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ADMINISTRATIVE REPORT

Report Date: May 3, 2013
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VanRIMS No.: 08-2000-20
Meeting Date: May 15, 2013

TO: Vancouver City Council

FROM: The General Manager of Community Services in consultation with the General Manager of Financial Services, the General Manager of Real Estate and Facilities Management, and the Director of Legal Services

SUBJECT: Selection of Lessee/Operator: Affordable Housing, Olympic Village Southeast False Creek Parcel 5 and Parcel 9

RECOMMENDATION

- A. THAT Council approve the S.U.C.C.E.S.S. Affordable Housing Society, a special purpose Housing Society ("HS"), as Lessee and Operator of the two City-owned affordable rental housing projects in the Southeast False Creek Olympic Athletes Village development:
- i. The 101 unit affordable rental housing project commonly referred to as "Parcel 5", the principal civic address of which is 122 Walter Hardwick Avenue, and which is now legally known and described as The Owners, Strata Plan BCS3906 (and formerly, as PID: 028-180-224; Lot 332 False Creek Plan BCP44228 Except Air Space Plan BCP44809); and
 - ii. The 67 unit affordable rental housing project commonly referred to as "Parcel 9", the principal civic address of which is 80 Walter Hardwick Avenue, and which is now legally known and described as The Owners, Strata Plan BCS3904 (and formerly, as PID: 026-980-339; Lot 329 False Creek Plan BCP2857 Except Air Space Plan BCP44913);
- B. THAT, subject to Recommendation E, Council authorize the Director of Real Estate Services to enter into a 60 year Lease for each of Parcel 5 and Parcel 9 (the "Leases") with the HS generally on terms and conditions outlined in this report including:

- i. A phased prepayment of rent payable by the HS to the City pursuant to the Lease Agreements of not less than \$25 million in aggregate (the "Prepaid Rent"), of which approximately \$23 million will be payable as soon as feasible upon execution of the Lease Agreements and an additional \$2 million will be payable within 10 years; and
- ii. Financing of the Prepaid Rent by new mortgages of the HS's leasehold interest in Parcels 5 and 9 to be negotiated with BC Housing/CMHC and/or other third party lenders.

As the prepaid lease agreements of not less than \$25 million is below the applicable market rate of \$50 million, RECOMMENDATION B(i) constitutes a grant valued as approximately \$25 million and approval requires eight affirmative votes for Council.

- C. THAT, subject to Recommendation E, Council authorize the Director of Finance to provide a payment guarantee (the "Guarantee"), if required, to the provider of the financing (the "Lender") for the HS;
- D. THAT, subject to Recommendation E, Council authorize the General Manger of Community Services to concurrently enter into a 60 year Operator Agreement with the HS to govern the operations under the lease for Parcel 5 and Parcel 9 generally on the terms and conditions acceptable to the General Manager of Financial Services and the General Manager of Real Estate and Facilities Management as outlined in this report; and
- E. THAT no legal rights or obligations shall arise or be created by Recommendations A, B, C, or D until the Leases, Guarantee and Operator Agreement and related legal documentation 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. The provision of affordable and market rental housing in The Village is consistent with this objective and the commitment to create a sustainable community in Southeast False Creek forms part of the legacy of the 2010 Winter Olympics.

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 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. Council has pursued the achievement of housing affordability through the purchase of available sites.

On April 22, 2010 Council directed that

“the 252 units of affordable housing in the Olympic Village, Southeast False Creek, are to be operated as: mixed income housing managed by a non-profit operator with approximately 50% of the units being occupied by core-need and deep core need households paying below market rents base upon their incomes.”

PURPOSE AND SUMMARY

The purpose of this report is to recommend a Lessee/Operator for the 101 units of rental housing in BCS3906 (Parcel 5) and the 67 units of rental housing in BCS3904 (Parcel 9) of the Southeast False Creek Olympic Village project. The remaining affordable housing site (Parcel 2) at 151 West 1st Avenue was leased to a housing co-op “First Avenue Athletes Village Housing Co-Operative” in 2011.

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 non-profit operator(s).

To ensure the viability of these parcels as mixed income affordable housing, Council committed up to \$64 million of City equity, and authorized a minimum prepaid rent of \$46 million to be generated across the three parcels to be financed through mortgages taken by the non-profit operators.

