



## ADMINISTRATIVE REPORT

Report Date: June 1, 2017  
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Meeting Date: June 13, 2017

TO: Vancouver City Council  
FROM: General Manager of Community Services  
SUBJECT: 3175 Riverwalk Avenue (Parcel 8A) Operator Selection & 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 approve SUCCESS Affordable Housing Society ("SUCCESS") as the selected non-profit partner to build and operate social housing on the City-owned site located at 3175 Riverwalk Avenue (Lot 12 Blocks 9, 10 and 17 District Lot 330 Group 1 New Westminster District Plan EPP 23174) (the "Property").
- B. That Council authorize the General Manager of Real Estate Services and Facilities Management to negotiate and execute a ground lease, (the "Lease") for the Property with SUCCESS to enable the development of a non-market housing project which ground lease will provide for:

- i) a term of 60 years;
- ii) a nominal prepaid rent;
- iii) 70% to 100% of housing units in the building renting to households with incomes below the BC Housing Income Limits at a rent that comprises no more than 30% of gross household income or such other lower percentage of housing units rented to such households as the General Manager of Community Services may determine is necessary prior to occupancy to ensure the financial viability of the project;
- iv) reporting requirements, including an annual rent roll and building condition report;
- v) the creation of, implementation of and compliance with a capital asset plan;
- vi) a requirement to maintain a capital replacement reserve at a level of funding approved by the City;
- vii) 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
- viii) a requirement to reinvest all revenues generated from the project 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;

and which will otherwise be 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, the Director of Finance, and the Director of Legal Services.

The lease at a nominal rent constitutes a grant valued at \$8.25 million and requires 8 affirmative votes of Council.

- C. THAT no legal rights or obligations will arise or be created by Council's adoption of Recommendations A and B unless and until all legal documentation has been executed and delivered by the respective parties.

### ***REPORT SUMMARY***

This report seeks Council approval to appoint SUCCESS as non-profit partner to build and operate social housing at the City owned 3175 Riverwalk Ave site and authorization to enter into lease agreement with SUCCESS based on the lease terms outlined in this report.

### ***COUNCIL AUTHORITY/PREVIOUS DECISIONS***

The East Fraser Lands Official Development Plan (adopted in 2006, amended in 2016) provides for the delivery of 20% of total residential units as affordable housing.

It is Council policy to lease City-owned land to non-profit societies or co-operative associations for the purpose of providing affordable housing. A 60 year lease is valued at 75% of freehold market value.

In 2014, Vancouver City Council, acting on recommendations from the Mayor's Task Force on Housing Affordability (VAHA), approved the creation of the Housing Agency. The Housing Agency's mandate is to expedite the delivery of diverse housing options within the City of Vancouver.

On May 26, 2015 Council designated the site for which the City had an option to purchase at 3175 Riverwalk Avenue (Parcel 8A) to VAHA for the purpose of developing affordable housing.

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

The General Managers of Community Services and the General Manager of Real Estate and Facilities Management recommend APPROVAL of the foregoing recommendations.

### ***REPORT***

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

East Fraser Lands (EFL) is located in the southeast corner of Vancouver on the Fraser River, and comprises approximately 52 hectares (128 acres) of land area. Planning has been underway since 2002 following closure of the White Pines Sawmill. The EFL ODP, approved in 2006, includes approximately 7.7 million sq. ft. of development, including housing, shops and services, a network of parks and plazas, four childcare centres, two school sites and a community centre.

The EFL ODP also requires that 20% of the dwelling units in EFL be for affordable housing. Through the ODP, the CD-1 rezonings and subsequent legal agreements, the City has the option to purchase designated land parcels (the "Option Sites") from Wesgroup Properties at \$35 per buildable square foot (2006\$ to be adjusted for inflation) to deliver affordable housing. The subject site (3175 Riverwalk Avenue, also known as Parcel 8A in the EFL ODP), is the first of the Option Sites to proceed with development.

