CITY OF VANCOUVER

ADMINISTRATIVE REPORT

Report Date:	January 30, 2017
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Meeting Date:	February 8, 2017

TO: Standing Committee on City Finance and Services

FROM: General Manager of Community Services

SUBJECT: Sustaining Affordable Co-op Housing on City Land

RECOMMENDATION

A. THAT Council approve the Options for Sustaining Affordable Co-op Housing and Key Terms and Conditions for ground lease extension or modification agreements for Sustaining Affordable Co-op Housing on City Land as contained in Appendix A.

B. THAT Council authorize staff to:

1. Negotiate the extension or modification of any ground lease(s) with the following Co-op Operator(s) in accordance with the Options and Key Terms and Conditions contained in Appendix A:

    a. Eight Oaks Co-op
    b. Four Sisters Co-op
    c. La Petite Maison Co-op
    d. Marina Co-op
    e. Northern Way Co-op
    f. Rising Star Co-op
    g. Vera Housing Co-op

2. Report back to Council on each individual Co-op for approval of new extended or modified leases; and

3. Report back on the collective outcomes and lessons learned from the negotiations, once all seven priority Co-op negotiations are substantially completed.

C. THAT the City continue to work with the Federation of Canadian Municipalities ("FCM") to advocate to senior levels of government to provide support to low income households so they can remain in Co-op housing as Operating Agreements expire.

D. THAT Recommendations A, B, and C above be adopted on the following conditions:

a. THAT the passage of the above resolutions creates no legal rights for a lessee or any other person, or obligation on the part of the City and any expenditure of funds or incurring of costs in relation thereto is at the risk of the person making the expenditure or incurring the cost; and

b. THAT the City and all its officials shall not in any way be limited or restricted in the exercise of their authority or discretion, regardless of when they are called upon to exercise such authority or discretion.

REPORT SUMMARY

This report outlines a recommended set of Options for Sustaining Affordable Co-op Housing (the “Options”) and key terms and conditions for any lease extensions or modifications for Co-op housing (the “Key Terms”). Co-op housing on City land plays a vital role in the provision of affordable housing in the City. Once adopted by Council, the Options and Key Terms will be used to evaluate requests for modifications or extensions of current ground leases at rates below market value for affordable Co-op housing on City-owned lands, which would then be brought to Council for approval.

The key goals for both the City and the Co-op housing sector are:

- Protecting the affordable housing stock as the cost of housing continues to rise in Vancouver, and ensuring this affordable housing stock is accessible to those who need it most.
- Providing security of tenure for Co-op residents to advance the City of Vancouver’s goals of becoming a healthy and diverse city with strong community ties.
- Addressing the physical building challenges and the upcoming expirations of ground leases and operating agreements in a financially and environmentally sustainable manner (Of the Co-ops on City land, 16 leases and 43 operating agreements will expire in the next fifteen years).
- Ensuring that Co-ops have a stable governance structure, and are financially sustainable through the term of the lease extension.

As a result, the City can play a key role by applying the following criteria:

Option	Co-op Characteristics
1. Extend and Modify Lease on City Terms	• The site has low redevelopment potential • The building is in good or fair condition • The Co-op will be financially sustainable
2. Work with the Co-op to explore opportunities to redevelop the site as Co-op or non-market housing	• The site has high redevelopment potential • The building is reaching the end of its economic life and would require a significant upgrade • The new building will be financially sustainable • Existing Co-op members can be appropriately re-housed as part of the redevelopment

Moving forward, the City will negotiate lease extension and modification agreements with the following key lease terms:

a. Co-ops will only admit new households whose monthly income is no more than five times the prevailing market rent for similar units in the surrounding area.
b. A minimum of 15% of units should be allocated to low-income households; the housing charge paid would be 30% of household income, which would be below the Co-op's standard housing charge, where Co-op finances allow.
c. Co-ops will work towards a co-ordinated access system for new applicants.
d. The Co-op will adopt and implement unit occupancy guidelines that align with the National Occupancy Standards, requiring households to move to an appropriately sized unit within the Co-op within a reasonable time frame.
e. The City to have the ability to perform audits or inspection of financial statements, asset management plans and reserve funds, rents/housing charges, and occupancy records, where such information is related to a Co-op's obligations under the lease
f. The City will continue to have the option to terminate the lease if the Operator breaches the lease and the breach is not rectified after sufficient notice has been given.
g. The City has the option to direct the disposition of financial surpluses once the Co-op has provided for replacement reserves, operating reserves and increased affordability within the Co-op.
h. Renovation and repair activities of the Co-op should improve environmental performance to support the goals of making the City a Renewable City by 2050.

Furthermore, the enclosed report and analysis indicates that there are high priority circumstances that Council should direct staff to complete as soon as possible.

COUNCIL AUTHORITY/PREVIOUS DECISIONS

In 2005, Council authorized the Director of Legal Services, on request from the Directors of the Housing Centre and Real Estate Services, to extend the leases for non-market housing buildings with 40 or 41 year terms by 20 years (RTS 4872).

In 2007, Council approved a 20 year lease extension for Paloma Housing Co-operative (1580-1638 East 3rd Ave.) at a nominal prepaid rent. When considering the Paloma report, Council also approved recommendations to consider, on a case by case basis, extending leases for 20 years with a nominal rent for non-profit housing Co-operatives with 40- and 41-year leases with the City, to ensure the viability of Co-operatives involved in costly building envelope repairs (RTS 7055).

In 2011, Council approved the City of Vancouver Housing & Homelessness Strategy which includes, as one of 3 overarching strategic directions, a commitment for the City to provide strong leadership and support partners to enhance housing stability. It identifies the different kinds of housing necessary to meet the needs of our citizens, as well as ways to improve and better preserve the housing we currently have.

CITY MANAGER'S COMMENTS

This report relates to a critical part of the City's affordable housing supply. Of the 10,921 units of affordable housing in the City, 3,513 units of Co-op housing exist in Vancouver as a result of the Federal and Provincial programs. This important housing stock is a significant component of all affordable housing in Vancouver. Much of this stock is either facing some physical challenges or an upcoming fundamental change in relation to its operating agreement or lease arrangements, or both. These changes create both opportunities and risks for this housing stock. This report provides a framework for the City to manage these risks, support our Co-op partners and protect the affordability found in this housing stock. Previous decisions were made on a case by case basis without a consistent criteria applied to maintain affordability, which is not the best approach to deal with what is a large and complex issue. The Options and Key Terms outlined in this report are critical to implementing the lease management and oversight function that is being led by the Community Services Group, and have been refined in consultation with the Co-op sector. The development of this coordinated strategy aligns with the goals of the Housing Strategy Re:Set process currently underway which has identified the need for more affordable housing options for middle income renters and owners as well as the most vulnerable members of the community. The City Manager recommends approval of the foregoing.

REPORT

Background/Context

1. The City has been delivering affordability leasing land for Co-op and non-market housing for over 40 years.

The City first began leasing sites for affordable housing in 1972. Senior Government programs provided funding for the construction of buildings to house people on City land, attaching operating agreements that ensured housing was provided for households with low and moderate incomes. While the terms of the individual programs varied over time, they provided subsidies to the Co-op to assist in mortgage payment, or provide assistance for low income households to access Co-op Housing.

The City owns 213 sites for housing purposes which house 10,921 units of non-profit housing. This housing is divided between social, supportive, and Co-op housing. Approximately 40% of the non-market housing stock in the City of Vancouver is on City-owned land. Historically, ground rent for Co-ops was determined based upon then market value of the land, discounted to reflect the lease term. As an example, a 60-year lease is equivalent to 75% of the freehold value, and the 25% discount enables the co-op to deliver the desired affordability. This framework ensures that the City, through the Property Endowment Fund (PEF), can continue to do strategic acquisitions and land-bank future housing sites for generations to come. A full history of the development of social housing in Vancouver is contained in Appendix C.

Figure 1 -- Non-Market Housing (NMH) on leased land from the City.

