



IN CAMERA

## ADMINISTRATIVE REPORT

Report Date: May 12, 2016  
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Meeting Date: May 17, 2016

TO: Vancouver City Council  
FROM: General Manager, Community Services  
SUBJECT: SRO Upgrading Grant to Community Builders Group - 488 Carrall Street (West Hotel)

### IN CAMERA RATIONALE

This report is recommended for consideration by Council on the In Camera agenda as it relates to Section 165.2(1) of the *Vancouver Charter*: (k) negotiations and related discussions respecting the proposed provision of an activity, work or facility that are at their preliminary stages and that, in the view of the Council, could reasonably be expected to harm the interests of the city if they were held in public.

### RECOMMENDATION

THAT Council approve a grant of up to \$1.25 million to the Community Builders Group ("Community Builders") towards the renovation of the 98 Single Room Accommodation By-law designated rooms at the West Hotel, located on lands having a civic address of 488 Carrall St. [PID: 010-870-679; Lot A, Block 13, District Lot 196, Plan 6567] (the "Lands"), subject to:

- i. Community Builders entering into a 15 year lease with the owners of the West Hotel, 0955802 BC Ltd. (the "owners"), for all 98 residential units in the West Hotel, on terms and conditions satisfactory to the Chief Housing Officer and the Director of Legal Services;
- ii. Community Builders entering into a funding agreement with the City;
- iii. all required permits being issued by all regulatory authorities; and
- iv. the owners and the City entering into a Housing Agreement pursuant to Section 565.2 of the *Vancouver Charter* for the term of the lease and registration of such agreement on title to the Lands at current affordability levels.

Any additional partner funding to be secured will offset the City's contribution. Sources of funding to be the 2016 Capital Budget for Housing - SRO Grants (\$500,000) and the 2016 Infrastructure Grants (\$750,000).

Council approval of Grant Recommendations requires eight affirmative votes.

## **REPORT SUMMARY**

The West Hotel, located at 488 Carrall St., contains 98 rooms and a pub at grade and is fully tenanted. The property has a long history of non-compliance with City health and safety by-laws, but the situation has improved since Community Builders took over management of the building in 2014. The owners have indicated they are willing to enter into a long term lease with Community Builders. Community Builders will undertake renovations and repairs at an estimated cost of ~\$2.5 million to improve building condition. BC Housing has committed in principle to contribute \$1.25 million subject to Board approval. Subject to Council approval, the City will contribute up to \$1.25 million. Staff will continue to leverage additional partner funding to offset the City's contribution.

Approval of the grant supports the Downtown Eastside Local Area Plan's ("DTES Plan") goals of improving SRO liveability while maintaining affordability and tenant supports.

## **COUNCIL AUTHORITY/PREVIOUS DECISIONS**

On July 28, 2011, Council endorsed the Housing & Homelessness Strategy 2012-2021 which includes three strategic directions:

1. Increase the supply of affordable housing;
2. Encourage a housing mix across all neighbourhoods that enhances quality of life; and,
3. Provide strong leadership and support partners to enhance housing stability.

The 3-Year Action Plan 2012-2014 identified priority actions to achieve some of the Strategy's goals. The priority actions that relate to this grant request are to optimize the City's use of capital grants to leverage and support housing partnerships; and to focus our efforts with partners on preventing and eliminating homelessness.

On March 15, 2014, Council approved the DTES Plan. The goal of the Plan is to improve the lives of low-income DTES residents and community members. The Plan supports the creation of new social housing, encourages upgrades of the existing stock and encourages new forms of market housing while maintaining the existing neighbourhood character and revitalizing the area without displacement of residents, particularly low income residents. To support the implementation of the SRO Strategy, the 2015-2018 Capital Plan contemplated a \$2 million SRO grant program to support non-profit housing providers to improve livability and life safety conditions in rooms designated under the SRA By-law.

## **CITY MANAGER'S/GENERAL MANAGER'S COMMENTS**

The West Hotel provides essential accommodation to people on low and fixed incomes whilst the DTES Plan is being implemented to create new permanent affordable housing. A number of the SRO hotels are being bought by private investors and affordability is being lost. This investment will help secure the property for 15 years and be managed by a non-profit society who can provide supports to tenants. The City Manager and the Chief Housing Officer recommend approval of the foregoing.

## **REPORT**

### ***Background/Context***

The West Hotel, located at 488 Carrall St., is a 98-room SRA designated, non-conforming, heritage building located in zone HA - IA. The current owners, bought the building in 2008 and Community Builders Group took over management in 2014. The building houses some of the City's most vulnerable tenants and plays an important role in the City's low-income housing stock. The property has a long history of non-compliance with health and safety by-laws, but the situation has improved since Community Builders began managing the building. Despite this, the building requires significant repairs, including plumbing, electrical, and elevator modernization. A complete building condition assessment has been completed and ~\$2.5 million in renovations and repairs are required.

Since taking over management of the building, Community Builders have experienced continued financial loss due to high maintenance costs associated with poor building conditions, as well as reputational risk due to a number of Residential Tenancy Branch (RTB) cases brought forward by tenants due to building conditions. They have indicated that they will no longer be able to manage the building under the current arrangement, and are prepared to walk away if no agreement is reached. Should that occur, the owners have indicated that they would sell the Lands and building. If that were to happen, a new owner would likely make the necessary repairs but would need to increase rents beyond the average \$450 that tenants are currently paying, which could result in tenant displacement.