The timelines for Parcels 5 and 9 include:

- In January 2011, a two year property management agreement was signed with COHO Property Management Inc. (CPM) to manage Parcels 5 and 9. This agreement was extended to June 30, 2013. This arrangement was designed to expedite tenanting of the affordable units and allow familiarization with the new green building systems before a permanent non-profit operator was found.
- In July 2012, information sessions were hosted by the BC Non-Profit Housing Association to encourage non-profit housing organizations to apply for a subsequent call for proposals to operate Parcels 5 and 9.
- On August 28, 2012, a Request for Expressions of Interest (RFEI) (PS20120875) “Services for the Operation of Affordable Housing in the Village” was released.
- In November 2012, S.U.C.C.E.S.S. was identified as the sole pre-qualified applicant. Since then, S.U.C.C.E.S.S. has developed an operational proposal.
- S.U.C.C.E.S.S.’s operational proposal was received in April 2013, and has been reviewed and recommended by a committee led by Purchasing and with the input of Community Services, Financial Services and Real Estate and Facilities Management.

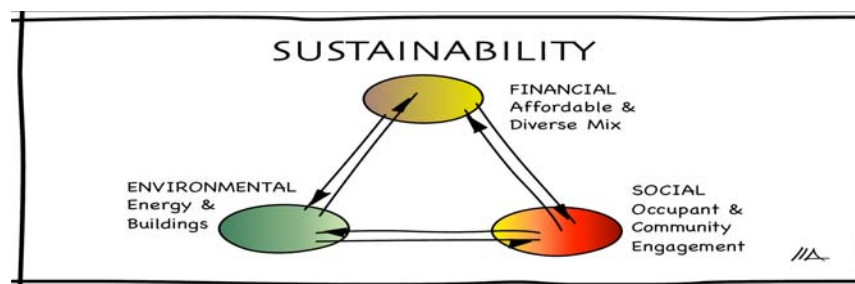
DISCUSSION

Parcel 5 and Parcel 9

The key objective of the RFEOI was to identify an organization that can sustain:

- mixed income rental housing that is financially viable, to assist in achieving Council's target of 50/50 over all three Parcels, and without the need for operating subsidies from the City;
- Best practice building and asset management to ensure the long term sustainability of the buildings including the green technology in the building; and
- a diverse community of engaged tenants contributing to the overall Village on False Creek community.

The three aspects of sustainability in the Village can be described thus:



Parcel 5

This is an eight storey building with underground parking located on two levels. Two of the ground floor 3 bedroom units are suitable for use as a family home daycare, and one is currently used for this purpose. There are 5 wheelchair accessible units with features such as adapted kitchens, walk-in showers, and in-suite laundry.

Parcel 9

This is a seven storey building with underground parking located on one level. With the exception of the six town homes, which are two storeys, 80 Walter Hardwick Avenue is designed to be suitable for those with reduced mobility and for aging in place. There are 4 wheelchair accessible units with features such as adapted kitchens, walk-in showers, and in-suite laundry.

There are parking spaces allocated for each building, with some spaces reserved for use by visitors, for car share vehicles, and for purposes such as loading bays and handicapped parking.

Rent Rates

The rental rates generally reflect the size, design and location of the units, and the market units are limited to families with a monthly household income of less than or equal to five times the rent payable. For both the family and singles market units, priority for housing has been given to residents of Vancouver who are providers of emergency series, public health or public education.

Rental rates are adjusted for the 55% of the units that are designated affordable housing: with rates ranging from the shelter rate of income assistance, net of utilities; to a rate for seniors eligible for the provincial SAFER subsidy; to rent geared to 30% of a tenant's income.

The 168 units are divided as follows:

	1 bedroom	2 bedroom	2 Bdrm Townhouse	3 bedroom	4 bedroom	Total Units
~ Range of Rents	\$320 - \$1,500	\$510 - \$1,902	\$744 - \$1,902	\$892 - \$2,096	\$962 - \$2,368	
Parcel 5	59	12	0	16	14	101
Parcel 9	61	0	6	0	0	67
Subtotal	120	12	6	16	14	168

Tenant profile:

Over the three affordable housing buildings in the Village the goal is for a 50/50 split of market and non-market tenants. However, as the First Avenue Athletes Village Housing Co-Op currently has a higher proportion of market tenants, the HS for Parcels 5 and 9 will be required to maintain a mix of 55% non-market tenants and 45% market tenants across the two Parcels for the time being. The specific allocation of units for the mix of tenants in each building may be adjusted by the Operator within this framework.

