



IN CAMERA

ADMINISTRATIVE REPORT

Report Date: May 25, 2017
Contact: Kathleen Llewellyn-Thomas
Contact No.: 604.871.6858
RTS No.: 12065
VanRIMS No.: 08-2000-21
Meeting Date: May 30, 2017

TO: Vancouver City Council
FROM: General Manager of Community Services
SUBJECT: 946-950 Main Street Lease Terms

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*. The relevant subsection of Section 165.2(1) of the Charter, which sets out the classes of matters which may be considered in-camera, are:

(e) the acquisition, disposition or expropriation of land or improvements, if the Council considers that disclosure could reasonably be expected to harm the interests of the city; and

(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

- A. That Council authorize the General Manager of Real Estate Services and Facilities Management to negotiate and execute a ground lease (the "Lease") for City-owned property situated at 946 Main St (PID: 005-749-239, Lot 10, Block 24, District Lot 196, Plan 184) and 950 Main St (PID: 005-749-484, Lot 11, Block 24, District Lot 196, Plan 184) to Lu'Ma Native Housing Society (Lu'Ma) to enable the development of a social housing project which will provide for:
- i) a term of 60 years;
 - ii) a nominal prepaid rent;

- iii) at least one-third of social housing units must be rented at shelter component of Income Assistance for low-income households who are eligible for Income Assistance or a combination of Old Age Pension and Guaranteed Income Supplement. The target rents and affordability for the remaining two-thirds will be for one of these thirds to be up to "Housing Income Limits" or HILs, and the remaining third to be at affordable market rents;
- iv) requirement to reinvest all revenues generated from the project (both commercial/retail space and social housing) to: i) maintain and enhance housing affordability throughout the life of the project and/or ii) create or acquire net new affordable housing within the City of Vancouver;
- v) reporting requirements, including an annual rent roll and periodic building condition report;
- vi) requirement to create, implement and comply with a capital asset plan;
- vii) requirement to maintain a capital replacement reserve to be funded at a prescribed per-unit-per-month amount;
- viii) responsibility of the City for the costs of remediating existing environmental contamination at the site, as required to accommodate the proposed development;
- ix) an option in favour of the Provincial Rental Housing Corporation to assume the rights and obligation of the lessee in the event of specified defaults as contemplated by the City's Standard Lease Charge Terms for bare land leases of this kind; and,
- x) will be otherwise in accordance with the terms and conditions outlined in this report and to the satisfaction of the General Manager of Community Services, the General Manager of Real Estate and Facilities Management and the Director of Legal Services.

The lease at a nominal rent constitutes a grant and requires 8 affirmative votes of Council.

- B. THAT Council approve a multi-year capital project budget in the amount of \$3.0 million for the compensation to the Property Endowment Fund for the use of the site for social housing purposes; source of funds to be City-wide DCL's for Housing, to be added to the 2015-2018 Capital Plan. Expenditures will be managed within the current overall approved Annual Capital Expenditure Budget.
- C. THAT no legal rights or obligations will arise or be created by Council's adoption of Recommendation A or B unless and until all legal documentation has been executed and delivered by the respective parties.

REPORT SUMMARY

This report seeks Council authorization to enter into a lease agreement with Lu'Ma Native Housing Society for the development of social housing at 946-950 Main Street based on the lease terms outlined in this report.

COUNCIL AUTHORITY/PREVIOUS DECISIONS

In June 1998, the two legal lots at 946 & 950 Main St were acquired by the City of Vancouver for the purpose of development of social housing.

In July 25, 2012, City Council authorized staff to work with Vancouver Aboriginal Friendship Centre Society and BC Housing to explore preliminary designs for a permanent Aboriginal shelter with social housing above at the site ([RTS 9664](#)). Lu'Ma Native Housing Society was identified by the partners as the social housing operator for the site. Design analysis determined that an alternate location would be better suited for the shelter, but that social housing would remain a priority for this site.

On January 19, 2016, as part of the recommended actions to respond to the Metro Vancouver Aboriginal Executive Council's Aboriginal Housing and Wellness Strategy, City Council agreed in principle to the social housing project at 946-950 Main St ([RTS 11215](#)). Council directed staff to work with BC Housing and Lu'Ma Native Housing Society and to report back on the overall Project budget, funding strategy, lease terms and required legal agreements for the Project (the subject of this report).

CITY MANAGER'S/GENERAL MANAGER'S COMMENTS

The General Manager of Community Services recommends APPROVAL of the foregoing recommendations.