In an effort to reach a solution, Community Builders have proposed to enter into a 15-year lease with the owners for the residential portion of the West Hotel. During this time frame Community Builders would operate the building and rents would be maintained at current affordable levels (average ~\$450 per unit per month). Under the lease arrangement, Community Builders is currently negotiating payments of \$8,000 a month from year 0-2, \$15,000 per month from year 2-6, and \$16-18,000 a month from year 7-10, depending on shelter rates. Year 11-15 would be a negotiated rate between \$17-20,000 a month. The cost per unit per month of operation would be approximately 450 a month. As part of the lease arrangement, the owners would offer a settlement of \$300 per tenant as a way to resolve the RTB cases which are mostly relating to building condition issues. Once the capital improvements are completed, the owners would take responsibility for all repairs over \$5,000. The owners would also continue to receive the revenue from the pub located at the ground level of the building. Community Builders have agreed to take responsibility for the property tax for the residential portion of the building but will apply for Class 3 "Supportive Housing" designation to reflect the onsite support services provided in the building which, if eligible, will eliminate its property taxes. In the case that they do not qualify for Class 3, the City may consider an additional operating grant to Community Builders, subject to funding availability and Council approval.

### ***Strategic Analysis***

The proposed grant would contribute towards major renovations that are part of critical repairs and upgrades necessary to keep the West Hotel operational in the long term, including plumbing, electrical, and elevator modernization. The total budget for repairs is approximately \$2.5 million. The City intends to contribute \$500,000 for the

98 units, which is roughly in line with its SRO grant program (\$5,000/unit). BC Housing has committed in principle to contribute \$1.25 million subject to Board approval. VanCity and Streetohome Foundation have indicated their interest in contributing funds totalling \$750,000, subject to final confirmation of such commitment. In order to keep the deal between the owners and Community Builders moving forward, staff recommend that the City commits an additional \$750,000 to backstop the funding gap in the case that VanCity and Streetohome funding do not come through. Approval of this grant would also allow Community Builders to leverage funds from other governments and partners.

The renovations and repairs will require tenant relocation for a period of 8-12 months. Community Builders has indicated that while upgrades are underway, tenants will be relocated with their assistance and will be given the first right of refusal to their rooms at current affordability levels (average ~\$450 per unit per month) once the project is complete. During the period of the work, Community Builders will pay a reduced rent amount to the owners.

When combined with a Housing Agreement that would secure non-profit management for a period of 15 years, the grant is a strategic investment in retaining and improving affordable rental accommodation for low income individuals. During this time frame, City staff would continue to work with the owners to identify opportunities to secure the building in the long term. Approval of this grant will help support the goals of the recently adopted DTES Local Area Plan, which has a long term goal of replacing SROs with self-contained social housing while recognizing the importance of improving the quality of the existing stock, minimizing loss, and providing security of tenure, affordability, and liveability for tenants.

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

#### *Financial*

#### **Capital Costs**

The cost of renovations and repairs is estimated to be ~\$2.5 million, and the proposed funding strategy is as follows:

|  |    |                  |
|--|----|------------------|
| City SRO Grants (recommended)                    | \$ | 500,000          |
| BC Housing Contribution (committed in principle) | \$ | 1,250,000        |
| Streetohome Contribution (to be secured)         | \$ | 500,000          |
| VanCity Contribution (to be secured)             | \$ | <u>250,000</u>   |
|  | \$ | <u>2,500,000</u> |

In order to help advance the lease arrangement between the owner of the West Hotel and Community Builders, staff recommend that the City contributes \$750,000 (in addition to the \$500,000 SRO Grants) to backstop the yet-to-be-secured contributions from Streetohome and VanCity. Staff will continue to work with Community Builders to secure partner funding to offset the City's contribution.

The recommended City SRO Grant of \$500,000 represents ~20% of the project costs. Should VanCity and Streetohome contributions not come through, the City's overall contribution of \$1.25 million would increase to ~50% of the project budget. Sources of funding for the City's contribution are i) 2016 Capital Budget for Housing - SRO Grants (\$500,000) and ii) 2016 Infrastructure Grants (\$750,000). If the funding from VanCity and Streetohome are received, the City will be reimbursed the \$750,000.

Disbursement of the capital grant is subject to the following conditions:

- Community Builders entering into a 15-year lease with the owners of the West Hotel for all 98 residential units in the West Hotel, on terms and conditions satisfactory to the Chief Housing Officer and the Director of Legal Services;
- Community Builders entering into a funding agreement with the City;
- BC Housing contribution approved and secured
- All required renovation permits being issued by all regulatory authorities; and
- the owners and the City entering into a Housing Agreement pursuant to Section 565.2 of the Vancouver Charter for the term of the lease and registration of such agreement on title to the Lands at current affordability levels (average ~\$450 per unit per month).

### **Operating Costs**

Community Builders will be responsible for all the costs associated with the 15-year lease, tenanting, onsite support services, facility operation and maintenance, and property taxes estimated at \$450 per unit per month. Based on average rent of \$450 per unit per month, Community Builders is confident that it will not require further operating subsidies from the City. As well, Community Builders will apply for Class 3 "Supportive Housing" designation which, if eligible, will eliminate its property taxes (approximately \$14,000 per year impact).

### **CONCLUSION**

This report recommends an SRO capital upgrade grant to a maximum of \$1,250,000 to Community Builders for the West Hotel, located at 488 Carrall St., subject to the conditions set out in this report. This grant amount will leverage funding from other partners in order to complete the necessary capital improvements for the West hotel. Approval of this grant will help improve and protect a critical affordable housing asset while supporting the DTES Local Area Plan's goals of improving SRO liveability, affordability and tenant supports.

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