	Buildings	# of Units
Co-ops	55	3,513
Other NMH	158	7,408
Total NMH	213	10,921

2. Co-op Housing is an important form of affordable housing in the City.

We have 123 Co-op buildings across the city who provide an affordable alternative to market housing. Of these 55 Co-ops are on city land and usually have a higher proportion of family units than non-profit housing. A Co-op is based on the premise that every individual household buys into the Co-op via a purchase share in the building, and are therefore considered members in the individual Co-op. Members do not own equity in their housing but have security of tenure and an opportunity to work with other members to manage the Co-op and vote on decisions about the governance of the housing. Members in the individual Co-ops are expected to contribute to the Co-op in various ways, including being on the board of the directors of the Co-op or the various committees that are established (membership, groundskeeping and landscaping, etc). The members pay a "housing charge" which is used to pay for all the expenses incurred by the Co-op. Because Co-ops charge their members only enough to cover costs, repairs, and reserves, they can offer housing that is much more affordable than average private sector rental costs. Some households pay a reduced monthly housing charge geared to their income, with internal subsidies or senior government funding covering the difference between this and the full housing charge.

3. With Leases and Operating Agreements between Co-ops and levels of government expiring, the City is in a unique position to contribute towards maintaining affordability.

The City has received several requests for ground lease extensions from individual Co-ops. The majority of the leases with individual Co-ops commenced between 1973 and 1985 and range from 40 – 60 years in length. The first major wave of expiries is set to begin in the next 5 – 15 years, affecting 16 Co-ops. Many Co-ops require the extension in order to secure long term debt to finance required maintenance and building repairs (e.g. roofing, building envelope etc.), while some requests are intended to provide certainty of tenure. If repairs are required and need to be financed because individual Co-ops do not have access to the required funds from other sources, they are faced with the prospect of either foregoing the repairs or significantly raising housing charges in order to pay off the new debts within the term of the original lease unless the City grants a lease extension. In some cases the required increases are beyond what current occupants could afford and allowing a longer term to pay off the new loan(s) would reduce this burden.

In addition to the expiry of the City leases, the operating agreements (and all federal subsidies associated with these programs) between senior governments and Co-ops are also expiring (typically 5 years before the expiry of the ground lease). Of the Co-ops on City land, four agreements have already expired, with an additional 39 operating agreements expiring before 2030.

As a land owner, the City is in a unique position and could help mitigate the impact of the expiring operating agreements and leases to enable stability and affordability in the Co-op sectors in partnership with our housing partners and senior levels of government. Policy levers that the City can apply include: lease extension at below market rent, capacity building and support to the sector through the Co-op Housing Federation of BC (CHFBC) and BC Non-Profit Housing Association (BCNPHA) to enable them to shape their future, partnering with the Co-op to explore redevelopment options, and lease terms that ensure financial viability while at the same time targeting subsidized housing for those who need it most.

4. There are some opportunities and challenges within the Co-op Sector.

Over the past 40 years, Co-op housing has been an important component of the City's affordability spectrum. Looking to the future, the City and the sector need to change to reflect the changes in affordable housing that have occurred in Vancouver. Recent staff engagement with Co-ops has confirmed that many of those on City land face similar challenges. In broad terms, the following list describes the types of issues that are either occurring within some Co-ops operating on City lands or that are recognized as potential challenges in the future that should be mitigated:

a) The potential for Co-ops to address the housing affordability challenge.

Canada Mortgage and Housing Corporation's (CMHC) standard is "housing is considered affordable if it does not require more than 30% of gross household income. With more people across the city paying a higher percentage of their income on housing (32 per cent paying over 30 per cent of income of their gross incomes), Co-op housing provides a scarce and valuable housing resource. By having income maximums for new members moving into Co-op housing, Co-ops can ensure that housing is accessed by those who need it most.

b) Aging buildings and inadequate replacement reserves.

The terms of the City's ground lease require the Co-ops to be responsible for the condition, operation, repair, replacement, maintenance and management of the lands and building during the term of the lease. The operating agreements with senior levels of government vary with respect to how the Co-op is expected to financially plan for and carry out repair and maintenance activities. This has resulted in an inconsistent approach to building maintenance and, in some cases, deferred maintenance that has led to less than optimal building conditions.

The City is aware of at least two buildings that require significant repairs and/or replacements with costs estimated to range from $1.8 M to $3.4 M. Three other buildings have already secured loans from CMHC and have completed similar major repairs and replacements. CHFBC has been working with individual Co-ops to assist in the completion of Building Condition Reports and Asset Management Plans, to allow Co-ops to plan for long term building and capital asset maintenance.

Building renovation, repair, and maintenance activities present an opportunity to improve both liveability and the environmental performance of existing buildings. These activities are consistent with the goals and objectives of the City's Greenest City Action Plan as well as the BC Housing Energy Efficiency Retrofit Program (EERP) which provides incentives for non-market housing societies to reduce energy consumption and GHG emissions.

c) The need for easily accessible and transparent selection for vacant Co-op housing units.

Individual Co-ops hold their own waiting lists which require prospective residents searching for affordable housing to make multiple applications, requiring time and resources by the Co-ops to manage this process. The CHFBC and its member co-ops have indicated an interest in exploring options for co-ordinated access to co-op housing that would make the process more efficient. More discussions with key stakeholders will be necessary to understand how best to move forward to ensure the next generation of moderate and lower income families can access these communities while respecting the practices of individual Co-ops.

d) The changing nature of households and occupancy in Co-op housing.

Household size fluctuates and changes over time for many reasons, such as growing families or parents who become 'empty-nesters'. Ideally, as households no longer require the same sized unit, households would move into something more appropriate within the Co-op. Some Co-ops have embedded the requirement to upsize or downsize based on household composition, but it is wholly dependent on having suitably sized units available to achieve these changes and is often very difficult to find an appropriately priced and sized unit in the same building or community for a household, due to lack of diverse unit types within the Co-ops.

Strategic Analysis

1. The City needs a Coordinated Strategy for Considering Lease Extensions.

With the upcoming expiry of operating agreements and leases, the City is presented with an opportunity to re-affirm its continuing commitment to Co-op housing that is sustainable for future generations, and ensure housing is maintained for low and moderate income households. A City-wide strategy is needed to ensure that going forward, Co-op units continue to house members who need the level of affordability that Co-op housing provides, in buildings that are well maintained and operated with a healthy, financially sustainable governance structure. Previous decisions were made on a case by case basis without a consistent criteria applied, which is not the best approach to deal with what is a large and complex issue.

The strategy outlined in this report responds to this need for a comprehensive and consistent approach on how the City considers requests for extending leases. Through the development of the strategy, staff was able to get a better understanding of the views and concerns of Co-ops across the City, the range of issues that the sector is facing, and how best the City can work with our partners and other levels of government in the future.

In our current affordability crisis, many residents continue to face significant challenges in having access to affordable housing geared to income. When compared to provincial and federal governments, the City has scarce resources to deliver affordable housing solutions.[1] In order to best ensure that all levels of government work together to set up the next generation of housing on City land in a way which supports the Co-op sector, sustains affordability, and is financially viable, staff are recommending a comprehensive approach to its own involvement in the emerging solutions and opportunities. It is important that the City ensure that housing operating on City lands is serving the highest possible number of households who cannot otherwise find appropriate accommodation in the market.

The development of a coordinated strategy aligns with the goals of the Housing Re:Set process currently underway. Despite the City's best efforts to increase housing affordability for all residents, market rental and ownership housing prices continue to rise. The aim of the Re:Set is to update the Housing and Homelessness Strategy. Deliverables include a 5 and 10 year outlook including new targets, policy directions, metrics and goals, and an implementation strategy for how these will be achieved. The City will accomplish this through sharing knowledge and seeking input from partners and stakeholders locally, regionally, provincially, nationally and globally.

[1] The Federal Liberal Government, elected in October 2015, campaigned on a platform that included significant support for affordable housing. The platform included a ten-year investment of $20 billion in social infrastructure prioritizing new investment in affordable housing and seniors facilities, including support for new housing construction and renovation, renewal of Co-operative agreements, and operating funding for municipalities. In March 2016 the Federal Budget temporarily continued operating subsidies for non-profit and Co-op housing, pending completion of a National Housing Strategy. While the City participated by commenting on the strategy in November 2016, the specific details of what this means for municipalities and for existing non-market housing on City owned lands remain unclear.

2. There are overarching goals and objectives for considering lease extensions.

There are four key goals to be considered when considering lease extensions for existing Co-ops on city land:

- Protecting the affordable housing stock as the cost of housing continues to rise in Vancouver, and ensuring this af fordable housing stock is accessible to those who need it most.
- Providing security of tenure for Co-op residents to advance the City of Vancouver's goals of becoming a healthy and diverse city with strong community ties.
- Addressing the physical building challenges and the upcoming expirations of ground leases and operating agreements in a financially and environmentally sustainable manner.
- Ensuring that Co-ops have a stable governance structure, and are financially sustainable through the term of the lease extension.