REPORT

Background/Context

In line with the Housing & Homelessness Strategy 2012-2021, and the emerging directions of Housing Vancouver, the City is working closely with partners across the housing sector and the development industry to advance the delivery of social and affordable housing.

A rapidly growing Aboriginal population and large proportion of low-income residents is influencing a greater need for adequate and affordable housing. As of 2011, over 50% of Aboriginal renter households were spending more than 30% or more on housing (51% in the region, 53% in Vancouver). The 2016 City of Vancouver homeless count identified 38% of the homeless population in Vancouver as Aboriginal which is disproportionately high compared to Aboriginal people comprising 2% of the total population. In the 2017 Metro Vancouver homeless count there were 746 Aboriginal people identified on the night of the count, up from 582 people in 2014. The number of Aboriginal people identified in the 2017 Metro Count represents 34% of all individuals identified as homeless on the night of the count.

The Metro Vancouver Aboriginal Executive Council's (MVAEC) report, "Towards an Urban Aboriginal Housing and Wellness Strategy for Metro Vancouver (2015-2020)" calls for 1500 units of housing to be developed in the Metro Vancouver region for Aboriginal residents. The project at 946-950 Main St is one of four sites that the City of Vancouver identified in January 2016 to respond to the MVAEC Strategy.

The project also contributes to addressing the housing targets in the Downtown Eastside Plan (2014), which identified a target of 1,400 new units of social housing to be delivered in the area during the first 10 years of the plan.

Table 1: Progress towards units in the City's Downtown Eastside Plan (inside the DTES) (to March 31, 2017)

| | TARGETS | PROJECTS | GAP |
|--------------------------------------|----------------|---|-------------------------------|
| | 10-Year (2023) | Approved, Completed, Under Construction | Above or Below 10 Year Target |
| Social Housing | 1,400 | 789 | 611 Below Target |
| Secured Market Rental Housing | 1,650 | 535 | 1,115 Below Target |

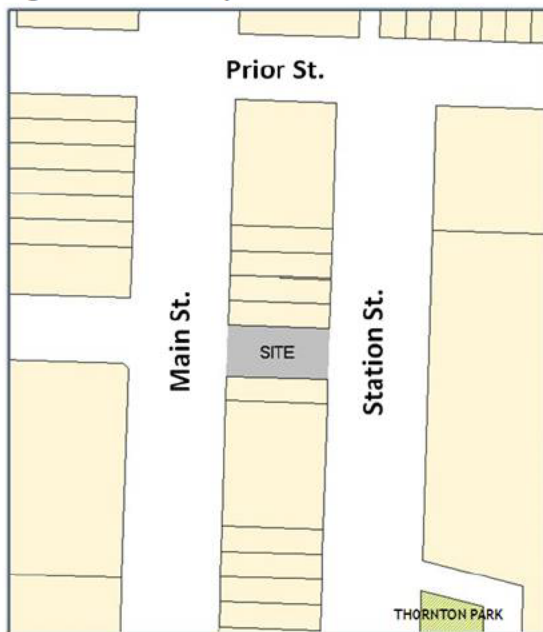
Strategic Analysis

Site and Project Description

The proposed development of the Site will be considered under the existing zoning (FC-1) and the built form policies of the Downtown Eastside Plan (Thornton Park sub-area). The existing zoning supports mixed-use development of the Site through a Development Permit process.

Immediately adjacent the site is a vacant lot to the north and an existing 3-storey SRO to the south (Thornton Park Hotel). The Thornton Park area of the DTES is a small mixed-use district flanking Main Street, south of Chinatown and the Georgia and Dunsmuir Viaducts. It is part of a larger area located east of False Creek that includes Pacific Central Station and the large urban Thornton Park. It is also situated centrally between the major planning program areas of North East False Creek, the Georgia/Dunsmuir Viaducts, False Creek Flats and St. Paul's Hospital.

Figure 1: Area Map of 946 & 950 Main Street



The consolidated site area is approximately 50' wide by 100' deep; a total area of 465 m² (5,001 ft²). The development proposal consists of the following components:

- 26 units comprised of 22 studios and 4 1-bedrooms units;
- 6 storeys of wood frame construction with a height of 60ft and gross floor area of 22,445 sq ft;
- 1 level underground for bicycle parking and storage lockers.

