housing Association in preparation for that RFP process.

FINANCIAL IMPLICATIONS

For Parcel 2

The total cost of construction of the Southeast False Creek affordable housing is \$110,000,000. Of this amount \$38,009,949 is the cost for Parcel 2. Under the Lease Agreement, the City will receive prepaid rent (the proceeds of operator mortgage) of \$21,202,745¹

BC Housing is not involved in this affordable housing project, and therefore the Lessee/Operator will need contingent financial backing from the City for the mortgage it will have to obtain in order to deliver the prepaid rent to the City. As a result, the City may be required to provide some form of guarantee or indemnity to the Lessee's lender. As with the Lease and Operator Agreement, it is proposed that the Guarantee or (indemnity) will be concluded subject to such terms and conditions as may reasonably be required by the Director of Finance and the Director of Legal Services.

City staff project that the rents and other anticipated revenue from Parcel 2 will be sufficient to enable the HC to service its mortgage and manage the building at a break-even level with the potential over the 10 years for surplus revenue to be generated to increase the level of affordability.

Annual Budget

As noted the Operator Agreement will require the HC to develop an annual operating and capital maintenance budget for Parcel 2 for approval by the City. The first such budget will be effective as of the commencement of the Parcel Lease and thereafter effective as of January 1 in each year of the term of the Lease. The HC will be required to keep accurate and detailed records of all expenses incurred and revenue received or receivable, and will allow the City to review the same at any time during the term of the lease on reasonable advance notice. An operating reserve will be held by the city, as part of standard practice, with the income source being the prepaid rent (operator mortgage proceeds).

Capital Maintenance Budget and Capital Reserve

It is important that the Operator be required to properly budget for operating and capital maintenance through the term of the Lease, these costs to be paid from current rental income. The Operating Agreement will require that, prior to the beginning of each calendar year during the term of the Lease, the HC will submit to the City for approval a one-year and a five-year capital maintenance and replacement plan, including contributions to a Capital Reserve from which future expenditures may be funded. The HC will be required to report to the City at the end of each calendar year all capital costs incurred and other improvements performed in its Parcel, and to provide a summary of the work performed. The capital and operating maintenance plans and budget and all work will be subject to periodic and annual reviews by Facilities Design and Maintenance staff.

¹ assuming 5 year mortgage financing at 3.4% amortized over 35 years

The payment of net surpluses due to the City will be made by the Operator within 3 months of the end of the fiscal year in which the Operator earns the net surplus. The Operator shall provide the City with audited financial statements prepared in accordance with Canadian Generally Accepted Accounting Principles in order to verify the net surplus.

For Parcels 5 and 9

Parcels 5 and 9 are owned by the PEF. The Property Management contract and any other costs attributable to parcels 5 and 9 (such as service contracts for elevators, shared strata costs) will be resourced from the PEF and will be offset by the rental income flowing to the PEF from parcels 5 and 9. The Assistant Director of Business Operations (Social Development, CSG) will be accountable for contract management, with support from a steering committee with representatives from Finance, Real Estate, Facilities and Housing Policy.

CONCLUSIONS

A proponent from the original RFP, the CHFBC has a history of developing successful co-operative housing communities in BC. CHFBC was formed in 1982 with the goals of expanding and promoting the co-op movement and co-op principles. Their model, of supporting local members to develop and incorporate as a co-operative, is an excellent fit with the concept of the Athlete's Village - a new community within the newest neighbourhood in Vancouver. Their commitment to developing a sustainable community that is affordable for people from a variety of incomes levels supports the City goal of ensuring affordable housing in the Athlete's Village as an Olympic legacy.

Concluding a 60 year lease provides for the long term viability of the project and the protection of the City's asset. Concluding an Operating Agreement will provide clarity of roles and responsibilities to support a long term positive partnership that results in 84 units of housing being added to Vancouver's housing stock.

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