Staff recognize that Co-op households are part of existing communities, and that any changes in lease terms should take place over time. Key terms have been drafted to meet these overall goals, with any lease extension requests being evaluated against criteria listed in Appendix A. Existing Co-ops have the ability to provide housing that allows families and young workers to live in Vancouver.

3. There are alternatives to lease extension

Besides lease extension, alternative options have been considered for cases where Co-ops do not agree to lease terms, or where there is an opportunity to work with the Co-op to redevelop the site to increase the number of affordable homes. The redevelopment potential of each site will be determined on an individual basis. Sites with higher potential are likely to be those where significant density increases have been identified through an approved Community Plan or where density will be determined through a Community Planning process which is anticipated to commence in the near future.

Table 1: Options for Sustaining Affordable Co-op Housing

Option	Co-op Characteristics
1. Extend and Modify Lease on City Terms.	• The site has low redevelopment potential • The building is in good or fair condition • The Co-op will be financially sustainable
2. Work with the Co-op to explore opportunities to redevelop the site as Co-op or non-market housing	• The site has high redevelopment potential • The building is reaching the end of its economic life and would require a significant upgrade • The new building will be financially sustainable • Existing Co-op members can be appropriately re-housed as part of the redevelopment

In very rare cases where the Co-op and the City cannot agree on the key terms of a lease extension, the City has the option to continue operations until the lease expires, at which point the land is returned to the City and the building is transferred to City ownership. At that point the City would have the option to transition the property to a new lease with a new housing operator to manage the building.

4. Key lease terms that the City will seek to negotiate in lease extension and modification agreements for existing affordable Co-op housing buildings

a. Co-ops will only admit new households whose monthly income is no more than five times the prevailing market rent for similar units in the surrounding area.

Staff recognize that Co-op housing is an important part of the City's affordability spectrum. Over the past 40 years, there has been a gap where some household incomes in Co-ops have increased much more than the respective housing charges.

Using the data from the 2016 CMHC Rental Market report, an income cap of no more than five times the prevailing market rent for similar units in the surrounding area would result in the following maximums for a one bedroom unit.

	Average Market Rent	Maximum Monthly Income (at 5x rent)	Maximum Annual Income
False Creek South	$1,295	$6,475	$77,700
Downtown Eastside	$1,000	$5,000	$60,000
Champlain Heights	$1,159	$5,795	$69,540

It would also result in the following maximums for a two bedroom unit.

	Average Market Rent	Maximum Monthly Income (at 5x rent)	Maximum Annual Income
False Creek South	$1,779	$8,895	$106,740
Downtown Eastside	$1,305	$6,525	$78,300
Champlain Heights	$1,425	$7,125	$85,500

By applying this key term for new Co-op members to lease extensions, the City can ensure that over time units will transition to those that need the level of affordability Co-ops offer, while recognizing that these are existing communities and allow households to remain.

b. A minimum of 15% of units should be allocated to low-income households; the housing charge paid would be 30% of household income, which would be below the Co-op's standard housing charge, where Co-op finances allow.

With the expiry of the operating agreements, there is no longer a requirement to provide for low-income households. This clause will ensure that there will be low-income households within the individual Co-ops, as well as ensure access to Co-op housing by low-income households. It is anticipated more units could be made available to low income households should subsidies be provided by senior levels of government.

c. Co-ops will work towards a co-ordinated access system for new applicants.

As discussed in the report, the City would work with the CHFBC to determine the best method to develop a co-ordinated access system for Co-op housing. Discussions with the sector are ongoing on how to achieve this, as well as the ultimate administrator of the system, but would incorporate the following guidelines:

a. A standard comprehensive application form to be accessible by all Co-ops.
b. Being at the top of the list does not guarantee automatic acceptance into the Co-op, recognising the membership process for the Co-ops as well as the level of housing need.
c. Income levels must be declared at time of application to the list, interview, and prior to acceptance.

d. The Co-op will adopt and implement unit occupancy guidelines that align with the National Occupancy Standards, requiring households to move to an appropriately sized unit within the Co-op within a reasonable time frame.

In order to ensure that existing housing stock is being best utilized and is housing the most number of people in need of affordable housing possible, Co-ops will be asked to develop a strategy to deal with overhousing within the Co-op and possibly partner Co-ops. This strategy shall transition existing households to appropriately sized households using the National Occupancy Standards applied by BC Housing as a guideline. Policies that allow for people to move to properly sized units can ensure access to affordable Co-op housing by families that need larger sized units as well as allowing seniors to possibly downsize but remain in the community.

e. The City to have the ability to perform audits or inspection of financial statements, asset management plans and reserve funds, rents/housing charges, and occupancy records, where such information is related to a Co-op's obligations under the lease

On-going management of leases will be managed through the Housing Delivery and Operations Group within the Community Services Department. Co-op operators will be required to collect and produce financial statements, asset management plans and reserve funds, housing charges, incomes and occupancy records for all members in formats that are acceptable to the City.

f. The City will continue to have the option to terminate the lease if the Operator breaches the lease and the breach is not rectified after sufficient notice has been given.

This City may use discretion in exercising this option. In the event of breach of lease, the City will provide notice and work with the operator to remedy the lease before proceeding to termination.

g. The City has the option to direct the disposition of financial surpluses once the Co-op has provided for replacement reserves, operating reserves and increased affordability within the Co-op.

If after all these are achieved there is still a surplus, the City would negotiate with the co-op to explore opportunities to reinvest such surpluses in additional affordable housing initiatives in Vancouver.

h. Renovation and repair activities of the Co-op should improve environmental performance to support the goals of making the City a Renewable City by 2050.

The Greenest City Action Plan commits the City to a series of actions designed to make Vancouver the greenest city in the world by 2020. Renovations to existing housing stock are an important component of the plan and non-market stock on City land offers a significant opportunity for positive results.

New/modified leases will ensure that renovation and repair activities improve environmental performance and that government programs which support these efforts are maximized. This will support the City's goal to become a Renewable City by 2050.

5. Stakeholder Consultation

A draft framework was developed following discussions with relevant City departments (Housing Policy, Finance, Real Estate, Legal Services), the Co-operative Housing Association of BC (CHFBC), BC Housing, BC Non-Profit Housing Association (BCNPHA), and a sample of Co-op operators on City lands. Development of the draft Key Terms included a review of a portion of the existing leases and previous Council decisions regarding approved extensions as well as a survey and site visit meetings with a selected group of 8 Co-op operators on City-owned land who have previously requested lease extensions.

The Options and Key Terms for considering lease extension requests for Co-op housing were further refined after additional consultation with the CHFBC, BCNPHA, the Agency for Co-op Housing, and discussions with 16 Co-op operators on City lands. The CHFBC has provided a co-ordinated response on behalf of the individual Co-ops (Appendix B). Staff have reviewed the response and have adapted the Key Terms and Conditions to reflect the comments heard through the consultation with the Co-op sector, including clarity around sharing of operating surpluses, deletion of an early termination provision and approval of new loans or mortgages, and providing for housing charges for new members that are based on no more than five times the average rent for a comparable unit in the surrounding area.

There are a few points in CHFBC's response which require continued discussion with the sector:

- The length of lease term and valuation of any pre-paid ground rent – As indicated in the response, the CHFBC sees the ability of a Co-op to amortize a mortgage over 25 years to finance building upgrades as a minimum requirement for a lease extension. CHFBC also has concerns regarding how any prepaid ground rent is valued, and how affordability requirements will relate to any ground rent payable. Further work will be required to determine the lease length for individual Co-ops after assessing the cost of upgrades and potential prepaid ground rent value. This report details methodology for calculating the value of a pre-paid lease as one of the next workplan items.

- Co-ordinated Membership - The CHFBC discussed the value of exploring a co-ordinated membership process. While some Co-ops saw the advantages in a co-ordinated approach, some were concerned that this would fetter their specialized membership process. Further work is required to develop a co-ordinated access system that meets the needs of both the individual Co-ops as well as potential members, as well as the ultimate administration of this information.

- Lease extensions for Northern Way Housing Co-op and Vera Housing Co-op – in 2010, discussions were held between City Staff and these Co-ops regarding lease terms in relation to significant building envelope upgrades undertaken by these Co-ops. No report to Council went forward at that time as the City recognized the need for a co-ordinated approach to lease extension. Further discussion regarding these two Co-ops will be required as part of the lease extension review process.

As individual lease extensions proceed to Council, the City will continue to work with the CHFBC and individual Co-ops to recognize the unique nature of Co-ops and maintain affordability within the sector.

