



ADMINISTRATIVE REPORT

Report Date: May 22, 2018
Contact: Luke Harrison
Contact No.: 604.829.4259
RTS No.: 12466
VanRIMS No.: 08-2000-20
Meeting Date: July 10, 2018

TO: Vancouver City Council

FROM: Director / Chief Executive Officer, Vancouver Affordable Housing Agency Ltd. ("VAHA")

SUBJECT: 55-79 and 87-115 Southwest Marine Drive Lease and Operator Selection

RECOMMENDATION

- A. THAT Council approve New Chelsea Society ("New Chelsea") as the selected non-profit partner to finance, build, operate and maintain the 102 unit social housing project on the City-owned sites located at:
- i) 75 SW Marine Drive (formerly 55-79 SW Marine Drive); PID: 030-401-551, Lot 2, Block 5, District Lot 322, Group 1, New Westminster District, Plan EPP79650); and
 - ii) 95 SW Marine Drive (formerly 87-115 SW Marine Drive); PID: 030-401-640, Lot 1, Blocks 6 & 7, District Lot 322, Group 1, New Westminster District, Plan EPP79270) (the "Properties");
- B. THAT Council authorize the CEO of VAHA to negotiate and execute a ground lease (the "Lease") for the Properties with New Chelsea 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) a minimum of 30% of social housing units, across unit types, in the buildings must be rented to households with incomes below the BC Housing Income Limits at a rent that comprises no more than 30% of gross monthly household income;
 - iv) reporting requirements, including an annual rent roll and periodic building condition report;
 - v) a requirement to create, implement and comply with a capital asset plan;

- vi) a requirement to maintain a capital replacement reserve at a level of funding approved by the City;
- vii) a requirement to seek approval from the City for reinvestment of surplus generated from the project, which may include, but not limited to: i) supplement the operating contingency and/or capital replacement reserves, and/or ii) maintain or enhance housing affordability onsite or offsite within Vancouver, and/or iii) surplus sharing with the City; and
- viii) which will otherwise be in accordance with the terms and conditions outlined in this report and to the satisfaction of the General Manager of Arts, Culture and 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 \$19.39 million and requires 8 affirmative votes of Council.

- C. THAT Council's decision to commence negotiations and execute the Lease will not, in any way, limit Council or the City and its officials (including the Approving Officer) in exercising their regulatory discretion in respect of any rezoning, subdivision or consolidation or permitting of or for the Properties; and
- D. 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 approve New Chelsea as the non-profit partner to finance, build, operate and maintain the social housing project at the City owned sites addressed as 75 and 95 SW Marine Drive and authorization to enter into lease agreement with New Chelsea based on the lease terms outlined in this report.

COUNCIL AUTHORITY/PREVIOUS DECISIONS

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

Council approved the acquisition of the Properties on November 26, 2014, for the future development of affordable rental housing, funded by Community Amenity Contributions collected in the Cambie Corridor area for market rental housing. On May 26, 2015, Council designated the sites to VAHA for the purpose of developing affordable housing.

On March 8, 2016, Council was updated on the selection of VanMar Constructors Inc., CPA Development Consultants and GBL Architects as the successful proponent of the Request for Qualifications to select a development partner to develop the affordable rental housing project at SW Marine Drive.

On Dec 12, 2017, following public hearing, Council approved rezoning of the Properties to allow for the development of the proposed projects. This application is one of the sites being processed through the City's new pilot affordable housing priority process, SHORT (social housing or rental tenure), which prioritizes and expedites affordable housing through the development process

A 60-year lease is valued at 75% of freehold market value.

CITY MANAGER'S/GENERAL MANAGER'S COMMENTS

The City Manager, the Director of Finance, the General Manager of Arts, Culture and Community Services and the General Manager of Real Estate and Facilities Management recommend APPROVAL of the foregoing recommendations.

REPORT

Background/Context

In line with the Housing Vancouver Strategy (2017), the City is working closely with partners across the housing sector and the development industry to advance the delivery of social and affordable housing. This project will contribute towards the Strategy's target of 12,000 social and supportive housing units.