On April 19 2017, a development permit application ([DP-2017-00441](#)) was submitted by Patrick R Stewart Architect and Terra Housing Consultants Inc on behalf of Lu'Ma Native Housing Society. Urban Design Panel review is set for May 31, 2017 and Development Permit Board review is scheduled for July 24, 2017. Lu'Ma is working with its consulting team to bring the project forward to building permit issuance, with construction anticipated to begin by September/October 2017 and possible excavation at an earlier date. It is expected that the building will be completed by Spring 2019.

Environmental

As detailed in the Jan 19, 2016 report to council, the site requires remediation in order to satisfy regulatory requirements of the Ministry of Environment (MOE). As such, further testing is required on site before a complete, detailed remediation plan can be finalized and a request for release of the site submitted to the Ministry of Environment. Environmental Services Division staff have been working to coordinate remediation in alignment with Lu'Ma's site excavation plan and project schedule.

s.17(1)

s.17(1)

To the extent feasible, the environmental remediation will occur in conjunction with the site excavation, in accordance with the site excavation plan. s.17(1)

s.17(1)

s.17(1)

The current estimate for the cost of environmental remediation is \$320,000, to be funded by the Property Endowment Fund.

Affordability

Affordability requirements will be set out in the Lease, reflecting minimum requirements that Lu'ma must meet throughout the 60 year lease term. These requirements will be based on the definition of social housing in the Downtown Eastside Plan which states that: "at least one third of new social housing units must be rented at shelter component of Income Assistance for low-income households who are eligible for Income Assistance or a combination of Old Age Pension and Guaranteed Income Supplement. The target rents and affordability for the remaining two-thirds will be for one of these thirds to be up to "Housing Income Limits" or HILs, and the remaining third to be at affordable market rents."

While the lease will secure the base affordability requirements, the Society anticipates achieving a significantly lower rent structure than required for the two thirds of units that are not at shelter rate.

Table 1: Lu'ma Target Rents for 950 Main Street

| Rent Category | Targeted Average Rent |
|-----------------------|-----------------------|
| Shelter | \$375 |
| Housing Income Limits | \$650 |
| Low End of Market | \$875 |

Further, any opportunity through additional operational subsidies, rent supplements, operating surpluses, or other means will be considered by the Society in order to deepen the level of affordability over time.

The affordability and ongoing reporting requirements will be outlined in the lease.

Tenant Selection

The social housing units are intended to focus on addressing the housing needs of Aboriginal persons that are homeless or at-risk of homelessness. Lu'Ma will ensure that

this target population is prioritized through the tenant selection process. Lu'Ma will be responsible for tenant selection either through the Housing Registry (administered by BC Housing), their own waitlists, or by an alternate source supported by the City. It is expected that a minimum of one-third of the social housing units in the Project are targeted to assist with the flow of clients from the VAFCS shelter (as outlined in the Jan 19, 2016 council report).

Commercial/Retail Space

Lu'Ma intends to integrate commercial/retail uses on the ground floor, which is to be accessible from Main Street. Lu'Ma will fund the capital construction of the commercial space and be responsible for operating or selecting tenants to operate the space. Lu'Ma is currently exploring a Health Office that they will manage. The Society will keep the City informed and on the vision for and design of this space.

It is intended that any profit derived from the Lease or operation of the commercial/retail space will be used to: (i) maintain and enhance housing affordability throughout the life of the project and/or; or (ii) create or acquire net new, affordable housing within the City of Vancouver.

Ground Lease to Lu'Ma Native Housing Society


Lu'Ma Native Housing Society is a well-established non-profit social service organization with over 35 years of experience and knowledge in operating and managing low income rental housing for urban Aboriginal singles, seniors, and families. Lu'Ma has a strong mandate to address homelessness in the Aboriginal community, including serving as the community entity for the Federal Homelessness Partnership Secretariat initiative. Lu'Ma offers additional health and wellness support services for Aboriginal singles and families within their housing and to the broader community including the Lu'Ma Medical Centre and the Aboriginal Patients' Lodge.

It is expected that Lu'Ma will enter into a 60-year ground lease with the City of Vancouver for a nominal fee (\$10.00). A nominal lease constitutes a grant from the City that is to be valued at 75% of the current market value of the land as determined by the Director of Real Estate Services. The Lands will be leased to Lu'Ma in accordance with the standard terms and conditions for long-term leases of City land for Social Housing.

It is further expected that Lu'Ma will enter into an Operating Agreement with BC Housing and to manage and operate the social housing project. It is not anticipated that an operating agreement between Lu'Ma and the City would be required for this project. Staff anticipate that the City's interests can be secured solely through the lease, and that, with the reporting requirements of the lease and BC Housing's Operating Agreement, this will be sufficient to provide oversight on the long-term operations and management of the building.