6. Priority Sites for Evaluation

Should Council approve the Options and Key Terms and Conditions in recommendations A and B of this report, staff will start work with the priority site Co-ops identified in Table 2: "Priority Site Characteristics". Working with each Co-op staff will gain an understanding of their current circumstances, plans for the future and how the application of the Key Terms will translate into operations and outcomes for each Co-op. On a case by case basis reports on the recommended lease extensions or modified terms for each Co-op will be brought to Council in a timely manner starting at the end of Q2 2017. After the first seven are completed, staff will report back to council on the collective outcomes and lessons learned from this process.

Table 2: Priority Site Characteristics

	Priority Characteristic	Description	Co-op meeting this criteria
1	State of Repair	Building requires significant repairs as identified through a Building Condition Assessment. The Operator requires a lease extension in order to secure new loans to finance repairs.	Four Sisters Co-op (DTES)
2	Building repairs recently completed	Building recently completed significant repairs and is now waiting for a lease extension with enough time to amortize a mortgage to pay off the cost of repairs.	Vera Housing Co-op (Marpole) Northern Way Co-op (Mount Pleasant) Rising Star Co-op (Grandview/Woodland)
3	Ground rent review is due	Existing lease requires that ground rent is reviewed (for leases that are not "prepaid"). This system does not allow the Co-op to obtain mortgages for building repairs.	La Petite Maison (Killarney)
4	Lease is expired/ nearing expiry	Ground lease with the City is expiring within the next five years.	Marina Co-op (False Creek South) Eight Oaks Co-op (Riley Park)

7. Next Steps

a. Policy Work to be undertaken during initial lease extension reviews

The methodology for valuation of a pre-paid ground rent with the individual Co-ops and clarification of assumptions in the calculation will need to be determined with the initial lease extension reviews. The City will seek to collect a prepaid ground rent for the duration of the lease extension term. The amount of the prepaid ground rent will be determined considering the affordability targets, long term maintenance as determined through a building condition assessment, and financial sustainability requirements.

The difference between the market value and the amount of the prepaid ground rent achieved is considered a grant, and as per current practice, will need to be approved by City Council on a case by case basis in accordance with the Vancouver Charter. Staff have started this work internally and will be working with the CHFBC and BCNPHA to provide consistency on the approach.

b. Reporting to Council on Status of Expiring Leases Work Program

Staff understand that there are multiple stakeholders who are interested in the City's on-going work to reach decisions about the best course of action for existing affordable housing buildings on City lands. Should Council approve the Key Terms and Conditions as described in this report, staff will include a section in each subsequent lease report to Council providing an overview of the sites that have completed evaluation and recommendation to Council, the sites that are under review, and the sites that will be under review in the next 12 months.

c. Draft Decision Framework for Social and other Non-Market Housing

Following approval of the Options and Key Terms, a decision framework based on the Options and Key Terms and Conditions will be developed for consultation with Social and non-profit housing providers. Staff will report to Council in Fall 2017 after consultation. The framework will recognize the opportunities and challenges of the non-profit sector in providing affordable housing.

Implications/Related Issues/Risk

Financial

To leverage and sustain affordable housing on City land in partnership with senior levels of government, the City can lease land to housing partners at lower end of market rent (to provide security in tenure) or below market rent (to achieve desired level of affordability).

The land on which non-market housing buildings (including Co-op housing) are situated is held in the Property Endowment Fund (PEF). The aggregate value of the Co-op housing sites is ~$859 million (2017 assessed value). Approximately 18 of these Co-ops (953 housing units) have leases that will expire before 2030, totalling ~$226 million in land value. Should Council decide to extend any of the leases, current Council policy requires that a reimbursement be made to the PEF for its proportionate share in the freehold market value (equivalent to the assessed value in most cases). Ground rent is determined based upon the term of the lease:

- 60% of the market land value for a 40-year lease
- 75% of market land value for a 60-year lease
- 95% of market land value for a 99-year lease

(Note: In the case of a lease extension to enable mortgage financing for building envelope rehabilitation, it is anticipated that the additional term would be determined to reflect the reasonable amortization term. The value of the extension will be determined as part of the report back to Council on a project by project basis.)

The intent of this policy is to ensure that the PEF:

i) is financially sustainable over the long term;
ii) is able to fund its operating and capital costs in a self-sustaining manner; and
iii) can continue to make strategic site acquisitions and land-bank for future housing sites and other Council priorities.

The level and forms of City support - through land leases at lower end of market rent (to provide security in tenure) or subsidized below market rent (to achieve a desired level of affordability) - will be determined on a case-by-case-basis, considering the following:

- level of senior government support;
- individual building's ability to support a mortgage to finance building envelope rehabilitation and/or a prepaid rent to the City; and
- the City's financial capacity to provide funding for capital grants and/or below market leases.

Should Council decide to extend any of the leases at below market rate, current Council policy requires that funding be provided from the Capital Fund to the PEF to compensate for the shortfall between the market rent and the actual rent. This framework ensures that the PEF is compensated to preserve the long-term sustainability of the fund as well as its ability to acquire future housing sites. Should Council approve a below market rent, which constitutes a grant, the financial implications of that decision will need to be accommodated in the city's financial plan and budget and brought forward to Council.

Staff will report back to Council on viable options and an associated funding strategy for consideration with each building. As the leases on the subject sites are set to expire in phases, the City's contributions and funding strategy will be determined as part of the long-term financial and capital planning process. Should financial contributions be required in the current Capital Plan, staff will bring forward viable options, which may include reprioritization of programs/projects, for Council's consideration.

Social

The provision of affordable housing is a key Council priority, and has both direct and indirect benefits to the City. Studies have indicated there are social as well as economic benefits from investment in affordable housing. Social Return on Investment (SROI) is an analysis that attempts to capture the social and environmental value of an initiative, in addition to its financial value.

A 2010 CMHC study indicated that 48 percent of non-market housing tenants surveyed reported that their children saw improved school performance once they received support for stable and affordable housing.

A study by the Mowat Centre at the University of Toronto provided the following outcomes for people obtaining affordable housing:

- Increased disposable income as a result of moving into social and affordable housing provides all households with the resources to make additional investments into their health. In Ontario, the provision of affordable housing allowed for an additional $357 to be used to pay for health and medical expenses, which subsequently reduced the demand on emergency departments by heavy users.

- Securing affordable housing allowed for individuals with high school or less education to pursue continuing education or retraining. The earnings premium for an individual with a "Post-secondary certificate or diploma" over the average annual earnings of a worker who has "Graduated High School" was $4,874 per year in 2006.[2]

CONCLUSION

This report outlines recommended Options for Sustaining Affordable Co-op Housing and Key Terms and Conditions that can be applied by City staff and Council over time to make decisions regarding the extension of leases for Affordable Co-op housing on City lands. This is a vital next step in both protecting and optimizing this affordable housing stock in Vancouver as it will provide a clear strategy for making decisions and certainty to those stakeholders involved. In addition, the report sets out some clear next steps that will help guide staff during the first phase of implementation. The General Manager of Community Services recommends approval of the Options and Key Terms and Conditions contained in Appendix A

* * * * *

[2] Zon, Molson, and Oschinski, "Building Blocks: The Case for Federal Investment in Social and Affordable Housing in Ontario", Mowat Centre, University of Toronto, 2014

Options for Sustaining Affordable Co-op Housing

Option	Characteristics
1. Extend and Modify Lease on City Terms.	• The site has low redevelopment potential • The building is in good or fair condition • The Co-op will be financially sustainable
2. Work with the Co-op to explore opportunities to redevelop the site as Co-op or non-market housing	• The site has high redevelopment potential • The building is reaching the end of its economic life and would require a significant upgrade • The new building will be financially sustainable • Existing Co-op members can be appropriately re-housed as part of the redevelopment

Key Terms and Conditions for lease extension for existing Co-op housing

1. Co-ops will only admit new households whose monthly income is no more than five times the prevailing market rent for similar units in the surrounding area.

2. A minimum of 15% of units should be allocated to low-income households; the housing charge paid would be 30% of household income, which would be below the Co-op's standard housing charge, where Co-op finances allow.

3 Co-ops will work towards a co-ordinated access system for new applicants.

4. The Co-op will adopt and implement unit occupancy guidelines that align with the National Occupancy Standards, requiring households to move to an appropriately sized unit within the Co-op within a reasonable time frame.