This project also contributes to addressing the housing targets in the Marpole Plan (2014) by providing housing that is suitable for singles, seniors, and families. Over fifty percent of the units are to include 2- or 3-bedrooms, and five percent will be housing that is accessible for people with disabilities. The project is proposed as two 6-storey social housing projects containing a total of 102 dwelling units over one level of underground parking.

In 2015, VAHA issued a Request for Proposals (RFP) to select a development partner to commence the design and rezoning process to develop an affordable rental housing project on the Properties. The selected proponent team is comprised of VanMar Constructors Inc. ("VanMar"), CPA Development Consultants ("CPA"), and GBL Architects.

On April 14, 2016, BC Housing issued an Expression of Interest (EOI) – Provincial Investment in Affordable Housing (PIAH) for the creation of new affordable rental housing units for low to moderate households within the province of B.C. The EOI closed June 15, 2016, and the SW Marine Drive sites were not selected for funding.

Following this, VanMar and CPA contacted several non-profit housing societies to determine if there were any organizations interested in and with the capacity to become the operating partner for this project. Through those discussions, New Chelsea was identified and indicated a strong interest in being the long-term operating partner and leaseholder for the Properties. Following a period of due diligence by staff on New Chelsea's capacity and ability to undertake this project, New Chelsea's involvement was ratified by the VAHA Oversight Committee. With New Chelsea's involvement, VAHA again approached BC Housing to seek project support and BC Housing indicated a potential funding contribution of \$6 million towards the project, subject to their Executive Committee approval, with the possibility that additional funding could be considered once program funding was confirmed.

BC Housing has since issued a Request for Proposal (RFP) for new rental housing units under the Building BC: Community Housing Fund (CHF) on April 18, 2018, closing September 17, 2018. BC Housing has requested that New Chelsea submit a proposal under this RFP to formalize the funding request.

Strategic Analysis

Site and Project Description:

The Properties front the north side of SW Marine Drive, between Manitoba and Ontario Streets, with a lane to the rear. The Properties were previously comprised of eight lots, which have now been consolidated into two legal parcels for development. The site area at 75 SW Marine Drive totals 1640 m² (17,652.8 square feet) and the site area at 95 SW Marine Drive totals 1580 m² (17,007 square feet), for a total of 3220 m² (34,659.8 square feet). The Properties are currently occupied by single family houses and are situated close to transit, including the Canada Line station at Cambie & Marine Drive.

The Properties were zoned RS-1 and required rezoning to CD-1 to accommodate the proposed development. To the north, are RM-8 zoned properties, to the south, across Marine Drive, are I-2 sites and one CD-1 site with a large scale retail store. The proposed development has received rezoning approval to CD-1 under the Marpole Plan which permits residential uses up to 6 storeys and 2.5 FSR. Council approved rezoning for the Properties on December 12, 2017, (RTS12243, RTS12244) and CD-1 enactment conditions are currently being addressed.

The development proposal (the “Project”) consists of the following components:

- 2 - 6 storey buildings of primarily wood frame construction with a gross floor area of 84,776 square feet;
- 102 units containing 10 studios, 37 – 1 BR, 36 – 2 BR, 19 – 3 BR (54% family units)
- 5% of the units are accessible units;
- 1 level of underground parking for 60 spaces; and
- Secured, bicycle storage.

VAHA is working with VanMar Constructors to bring the Project forward to building permit issuance, with construction anticipated to begin Spring 2019 and building completion by Fall 2020, all subject to funding and financing being secured.

Affordability

Affordability targets reflecting the minimum requirements that New Chelsea must meet will be set out in the lease. Social housing requires that a minimum of 30% of units rent to households with incomes below the Housing Income Limits (HILs) as published by BC Housing. These households will be charged a rent that comprises no more than 30% of gross monthly household income. The balance of the units are expected to be offered at Low End of Market Rents as more fully described in Table 1. Over the term of the lease, any changes to the affordability targets will be subject to approval by the City. BC Housing has indicated support for the project and has indicated potential funding contribution of \$6 million, subject to their Executive Committee approval, with the opportunity to access additional funding through submission to the CHF Program RFP.

Based on the rezoning conditions and lease discussions to date, the City's minimum affordability targets are shown in the Table 1.

