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ADMINISTRATIVE REPORT

Report Date: November 5, 2012
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Meeting Date: November 27, 2012

TO: Vancouver City Council

FROM: Director of Real Estate Services and the General Manager of Real Estate and Facilities Management

SUBJECT: Deconstruction of 8356 Victoria Drive

RECOMMENDATION

THAT Council approve removal of the improvements of a City-owned single-family dwelling at 8356 Victoria Drive, legally described as Parcel Identifier: 014-086-263, Lot 4 Except: Firstly: The West 7 feet, now road; secondly: Part on Plan BCP 3358A; Block M District Lot 328 Group 1 New Westminster District Plan 2041 (the "Lot"), as shown in Appendix A. The cost of deconstruction estimated to be \$60,000 will be funded from the Property Endowment Fund (PEF).

REPORT SUMMARY

The Director of Real Estate Services recommends deconstruction of the improvements at 8356 Victoria Drive given the safety issues, the high cost of rehabilitating the home, the poor return on investment, and because the improvements do not represent the highest and best use of the site.

COUNCIL AUTHORITY/PREVIOUS DECISIONS

There is no applicable Council Authority or previous decisions relevant to this report.

CITY MANAGER'S/GENERAL MANAGER'S COMMENTS

The General Manager of Real Estate and Facilities Management recommends approval of the foregoing.

REPORT

Background/Context

The Subject property was purchased by the Property Endowment Fund in 1997 for future assembly with adjacent vacant City-owned properties, refer to Appendix A. The house was operated as a rental property from that time until September 31, 2012. The existing house on the property is 60 years old and requires numerous upgrades, including repairing a leaky foundation and addressing significant mould issues in the basement before it could again be rented.

Strategic Analysis

The subject property is zoned RS-1B and improved with a 60 year old single-family dwelling that is currently vacant and in deteriorating condition. At present, the property poses a security and fire risk to the City of Vancouver, attracting squatters and requiring on-going security patrols. The City has recently been made aware of water ingress issues in the basement which is causing mould. The Director of Real Estate Services is of the opinion that the true cost of rehabilitating the property to suitable living standards is \$80,000 or more. The most recent rental income as of September 2012 was \$1,660 per month, or \$19,920 per annum.

If the subject property were rehabilitated and re-tenanted:

- Potential rental income is projected to be \$21,600/annum (reflecting an 8.4% increase over the most recent rate).
- Typical operating-expense ratios for rental properties are 45% of gross rental income. In this example, expenses would approximate \$9,720 annually.
- Therefore, Net Operating Income (N.O.I.) in this scenario would be \$11,880/annum, reflecting an annual rate of return of 0.9% for this property. This N.O.I. would amortize the \$80,000 rehabilitation expense in roughly 6.7 years.

The Director of Real Estate Services does not consider the expense of rehabilitation to be justified for this property, considering the low return on investment, the prolonged pay-back period and given the current structure is not reflective of the property's highest-and-best use. The subject site will generate higher value as a redevelopment site either after rezoning and assemblage with neighbouring City-owned properties or after subdividing under the existing RS-1B zoning designation. Consequently, the existing improvements are recommended for removal.

The City's practice when deconstructing a building is typically as follows:

- The City elects a deconstruction contractor through tender process, with the rights to salvageable value reflected in the net contract price.
- An environmental survey of the building is carried out. If any asbestos containing materials or lead paint is found, it is removed and sent to the appropriate landfills.
- Once the hazardous material is removed, the contractor will remove all the drywall from the house and recycle it. At this time all other material in the house such as windows, doors, plumbing, and electrical wiring that can be recycled or has some value will be removed by the contractor and sold.
- Any material that has no value or can't be separated will be sent to the landfill.

*Implications/Related Issues/Risk (if applicable)**Financial*

The cost to deconstruct the residential building on the Lot is estimated to be \$60,000. Funding for deconstruction is to be provided from the Property Endowment Fund (PEF).

CONCLUSION

Considering the costs of upgrading and the poor rate of return for this asset, issues of safety and security relating to the vacant property, and the strong redevelopment potential afforded by the subject site, the Director of Real Estate Services recommends that the Subject improvements be removed.

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