5. The City to have the ability to perform audits or inspection of financial statements, asset management plans and reserve funds, rents/housing charges, and occupancy records, where such information is related to a Co-op's obligations under the lease.

6. The City will continue to have the option to terminate the lease if the Operator breaches the lease and the breach is not rectified after sufficient notice has been given.

7. The City has the option to direct the disposition of financial surpluses once the Co-op has provided for replacement reserves, operating reserves and increased affordability within the Co-op.

8. Renovation and repair activities of the Co-op should improve environmental performance to support the goals of making the City a Renewable City by 2050.

Evaluation Criteria

Goal	Evaluation criteria	Description
Protecting the Affordable Housing Stock	Level of affordability	• How do Co-op housing charges compare to median incomes and market rents in the area? • What are the incomes of existing residents? • What percentage of their income is each household spending on housing charges?
	Unit occupancy	• Do any residents need to move out of the building because they need support? • Do any residents need to move within the building: to a smaller unit with fewer bedrooms, because they need accessible housing, or to have their unit adapted? • What is the rate of under-occupancy/over-housing?
Physical Building Conditions	Building condition assessment	• What is the condition of the building? • What is the expected cost and schedule for recommended maintenance and repairs? • How will maintenance and repairs make the building more livable and environmentally friendly?
Stable Governance Structure	Financial sustainability * and ability to maintain/ improve affordability	• What is the project's financial position today? • How will it change after the operating agreement ends? • Does the Co-op have adequate borrowing capacity and funds in reserve to ensure it's sustainability?
	Financial considerations for the City	• What is the ground rent available for the land after it meets its affordability goals?

*A project is considered financially sustainable if the income, including any secured long-term rent subsidies from senior government, can cover mortgage payments, operating costs and contributions to applicable reserves (capital replacement, operating contingency, etc.) without any additional subsidy.

Lease Renewals for Housing Co-ops in the City of Vancouver

Co-operative Housing Federation
of British Columbia

CHF BC

September 2016

1. Introduction

There are 107 non-profit housing co-ops[1] in the City of Vancouver, 97% of which are members of the Co-operative Housing Federation of British Columbia (CHF BC). These co-ops provide 5,770 safe, secure, affordable homes to a diverse mix of residents in thriving, mixed-income communities. Many housing co-ops represent the only affordable family housing in their neighbourhoods.

Housing co-ops are governed and managed according to principles supported by an international co-operative movement. Engaged co-op members are engaged citizens, and housing co-ops and their members contribute much to the rich fabric of community life in Vancouver.

There are 49 co-ops comprising 3,480 units on land leased from the City of Vancouver. They include large, ground-oriented suburban family housing, mid-rise downtown towers, and a cluster of five co-ops with about 518 co-op homes in the False Creek South neighbourhood. The list attached as Appendix "A" indicates the names of all leasehold co-ops in Vancouver.

Co-op leases come in several varieties. Some of them are problematic now and all of them will eventually need to be renewed or extended. Discussions with City staff began some years ago amid the leaky co-op crisis and continued as co-ops began to seek refinancing for capital renewals.

Until recently, these discussions have made little progress. However, the City has now assigned a higher priority to the development of a policy framework for lease renewals. A draft framework, attached as Appendix "B", has been circulated to co-ops and discussed in a series of meetings with City staff.

This paper advances a framework for co-op lease renewals that is more likely to gain support from CHF BC and affected housing co-ops. It also attempts to explain why some aspects of the City's draft framework cannot be supported by CHF BC or its member housing co-ops.

2. Types of Leases

a) 60-Year Pre-paid

This is the most common form of lease, accounting for 28 co-ops and 2,360 units. Almost all of these co-ops pre-paid 75% of the market value of their land for the 60-year term. The pre-payment was financed through the mortgage. All but one of these leases expire between 2031 and 2061.

[1] The housing co-ops described in this paper are all incorporated under the provincial *Cooperative Association Act* and are subject to its provisions.

b) 40- or 41-Year Pre-paid

These are also numerous, originally being 18 co-ops with 1,019 units. Most of these co-ops paid 50% of the market value of the land for their term, illustrating the important point that the longer a lease runs, the more valuable it is. These leases expire between 2021 and 2029.

c) Ground Rent Leases

These are among the earliest co-ops developed, dating from the 1970s, and there are only three, comprising 101 units. One of the three co-ops has a 60-year lease term (expiring in 2038); the other two have 50-year terms. The latter leases expire by 2029.

These co-ops are required to pay an annual ground rent to the City. The amount of rent is not determined in the lease. Instead, the lease specifies that every ten years the City will conduct an appraisal of the market value (or market rental value) of the land and the co-op will pay that amount. Nobody at the time anticipated the recent steep rise in property values in Vancouver and this has led to enormous and unaffordable increases in the amount of ground rent calculated through this method. The situation is exacerbated by two of the co-ops being located in Point Grey. The increases required by the formula have not been assessed by the City because everyone agrees that they are not sustainable.

3. Financing Leases

Financial institutions will lend against a leasehold interest. They usually require that the term of the lease be at least five years longer than the mortgage amortization. The 40- and 41-year leases were the minimum that could achieve this standard given the 35-year amortization of CMHC loans under the federal co-op housing programs.

From this, it follows that if a co-op has 10 years remaining on its current lease, it will only be able to secure a five-year loan. This is insufficient to fund all but the most superficial capital renewals. For such a co-op to achieve a standard 25-year amortization, it would need a 20-year extension on its lease, effectively giving it a 30-year lease. It was for this reason that several leaky co-ops with 40-year leases required lease extensions some years ago to qualify for additional CMHC financing. It is also the reason that even co-ops with 60-year leases are now significantly constrained by the time remaining on their lease terms.

Private lenders also typically require that leases be pre-paid. From their point of view, an annual ground rent, and particularly one that is periodically recalculated, is risky and introduces great uncertainty around the future value of the lease.

4. Consultation with CHF BC Members

Once the City released its draft policy framework, CHF BC held three meetings to which representatives from the 40-/41-year and ground rent leasehold co-ops were invited. The meetings were well attended and provided the basis for CHF BC's initial response to the City's draft framework. This was shared in more than one meeting and in follow-up correspondence with City staff.

5. CHF BC's Proposed Framework for Co-op Lease Extensions

In meetings held with member co-ops, CHF BC has received positive feedback on the following principles as the potential basis for a lease renewal framework:

a) Certainty

Leasehold co-ops (and their potential lenders) need certainty around the term of their lease and their financial obligations during that term. This means that:

i. Co-ops with ground rent leases should be given the option of converting to pre-paid leases on fair and reasonable terms at the earliest opportunity;

ii. Co-ops with pre-paid leases should be offered extensions long enough, at a minimum, to amortize capital renewals over 25 years;

iii. Once a lease extension is secured, it may not be terminated before the end of its term other than for a material breach that remains uncured after sufficient notice is given.

b) Security of tenure

It is a fundamental condition of occupancy in a co-op that members enjoy security of tenure in their community. Co-ops are willing to implement reasonable income verification procedures for members requiring housing charge assistance and unit occupancy guidelines for all incoming members, either under the terms of a lease or a housing charge assistance program funded by another level of government. At the same time, no member should be forced from their home simply because an appropriate or right-sized unit is unavailable in their housing co-op.

c) Accountability and transparency

For more than four decades, housing co-ops in Vancouver have faithfully honoured the terms and conditions of funding and operating agreements (including leases) with all levels of government. The City can have every confidence that this will continue. Co-ops will not object to City audits of their finances and operations where those audits are demonstrably related to their obligations under the lease.

Co-ops acknowledge the challenges that some applicants face in their efforts to find appropriate housing in co-ops, where vacancies are a rare occurrence. CHF BC is committed to exploring with its members and the City a range of voluntary options for making co-op application procedures more coordinated, efficient and beneficial for all parties.

d) Affordability

Housing co-ops in British Columbia, and across Canada, were developed under successive federal and provincial housing programs beginning in the early 1970s to provide affordable housing for low and moderate-income residents in diverse, mixed-income communities. This remains their overriding purpose today.

The mixed-income nature of housing co-ops promotes the development of thriving, diverse communities. It is also a good business model for housing that is financially stable because its income stream does not depend wholly on government for its viability.

Co-ops are also modest in nature, with fewer frills or amenities to attract people who may have a broader range of options available to them in the housing market.

Housing co-ops are willing to pay a reasonable amount to extend or renew their leases with the City. The amount should be based on what a co-op can afford given its income and affordability targets and after all capital replacements and renewals are considered and capital and operating reserves are adequately funded for the long term. The schedule of capital repairs and the required funding or borrowing should be based on a professional asset management plan commissioned by each co-op.