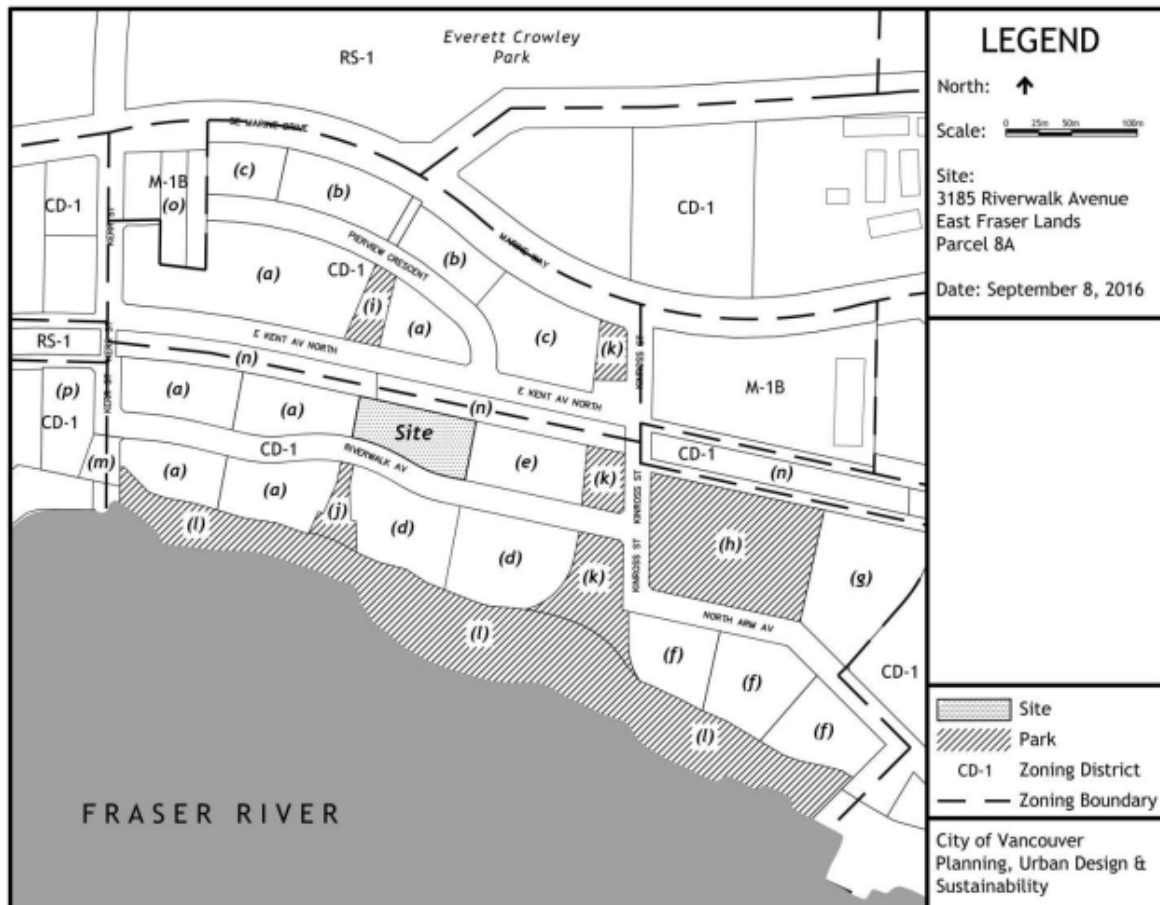
Given the anticipated development revenues in the ODP area, it was contemplated that delivery of affordable housing would require significant senior government contributions in addition to the City's land contribution. The creation of the Vancouver Affordable Housing Agency (VAHA), together with the recent provincial investments in affordable housing, has created an opportunity to advance the delivery of affordable housing on the first of the Option Sites in EFL.

#### ***Strategic Analysis***

##### **Site and Project Description:**

The immediate context of the site is characterized by a mix of existing developments, developments under construction and undeveloped parcels. Existing and future developments

around the site consist of apartments and townhouses ranging from 3 to 11 storeys. The site is in the second row of development north of the riverfront.



The Site area is 3609 m<sup>2</sup> (38,848 sf). The development proposal consists of the following components:

- 109 units comprised of 7 studios, 30 - 1 BR, 48 - 2 BR, 24 - 3 BR (66% family units);
- 5 storeys of wood frame construction with a gross floor area of 90,829 square feet;
- 1 level of underground parking for 80 spaces; and,
- Storage for 137 bicycles.

VAHA is working with Wesgroup to bring the project forward to building permit issuance, with construction anticipated to begin in the Summer of 2017. It is expected that the building will be completed by January 2019.

### *Affordability*

The EFL ODP requires that a minimum of 30% of units rent to households with incomes below the Housing Income Limits (HILs) as determined by BC Housing. Council has also directed staff to pursue and enhanced development permit process in EFL, with more detailed review of financial information than is typical in a development permit process, to ensure the

affordability levels achieved on the Option Sites is maximized. The intent is to achieve this affordability through VAHA's efforts to engage partners and other investors throughout the development process.