The current income mix of tenants is as follows:

- P5 has 47% market and 53% non-market tenants; and
- P9 has 43% market and 57% non-market.

Since the inception of the Village affordable housing project, the strategy has been to achieve a mix of 50% non-market and 50% market over time across the three Parcels - 2, 5 and 9. Parcel 2, the Co-op, began with 25% non-market and 75% market in 2011. As the Co-op continues to stabilize, it is expected that the mix of market and non-market will shift to 50/50; while Parcels 5 and 9 will also be adjusted from the current 55/45 to 50/50. These adjustments will be implemented over time, through the annual review and budget approval process for the three parcels.

Agreements

It is anticipated that two lease agreements, one for each property, and one operator agreement will be required to complete the arrangements between the City and the HS.

- There will be a lease for each of the land and buildings (BCS3906 and BC3904) between the City and the HS, and for the mortgage financing.
- The operator agreement will itemize the operating terms for both properties.

The following summary includes the general terms of these agreements anticipated by the City; however, in each case, other terms and conditions arising from the negotiations and which complement the intent will be included.

Leases and Mortgage Financing

With the current tenant mix of 55% of tenants who are non-market (receiving old age security, income assistance or have a low to moderate income), a phased Prepaid Rent of not less than \$25 million can be supported through mortgage financing (assuming a 35 year amortization and financing rates of 3% for the first \$23 million of the Prepaid Rent and 5% for the remaining \$2 million of the Prepaid Rent). The mortgage for the first payment of \$23 million will be arranged as soon as feasible upon execution of the Lease Agreements and the second payment of \$2 million will be payable within 10 years.

It is proposed that Parcels 5 and 9 will be leased to the HS on a similar basis as other affordable housing developed on City-owned land. The Leases will include the following terms and conditions:

- a term of 60 years with phased Prepaid Rent to the City of not less than \$25 million, which will be financed by BC Housing/CMHC or a commercial lender and secured by a mortgage of the Lessee's leasehold interest in Parcels 5 and 9;
- a guarantee by the City for the mortgage financing (similar to Parcel 2) if required;
- cross default provisions with the Operator Agreement to avoid conflicts between the requirements of the Leases and the Operator Agreement; and
- such other terms and conditions as may reasonably be requested by the General Manager of Community Services, the General Manager of Real Estate and Facilities Management, the Director of Real Estate Services, the Director of Finance, and the Director of Legal Services.

Operator Agreement

One Operator Agreement will set out the terms and conditions under which the buildings will be operated. This agreement will generally include the following terms and conditions:

- an initial tenant mix of 45:55 market and non-market units with provisions for rebalancing the tenant mix across all three parcels over time;
- a priority for the market units to be given to eligible providers of emergency services, public health or public education within Vancouver;
- a requirement for the Operator to manage and report on the tenancies, tenant mix, and tenancy turnover to ensure Council's affordability targets are met and sustained over the long term;
- a requirement for the Operator to develop, for approval by the City, 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 annual and five-year written capital maintenance and repair plans for the buildings and systems, for pre-approval by the City;
- a requirement to carry out all maintenance and repairs in a manner acceptable to the City;
- a requirement for a capital replacement reserve (of a minimum of \$60/unit/per month) and an operating reserve to be provided by the HS;

- a provision that any operating surpluses, after the required reserves are funded, and as and when they are achieved, will be shared 50/50 between the City and the HS, who must reinvest any surplus received in social housing within Vancouver;
- a requirements for appropriate property and liability insurance coverage;
- cross default provisions with the Leases;
- provisions regarding all other aspects of the operation and management of the facility, and performance of obligations under contracts by which Parcels 5 and 9 is bound; and
- such other terms and conditions as may reasonably be requested by the General Manager of Community Services, the General Manager of Real Estate and Facilities Management, the Director of Real Estate Services, the Director of Finance, and the Director of Legal Services.

FINANCIAL IMPLICATIONS

Capital Funding for Parcels 2, 5 and 9 (affordable housing)

Project Development Costs ¹ (excluding land):	<u>\$109M</u>
Funding Sources:	
City Contribution to Construction	\$64M
Prepaid Rent ² from Parcel 2	
Gross Prepaid Rent	\$21M
Start-up & 5-year Operating Contingencies for Parcel 2	<u>(\$1M)</u>
Net Prepaid Rent	\$20M
Prepaid Rent from Parcels 5 and 9	<u>\$25M</u>
	<u>\$109M</u>

Notes:

1. The original project development costs (excluding land) presented to Council in April 2010 were \$110 million. Updated costs as of April 2013 were \$109 million.
2. The HS has opted not to take the 5-year operating contingencies (the same contingencies were provided to Parcel 2) and service a lower Prepaid Rent.