The City must acknowledge the inverse relationship between the amount of any required lease prepayment and the degree of affordability that can be achieved by a co-op. Housing charges are driven by the requirements of debt service, operations and adequately funded reserves. Any additional debt service required to amortize a lease payment will have a direct impact on overall affordability.

Housing co-ops will work hard to press senior levels of government for long-term housing charge assistance programs for low-income members. Indeed, the co-op housing sector has achieved some recent success in this regard and those efforts will continue. The City can count on a reliable partner in this effort.

e) Sustainability

Housing co-ops are universally committed to the three pillars of sustainability: financial, social and environmental. This commitment is reflected in the practice of long-term financial planning, community development, responsible citizenship and security of tenure.

Co-ops will also be committed to seeking enhanced environmental performance and efficiencies in the implementation of their operations and asset management plans where feasible. Where it makes sense in the context of the surrounding community, they will also be willing to explore densification options that increase the supply of affordable housing and provide opportunities for families and individuals to live in appropriately sized homes.

f) Sound governance and management

Housing co-ops and their members have been responsible stewards of very scarce and valuable community assets for decades. This is reflected in the condition of the assets, the solvency of the co-ops and the strength of their communities.

Co-ops will commit to the implementation of sound, professionally-sourced, long-term asset management plans to protect their homes for future generations.

6. Challenges in the City's Draft Framework

As noted above, the City's draft lease renewal framework includes many provisions that will not be problematic for leasehold co-ops. This is encouraging and should provide a basis for the constructive engagement of all parties.

There are, however, some provisions in the draft framework that cannot be accepted by CHF BC or its member co-ops. Some, e.g. early termination provisions, are mentioned directly or indirectly above.

Others include:

a) City approval of co-op refinancing or borrowing

Co-ops set housing charges to cover their debt service, operations and reserve allocations. They borrow to finance major capital works that cannot be covered from reserves. No lender will underwrite a loan to cover an operating deficit, and protection against such borrowing is unnecessary and unrelated to any reasonable obligation co-ops might assume under a lease.

b) Housing charges set at 30% of income

Co-ops are committed to ensuring that members whose incomes cannot support break-even housing charges will not pay more than 30% of their gross monthly income if government assistance is available and the co-op remains financially viable. In situ members whose incomes can support the co-op's break-even housing charges without exceeding 30% of their gross monthly income should pay no more than the break-even housing charge. This is the basis on which co-ops were developed and on which they have operated for decades.

In order to preserve affordable housing for people who need it most, co-ops may agree to implement a maximum income and asset profile for new members at move-in, bearing in mind that a mix of incomes is the best guarantee of long-term financial sustainability.

c) Sharing of operating surpluses

If a co-op is paying to renew or extend its lease on terms that are commensurate with the term of the lease and also contribute to the City's affordable housing goals, the payment and the affordability represent fair value for the lease. There is then no rationale for sharing operating surpluses in the unlikely event that surpluses are realized. In fact, such a provision may act as a brake on housing charge increases that are needed to meet the co-op's financial obligations.

If, however, the City offers to treat its land as an investment in the co-op that requires no pre-payment for a lease extension, then a share of future operating surpluses might be seen as a potential stream of future returns required to compensate the City for its investment.

7. Two Notable Exceptions

Northern Way Housing Co-op and Vera Housing Co-op were leaky co-ops that successfully qualified for building envelope remediation financing through CMHC based on a commitment from the City to extend their leases by 20 years at no cost. City Council approved a 20-year extension on that basis for Paloma Housing Co-op in December 2007.

The Council report recommending the Paloma lease extension noted that more leaky co-ops would be coming forward to seek similar arrangements as a condition of a significant financial contribution from the federal and provincial governments toward their building envelope repairs. Both CMHC and BC Housing received assurances from City staff that Vera and Northern Way would receive similar extensions in return for that assistance. All parties moved forward with major building envelope repairs and associated financing in the expectation that these pledges were made in good faith and would be honoured. This remains our position with respect to these two co-ops.

8. Conclusion

The situation facing many housing co-ops on leased land is quickly becoming urgent. Co-ops are anxious to invest in their capital assets in order to maintain the quality of their homes and the sustainability of their communities.

The foregoing sets out a framework for co-op lease renewals that will be largely acceptable to CHF BC and the majority of leasehold co-ops in Vancouver. It reflects a fair and reasonable accommodation between the principles that are fundamental to the co-op form of tenure and the housing goals of the City of Vancouver.

CHF BC looks forward to engaging with its member co-ops and the City of Vancouver in a dialogue to achieve a timely resolution of our mutual concerns and a schedule of lease renewals that will deliver long-term security of tenure for every housing co-op on City land.

Appendix "A": List of Co-ops Leasing Land from the City of Vancouver

Co-ops with Prepaid Leases	*Co-ops with Ground Rent Leases*
• Access • Amicae • Athletes Village • Alder Bay • Alexander Laidlaw • Alexander Street • Anita Lewis • Arbutus • Arlington Grove • Burlington Heights • City Edge • City Gate • Coal Harbour • Collingwood Village • Core Artist Live/Work • Cedar Mill • Creekview • De Cosmos Village • Eight Oaks • False Creek • Four Sisters • Grace MacInnis • Helen's Court • Heritage • Jackson Avenue • Jasmine Place • Kaslo Gardens • Killarney Gardens • Kinross Creek • Le Coeur • Lore Krill (E Georgia Site) • Maple Creek • Marpole Terrace • Matheson Heights • Mau Dan Gardens • Marina • Northern Way • Pacific Heights • Paloma • Rising Star • Riverside Landing • Roundhouse • Still Creek • Sunbridge • Twin Rainbows • Vera	• Dunbar Village • Penta • La Petite Maison

Appendix "B": Draft City of Vancouver Lease Renewal Framework

Sustaining Affordable Non-Market Housing on City Land

Land lease extensions for housing co-ops and other non-profit housing sites

The operators of some co-op housing built on land leased from the City of Vancouver have asked the City to extend their land leases. Some co-ops need extensions so they can get mortgages to pay for maintenance or repairs to their buildings - major expenses like a new roof or building envelope. Other co-ops want to extend their leases so they can be sure they can continue to offer housing that their current residents can afford.

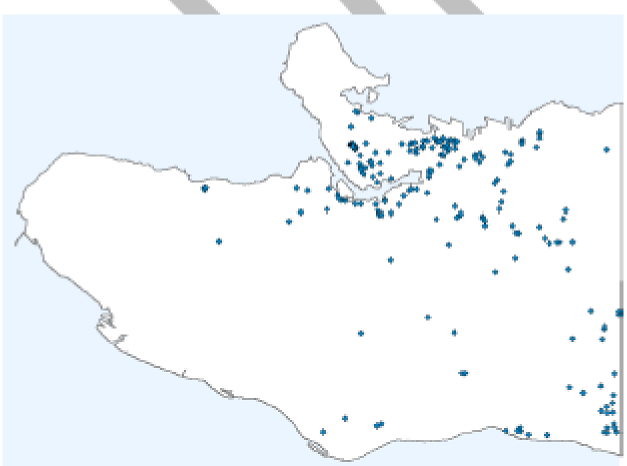
How the City can keep co-op housing costs stable and affordable

As the owner of the land, the City can help co-ops and other non-profit housing organizations to plan for the leases ending, and ensure housing costs remain stable and affordable for the people living in these developments.

Some of our options include:

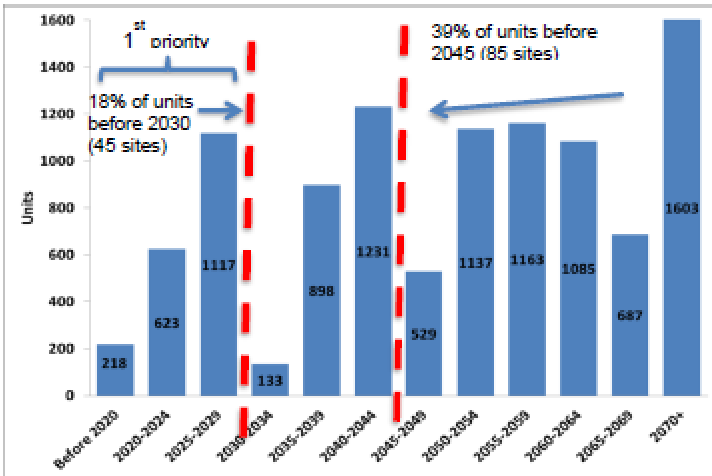
1. Extend leases at below market or nominal rent.
2. Help non-profit and co-op operators learn about building maintenance, capital endowment funds, and other ways to make their project viable over the long term.
3. Help non-profit and co-op operators begin looking at the possibility of redeveloping their sites to increase the number of units.
4. Negotiate lease terms that help projects be financially viable, while also targeting subsidized housing for the people who need it most.