Lease Terms

The City's Standard Charge Terms are proposed to be included with the lease for this site, as per standard City practice for Social Housing. The other terms for this lease will provide for:

- a term of 60 years;
- a nominal prepaid rent;
- at least one-third one third of social housing units must be rented at shelter component of Income Assistance for low-income households who are eligible for Income Assistance or a combination of Old Age Pension and Guaranteed Income Supplement. The target rents and affordability for the remaining two-thirds will be for one of these thirds to be up to "Housing Income Limits" or HILs, and the remaining third to be at affordable market rents;
- requirement to reinvest all revenues generated from the project (both commercial/retail space and social housing) to: (i) maintain and enhance housing affordability throughout the life of the project and/or (ii) create or acquire net new affordable housing within the City of Vancouver;
- reporting requirements, including an annual rent roll and periodic building condition report;
- requirement to create, implement and comply with a capital asset plan;
- requirement to maintain a capital replacement reserve to be funded at a prescribed per-unit-per-month amount;
- s.17(1) 
- an option in favour of the Provincial Rental Housing Corporation to assume the rights and obligation of the lessee in the event of specified defaults as contemplated by the City's Standard Lease Charge Terms for bare land leases of this kind.

Financial

Capital

The typical funding model for social housing projects entails leasing City land to housing partners at below market or nominal rent for 60 years or longer, who will design, build, finance, operate and maintain the housing project at prescribed affordability over the lease term. Depending on the target affordability, the project will likely require additional equity contributions from senior governments, foundations and charities. The project will not be able to proceed without confirmation of all funding partners.

The following table summarizes the overall project capital costs and funding sources:

| Estimated Development Costs | |
|-----------------------------|-----------------------|
| Land | \$3.0 million |
| Development | \$7.6 million |
| Total | \$10.6 million |

| Source of Funds | |
|--------------------------------------|-----------------------|
| COV Lease (Land) | \$3.0 million |
| BC Housing Grant | \$4.6 million |
| Homelessness Partnership Secretariat | \$0.8 million |
| Streettohome Grant | \$0.3 million |
| Other | \$0.5 million |
| Mortgage Financing | \$1.4 million |
| Total | \$10.6 million |

In the opinion of the Director of Real Estate Services, the fair market (freehold) value for the site is estimated to be \$4 million and a 60-year lease is priced at 75% of the freehold value. As such, the City's overall contribution, the grant of nominal land lease of \$3 million (value of a clean site), equates to approximately 28% of the overall project capital cost or \$115k per unit. In addition, the social housing component of the project will be exempt from Development Cost Levies, which is estimated to be approximately \$211,000 based on the square footage as submitted in the development permit application. The commercial component will not be exempt from DCLs.

The site was originally acquired through the PEF. As such, the compensation to the PEF for the use of the site for City social housing purposes is \$3 million via a multi-year capital project budget; source of funds to be City-wide DCL's for Housing, to be added to the 2015-2018 Capital Plan.

Expenditure for environmental remediation of approximately \$0.32 million is not included in the above land lease value. The City (PEF) carries the obligation to remediate the site; source of funding to be the PEF Capital Budget. Funding of \$150K is included in the approved 2017 PEF capital budget, and the remaining funding requirement of \$170K will be brought forward through the 2018 PEF capital budget, for approval by Council in December 2017.

Operating

Consistent with Council policies, all affordable housing projects are expected to be self-sustaining over the long-term where rents are set at levels that will cover mortgage payments (to repay some or all of the construction costs), operating costs and capital replacement; and do not require further operating subsidies, property tax exemptions, and/or financial guarantees from the City.

Lu'Ma Native Housing Society's preliminary proforma indicates that the housing project will be financially sustainable while achieving the affordability target over the term of the project. All revenues generated from the project (both commercial/retail

space and social housing) are required to be reinvested to: (i) maintain and enhance housing affordability throughout the life of the project and/or (ii) create or acquire net new affordable housing within the City of Vancouver.

This innovative approach leverages the City's land with investments from not-for-profit, charities and senior government to deliver a self-sustaining affordable housing legacy.

CONCLUSION

Staff recommend Council approval of the proposed lease terms and authorization to enter into a lease agreement with Lu'Ma Native Housing Society as non-profit partner to build and operate social housing at the City-owned 946-950 Main St site.

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