In April 2010, based on the original overall construction costs estimated at \$110 million, Council approved a maximum contribution of \$64 million City equity towards the construction of Parcels 2, 5 and 9, and authorized that a minimum of \$46 million aggregate Prepaid Rent to be generated from the 60-year leasehold interests across the three parcels. In September 2011, the City received \$21 million from Parcel 2, of which \$1 million was used to finance the start-up and five-year operating contingencies provided to the operator. With the overall development costs finalized at \$109 million, the residual Prepaid Rent to be generated from Parcels 5 and 9 is \$25 million.

Prepaid Leases

As Parcels 5 and 9 have been in operation for over two years and are currently tenanted, the HS has opted not to take the five-year operating contingencies (which were provided to Parcel 2) in order to achieve a lower Prepaid Rent. The City will lease Parcels 5 and 9 to the HS for 60 years in return for a phased Prepaid Rent of not less than \$25 million. The proceeds from the Prepaid Rent will be deposited into the City's Capital Financing Fund to repay the capital

cost of the affordable housing project. As the market value of the new 60 year leasehold interest is estimated at \$50 million (75% of freehold value of the land and buildings), the recommended Prepaid Rent of \$25 million would constitute a grant valued at \$25 million and require eight affirmative votes of Council.

Similar to Parcel 2, the financial backing in the form of operating subsidies normally provided by BC Housing to non-profit operators of social housing projects on lands owned by the City will not be available in this instance. As such, the HS may need contingent financial backing from the City for the loans 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 HS's lender. As with the Leases and the 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.

Operating Funding

Consistent with Council policies on most non-market housing projects, the project is expected to be self-sustaining and does not require further operating subsidies and is not eligible for property tax exemptions.

The City and the HS have agreed to an operating model and starting tenant mix of 55% non-market and 45% market, with provisions to rebalance the tenant mix across Parcels 2, 5 and 9 over time to ensure financial sustainability and operating viability of the entire affordable housing project in The Village. This rebalancing will take place through the annual review and budget approval process established under the Operator Agreements for the three parcels. The proposed model will achieve Council's housing objectives in Vancouver while generating a phased Prepaid Rent of not less than \$25 million from Parcels 5 and 9 to offset the City's overall contribution to the project.

As operating surpluses become available after all mortgage financing obligations are repaid, there will be opportunities to enhance affordability across all three parcels. Operating surpluses are generally shared 50/50 between the City and the HS after contributions to top up the capital replacement reserve and to build an operating reserve to limits acceptable to the Director of Finance. The HS may use its portion to enhance affordability at Parcels 5 and 9 or invest in other social housing projects within Vancouver.

At the commencement of the housing operation in Parcels 5 and 9 in 2011, the City established a Capital Replacement Reserve, funded from operational revenue, which will have accumulated \$0.3 million through the end of June 2013. Upon execution of the Leases, the City will transfer this amount to the HS as part of the Operating Agreement. Under the Leases and Operator Agreement, the contributions to the reserve will be provided by the HS.

CONCLUSION

Established in 1973 and incorporated in 1974, S.U.C.C.E.S.S. is one of the largest social service agencies in British Columbia, with a mission to: "Build Bridges, Harvest Diversity and Foster Integration". The S.U.C.C.E.S.S. Housing Society was incorporated in 2011 and operates 3 residential buildings, with a fourth green building, coming on stream in 2013. They provide housing for seniors, families, and persons with disabilities, all with low or modest incomes. The new S.U.C.C.E.S.S. Affordable Housing Society will bring an integrated

approach to housing in the Village including family counselling, employment and skills training, language training, settlement services and health services.

S.U.C.C.E.S.S. has an agency-wide Green Policy with a commitment to conduct its operations and all community service activities in an environmentally responsible and sustainable manner.

The proposed model will achieve Council's housing objectives in Vancouver while generating a phased Prepaid Rent of not less than \$25 million to offset the City's overall contribution to the project. Concluding 60 year leases provides for the long term viability of the project and the protection of the City's asset, including the maintenance of the green technology and the commitment to a sustainable community. Concluding an Operating Agreement will provide clarity of roles and responsibilities to support a long term positive partnership that provides for the long term stability for these 168 units of housing in the Village.

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