Affordable Housing on City-owned Land in Vancouver



The City of Vancouver began leasing out land for non-market or non-profit housing in 1972. Since then, more than 10,000 housing units have been developed, in partnership with provincial and federal governments. Almost a quarter of the current 10,921 units are co-op housing; the rest are seniors, family or supportive housing. Of the 213 housing projects now operating on City land, the City owns and operates six projects with a total of 497 homes. Together, all the projects on City-owned land provide approximately 40 per cent of the non-market housing in Vancouver.

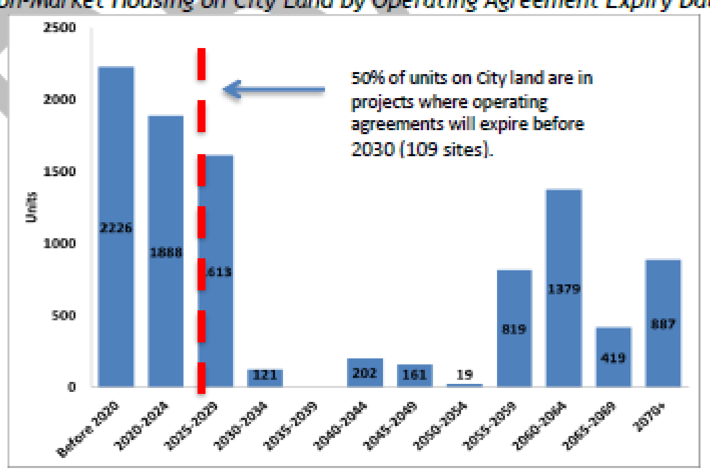
Non-Market Projects on Land Leased from the City of Vancouver



Most of our land leases began between 1973 and 1985. They range from 40 to 60 years in length; the first major wave of lease expiries will happen in the next 10 to 15 years. This graph shows the distribution of leases expiring in the coming years. Our first priority is to deal with the 45 sites where the leases expire before 2030. These sites hold 18 per cent of the individual homes on land leased from the City.

Most of the operating agreements between senior levels of government and the non-profits or co-ops will also be expiring, usually five to 15 years before the land lease expires. This means that unless the senior government extends the agreements, all subsidies within them, which helped keep rents affordable, will also end. Operating agreements with senior government will expire before 2030 for 109 projects on City lands with 5,700 housing units. This is half of the units located on City land. This graph shows the breakdown of units by when their operating agreements expire.

Non-Market Housing on City Land by Operating Agreement Expiry Date



Key things to consider for lease extension requests:

- The City recognizes that some operators who need capital loans to pay for building repairs or deferred maintenance cannot get them unless their land lease extends beyond the length of the loan they are seeking. As well, operating agreements with other levels of government, and the subsidies that are part of them, will also expire before the land leases expire.
- Operators' requests for lease extensions provide a chance for the City to discuss the state of their buildings and operating capacity with them, and to work together on a centralized tenant registry. (A central registry would make it easier for people to apply for co-op housing, and ensure that available units go to those who need them the most.)
- We will continue to invest in non-market housing as the subsidies from other levels of government expire. This might result in us charging lower or even no land rents, in order to keep unit rents affordable.
- Vancouver suffers from a shortage of family housing, especially for low-income families. Besides external factors, non-market housing availability for families is affected by the growing number of empty nesters living in larger units, waiting for smaller ones to come available.

<u>Our goals when renewing leases</u>

Goal	Objectives

Meet needs of current residents.	• Recognize the importance of existing affordable housing in Vancouver:
	    ○ Older buildings are communities within the larger community.
	    ○ Many residents have lived in the same homes for years.
	    ○ Changes to building occupancy should be achieved respectfully, through attrition and a central, co-ordinated tenant selection process that is open and transparent.
	• Work with existing households to give them options to live in appropriately priced, sized and located homes, with the ability to adjust over time as their needs change.
	• Provide certainty and security for both residents and operators.

Meet building needs for future residents.	• Maintain buildings with good long-term management strategies. • Ensure a financially sustainable future for projects on City-owned land. • Ensure any renovations and repairs improve both the building's livability and its environmental performance • Draft legal agreements based on current standards and practices.
Meet our housing objectives.	• Maintain and possibly increase affordable housing in Vancouver. • Use City-owned land to provide affordability for those who need it most, and use any net proceeds to invest in future affordable housing. • Target rental subsidies to those who need them most (through income testing and the proposed central tenant registry). • Leverage the use of City-owned lands to form partnerships with other levels of government to maximize the investment in affordable housing.

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Evaluating lease renewals

As the expiry dates for leases approach, affected operators will need to provide us with information so we can compare their situation to the three identified goals and decide on the best course of action for their projects.

Operators may need some support through the data collection, option analysis and lease negotiation process. If they're not able to provide the requested information right away, we may suggest ways for them to find it.

This chart describes some of the criteria that will be used to evaluate lease renewals.

Goal	Evaluation criteria	Description
Meet needs of current residents.	Level of affordability	• What are the incomes of existing tenants? • What percentage of their income is each household spending on rent?
	Unit occupancy	• Do any tenants need to move out of the building because they need support? • Do any tenants need to move within the building: to a smaller unit with fewer bedrooms, because they need accessible housing, or to have their unit adapted? • What is the rate of under-occupancy/ over-housing?
Meet building needs for future residents.	Building condition assessment	• What condition is the building in? • What is the expected cost and schedule for recommended maintenance and repairs? • How will maintenance and repairs make the building more livable and environmentally friendly?
	Financial sustainability * and ability to maintain/ improve affordability	• What is the project's financial position today? • How will it change after the operating agreement ends? • Are there enough reserve funds in place to ensure the project is sustainable?
Meet City housing objectives.	Redevelopment potential of the site	• What is the potential to increase the number of affordable housing units on the site, based on existing and emerging zoning and policy?
	Opportunity for partnership(s) with senior government	• What level or type of support will the project receive from other levels of government?
	Financial impact for the City	• Will the project be able to pay rent for the land after it meets its affordability goals?

*A project is considered financially sustainable if the rental income, including any secured long-term rent subsidies from senior government, can cover mortgage payments, operating costs and contributions to applicable reserves (capital replacement, operating contingency, etc.) without any additional subsidy.

City Options as Leases Approach Expiration

Option	Sample characteristics of housing project	Role for Senior Government
1. Extend Lease	• The project has low redevelopment potential. • The building is in good or fair condition. • The operator is willing to agree to the City's key terms for a new or modified lease. • The project will be financially sustainable.	In all cases: • Provide operating subsidies to keep projects viable • Provide grants to cover any cash shortfall from redevelopment • Provide financing to support building repairs or redevelopment.
2. Support continued operations under the current terms until the lease expires. • Potential alternatives when the lease expires: • Redevelop the site as non-market housing • Sell the site and use the proceeds for non-market housing • Transition to market rents • New lease with new operator	• The project has low redevelopment potential. • The building is in fair or poor condition. • The project will not be financially sustainable. • The operator is not willing to agree to key City terms, or to transition the tenant mix toward meeting the City's affordability goals (for example, gradually moving rates up to 30 per cent of resident's income).	
3. Partner with the operator to redevelop the site as non-market housing.	• The project has high redevelopment potential*. • The building is in fair or poor condition. • The operator is willing to agree to City terms for a new or modified lease. • The new building will be financially sustainable.	

*Redevelopment potential of each site will be determined on an individual basis. Sites located on major streets and currently with low density may have higher potential for redevelopment.

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The key points the City wants to discuss in lease extensions or lease modifications for existing non-profit housing projects:

A. Projects shall meet our affordability goals, by making new rentals as affordable as possible, with additional senior government support to help increase affordability.