In 2016, BC Housing issued a Request for Expressions of Interest (EOI) under the Investment in Housing Innovation Program (IHI). VAHA submitted proposals to BC Housing for several social housing development projects in Vancouver. The project located at 3185 Riverwalk Avenue was one of the projects selected by BC Housing. As of February 8, 2017, this project has received Provisional Project Approval from BC Housing's Executive Committee.

With BC Housing's funding, this project will deliver a significantly deeper level of affordability than the base ODP requirement. Consistent with a condition approved by the Development Permit Board, it is anticipated that a minimum of 70% and an objective of 100% of the dwelling units will be rented to households with incomes below the HILs, rather than the minimum 30% of units below the HILs. Rents will be set at no more than 30% of household income for those households. Achieving the objective of 100% of rents at or below HILs level rents is subject to the successful conclusion of discussions underway regarding project financial arrangements, and is subject, in part to holding construction costs to currently budgeted levels at the time the fixed price contract is signed. The lease terms, if approved, will secure a minimum of 70% of the units below the HILs or, if necessary, a lower percentage required for the project to be financially viable, as determined by the General Manager of Community Services prior to occupancy, and subject to agreement by BC Housing and the SUCCESS board.

#### *Selection of SUCCESS as Operator and Ground Lease to SUCCESS*

BC Housing and the Vancouver Affordable Housing Agency (VAHA) jointly issued a Request for Proposals (RFP) to select a Non Profit Operator (NPO) for the social housing project located at 3175 Riverwalk Avenue. The RFP was tendered by BC Housing on the MERX website, Canada's leading electronic tendering service for public and private sector business opportunities in Canada.

The RFP was issued November 7, 2016 and closed on December 28, 2016. A joint evaluation team comprised of BC Housing, VAHA and City Housing staff reviewed the proposals and SUCCESS was selected as the successful Proponent.

SUCCESS is a well-established, non-profit, social service organization with the experience and knowledge in operating and managing low income rental housing for singles, seniors, and families. SUCCESS is on the Council approved list of non-market housing sponsors.

It is expected that SUCCESS will enter into a 60 year ground lease with the City of Vancouver for a nominal fee (\$10.00). Consistent with the East Fraser Lands Official Development Plan and with Council policy lease sites for non-market housing projects, the Lands will be leased to SUCCESS in accordance with the standard terms and conditions agreed to between the City and BC Housing for long-term leases of City land for Social Housing.

It is further expected that SUCCESS will enter into an Operating Agreement with BC Housing to manage and operate the social housing project.

### *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;
- 70% to 100% of housing units in the building renting to households with incomes below the BC Housing Income Limits at a rent that comprises no more than 30% of gross household income or such other lower percentage of housing units rented to such households as the General Manager of Community Services may determine is necessary prior to occupancy to ensure the financial viability of the project;
- reporting requirements, including an annual rent roll and building condition report;
- the creation of, implementation of and compliance with a capital asset plan;
- a requirement to maintain a capital replacement reserve at a level of funding approved by the City;
- 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
- a requirement to reinvest all revenues generated from the project 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;

### *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:

<b>Estimated Development Costs</b>	
Land lease (60 years)	\$8.25 million
Development	\$25.50 million
<b>Total</b>	<b>\$33.75 million</b>
<b>Source of Funds</b>	
City of Vancouver (60 year nominal lease)	\$8.25 million
BC Housing Grant	\$9.00 million
Mortgage financing	\$16.50 million
<b>Total</b>	<b>\$33.75 million</b>

In the opinion of the Director of Real Estate Services, the fair market (freehold) value for the site is estimated to be \$11 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 \$8.25 million, equates to approximately 24% of the overall project capital cost or \$76k per unit. In addition, as social housing, the project will be exempt from Development Cost Levies, which is estimated to be approximately \$1.2 million based on the square footage as submitted in the development permit application.

### *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.

The SUCCESS pro forma indicates that the housing project will be financially sustainable while achieving the affordability target over the term of the project.

Additional discussion is to occur between the City and SUCCESS to clarify the calculation and allocation of any operating surplus, arising from the project such that all revenues generated from the project 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 SUCCESS as non-profit partner to build and operate social housing at the City owned 3175 Riverwalk Ave site, and authorize staff to enter into lease) with SUCCESS consistent with the terms described in this report.

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