B. Operators shall transition tenant rents to 30 per cent of their income:
   a. For existing tenants:
      i. Rents will be re-set annually at 30 percent of income for households with incomes less than the BC Housing Income Limits (HILs), unless they are on income assistance.
      ii. For households in the low end of market units that are paying less than 30 per cent of income on rent, or households not willing to disclose their income, rent will increase at the yearly rates allowed under the BC Residential Tenancy Act (currently Consumer Price Index + 2 per cent) up to 30 per cent of their household income or market rent, whichever is lower. If they are unwilling to disclose their income, their rent will increase until it reaches market rent.
   b. For new tenants:
      i. Projects shall prioritize vacancies for households earning less than BC HILs.
      ii. Projects shall set rents at 30 per cent of household income.

C. Operators shall commit to a centralized wait-list that coordinates leasing.

D. The City may perform audits or inspections of financial accounts or books at any time, at its discretion. Ongoing management of the leases will be done through our Housing Delivery and Operations Group. It will collect annual statements of tenant incomes from those not paying market rent; maintain financial statements, asset management plans and reserve funds, rent and occupancy records.

E. We will have the ability to terminate the lease early. This is so that future City Councils will be able to adapt to changing conditions during the term of the lease. For example, significant changes in senior government funding programs or neighbourhood planning policies might create the chance to significantly increase the number of affordable housing units on a site.

F. We shall approve any new or additional loans taken out by the operators. Any debt or mortgage should only be taken to finance major capital rehabilitation work, not to finance operating deficits.

G. We will have the option to terminate the lease if the operator breaches the lease terms.

H. The operator will share financial surpluses with us so we can reinvest them in the building to increase affordability or use it to invest in affordable housing initiatives.

I. Any renovation or repair of existing projects should use current environmental technology to improve the project's environmental performance.

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History of Senior Government Non-Market Housing Programs

Funding for social housing in Canada began in 1938 with the passing of the National Housing Act. The primary objective of the act at that time was to meet the housing needs of workers and families in need during the Second World War. Approximately 46,000 wartime houses were built between 1941 and 1947 to house munitions workers as well as returning veterans and their families[3].

The demand for affordable housing continued to increase throughout the war and the federal government responded in part with the establishment of the committee on Post-War Reconstruction. The committee released its final report in 1944 entitled, "Housing and Community Planning". The report outlined Canada's post-war housing and community planning needs and recommended the development of large-scale, low-cost rental housing for Canadians who were unable to afford 'decent, safe and sanitary' market rental housing[4]. This report helped to set the foundation for significant senior government investment in affordable housing projects across Canada in the 1940s, 50s and 60s.

In the early 1970s, in response to the continuing need for expansion of subsidized housing, rising costs, and "growing criticisms of public housing projects (e.g., in regard to: social exclusion; persistence of the poverty cycle; crime; vandalism; and isolation of tenants from family, friends, employment, and key services—further disadvantaging assisted households)" senior governments began to shift focus towards mixed income housing[5]. In these projects, only a portion of the households receive a rent subsidy while the balance pay a low end of market rent designed to ensure that the project can operate on a break even basis. Rent subsidies in these projects are reserved for low-income households and the extent of the subsidy is generally determined by household income. These households are commonly referred to as rent geared to income units (RGI).

Also in the 1970's, the federal government amended the National Housing Act which allowed for the creation of Co-op housing in Canada. Coupled with this was the creation of a non-profit and Co-op housing program (referred to as Section 61 Program) which provided mortgages and forgivable federal government loans to assist in the construction of housing. A second program, known as Section 95, altered the format of Co-op housing, where Co-ops administer a subsidy received from Canada Mortgage and Housing Corporation (CMHC).

The primary goal of senior government non-market housing programs has always been to provide shelter for those who would otherwise not be able to afford the costs of housing.

History of the City's Approach to Providing Leased Land for Non-Market Housing

The City's policies for leasing sites for non-market housing have evolved since 1972 when the City first began leasing sites to non-market housing Operators, with long-term mortgages to finance construction largely provided by the Canada Mortgage and Housing Corporation (CMHC). The provision of City leased land at below market rate enabled projects to deliver

[3] CMHC (2011) Canadian Housing Observer 2011. Chapter 9 – The Evolution of Social Housing in Canada. Ottawa: CMHC.
[4] *ibid*
[5] *ibid*

deeper affordability than would otherwise have been achieved. This approach was reaffirmed in the 1980s with Council approval of a policy which acknowledged the need to further reduce the cost of land beyond the reduction already achieved by providing leased land, to non-profit housing providers, in order to make developments viable. This and other policies during this period stated that City land or subsidy should be provided for permanent affordable housing and that assistance should be targeted towards those most in need (City of Vancouver Social Housing Strategy – approved by Council March 4, 1980 and Council's Policies on Write-down of City Lands – approved by Council on July 27 1982 and August 31 1982).

From 1973 to 1978, Federal non-profit and Co-operative housing programs were based on CMHC providing an Operator with a 50-year mortgage at a fixed interest rate and a Federal government loan, a portion of which was forgivable. The Operator would enter into a ground lease with the City for a typical term of 50 or 60 years and would then enter into an operating agreement with CMHC which would be in place while any part of the loan was outstanding. The ground lease would set an annual ground rent to be paid by the Operator to the City, usually set for 20 years and then reviewed every ten years, and the operating agreement would require rents for the occupants of each unit to be adjusted based on income. There are very few non-market housing projects (~15) on City land that are under the monthly ground rent model. This model is relatively labour intensive to administer and requires periodic rent review and renegotiation throughout the term of the lease, which could result in rent shock at the time when rent adjustments occur.

From 1979 to 1985, the Section 95 program managed by CMHC created Co-op housing. The Co-ops would enter into ground leases with the City for a typical term of 40 or 41 years with prepaid ground rent and operating agreements with CMHC for a term of 35 years which would provide a specified annual subsidy to the Co-op. These federal programs coupled with the City's provision of the land allowed for the creation of a significant portion of the existing Co-op and non-profit housing in the city today.

Co-op housing is a unique form of non-market housing. The residents in the Co-ops purchase a share in the building, and pay monthly housing charges to cover the expenses of the Co-op. The residents consider themselves owners (similar to a leasehold strata ownership), but in many cases have housing charges that are equivalent to BC Housing Income Limits (HILs).

Changes in Land Values and Changes to the Value of the Payment for Leases of City Land

The City's policies for leasing sites for non-market housing have evolved since 1972 when the City first began leasing instead of selling sites to non-market housing sponsors. For the south shore of False Creek and Champlain Heights, which the City developed from 1974 to 1986, the original policy was that a 60 year lease warranted a discount of a third off freehold value. This policy had to be varied in the early 1980s when land prices soared while non-market housing budgets were static with the result that the City was forced to discount some non-market housing sites by more than 50%.

When, in the mid-80s, the City began buying sites for the development of non-market housing, land prices had dropped and the full cost of the land could be recovered from the budgets set by the federal social housing programs then in place. The City adopted the policy that a 60 year lease should pay the full purchase price as prepaid rent and that a 40 year lease warranted a 25% discount from freehold value.

In 1986, the Province took over administration of the new federal/provincial social housing program, and in 1987 retained a consultant to assess the value of 40 year and 60 year leases. The consultant concluded that a 60 year lease should be valued at 75% of freehold value and a 40 year lease at 50%.

The City's policy for providing land for non-market housing has evolved in recent years and there are a number of recent examples where the City has provided land for non-market housing at nominal ground rent. The 14-supportive housing sites developed in partnership with the Province are an example of this practice. This arrangement was struck in recognition that BC Housing would finance and fund 100% of the construction costs and provide operating subsidies to sustain deep affordability and onsite support services. A similar model was applied to partnerships approved in recent years with the YWCA to develop affordable housing above the Strathcona Library and Firehall 5, as well as the Immigration Services Society and the Land Trust to develop affordable housing on City land. In these partnerships, the non-profit partners would contribute both financing and equity for the construction of the project, and in some cases, ongoing operating subsidies to fund the onsite support services.

In the case where the City has financed and constructed the non-market housing projects (e.g. Olympic Village) or received "turnkey" units in the form of community amenity contributions or inclusionary zoning policies, Operators are typically required to pay a prepaid rent to the City commensurate with the level affordability being provided in the project. The prepaid rent is typically financed through a 35-year mortgage to be repaid from future rental income. As the City has financed and funded 100% of the construction costs through City funding and/or development contributions, the prepaid rent collected from the Operator is used to offset the construction costs.

The City leases sites for non-market housing on 40, 60 or 99 year terms and currently considers prepaid rent of 50% of freehold value to be the market value of a 40 year lease, 75% of freehold value to be the market value of a 60 year lease, and 95% of freehold value to be the market value of a 99 year lease.