Table 1: Anticipated Maximum Monthly Rents for 55-79 and 87-115 SW Marine Drive

Unit Type	Housing Income Limits Maximum Rents (2018)*	Low End of Market (LEM) Target Rents**
Studio	\$1,038	\$1,170
1 Bedroom	\$1,200	\$1,575
2 Bedroom	\$1,450	\$2,115
3 Bedroom	\$1,700	\$2,610

* Housing Income Limits (HILs) as per BC Housing (2018): (<https://www.bchousing.org/publications/2018-Housing-Income-Limits-HILs.pdf>) Households occupying a HILs unit will be charged a rent that is at or below the corresponding maximum HILs rent by unit type.

** 90% of market rental rates based on a preliminary market estimate, subject to market rent study.

Family and non-Family moderate income units will be capped at 30% of BC Housing Moderate Income Limit as per definition within lease agreement as outlined below:

- a. For residential units with less than two (2) bedrooms, a gross household income that does not exceed the median income for families without children in B.C., as determined by BC Housing from time to time based on data provided by Statistics Canada. For 2018, this figure is \$71,200.
- b. For residential units with two (2) or more bedrooms, a gross household income that does not exceed the median income for families with children in B.C., as determined by BC Housing from time to time based on data provided by Statistics Canada. For 2018, this figure is \$104,440.

The City, BC Housing and New Chelsea will work together to finalize the project's affordability targets and required capital grant from BC Housing to ensure that the project remains financially viable.

Selection of New Chelsea as Operator and Ground Lease to New Chelsea

New Chelsea Society is a registered charity and non-profit Society, founded in 1952 by a joint venture of Branches of the Royal Canadian Legion in the Vancouver area to provide low-cost housing for veterans and their spouses and widows. Today, the Society provides low-cost housing to seniors, low-income families and persons with disabilities. They own and operate 19 properties in Vancouver, North Vancouver, Burnaby, Port Coquitlam and Surrey.

New Chelsea is a well-established, social service organization with the experience and knowledge in operating and managing low income rental housing for singles, seniors, and families. The Society is in good standing with the Province of B.C. under the Society Act. New Chelsea has submitted a comprehensive proposal for the operation of the buildings and selection of New Chelsea Society has been ratified by the VAHA Oversight Committee.

Lease Terms

Should capital contribution from BC Housing be approved and all required funding and financing be secured, it is expected that New Chelsea will enter into a 60-year ground lease with the City a nominal fee (\$10.00). Consistent with Council policy for ground leases to non-market housing operators, the Properties will be leased to New Chelsea in accordance with the City's standard terms and conditions for long-term leases of City land for Social Housing, including:

- a term of 60 years;
- a nominal prepaid rent;
- a minimum of 30% of social housing units, across unit types, in the buildings must be rented to households with incomes below the BC Housing Income Limits at a rent that comprises no more than 30% of gross monthly household income;
- reporting requirements, including an annual rent roll and periodic building condition report;
- a requirement to create, implement and comply with a capital asset plan;
- a requirement to maintain a capital replacement reserve at a level of funding approved by the City;
- a requirement to seek approval from the City for reinvestment of surplus generated from the project, which may include, but not limited to: i) supplement the operating contingency and/or capital replacement reserves, and/or ii) maintain or enhance housing affordability onsite or offsite within Vancouver, and/or iii) surplus sharing with the City; 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 Arts, Culture and Community Services, the General Manager of Real Estate and Facilities Management, the Director of Finance, and the Director of Legal Services.

Public/Civic Agency Input

BC Housing has indicated support for the project and a potential funding contribution of \$6 million, subject to their Executive Committee approval, with the opportunity to access additional funding through submission to the CHF Program RFP. New Chelsea expects to submit a funding proposal to BC Housing under the current RFP - CHF, closing September 17, 2018.

Implications/Related Issues/Risk

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. Partners are responsible to design, build, finance, operate and maintain the housing project at prescribed affordability levels over the lease term. Depending on the target affordability, these projects will likely require additional equity contributions from senior governments, foundations and charities. This project will not be able to proceed without confirmation of all funding partners and financing arrangements.

The following table summarizes the overall project capital costs and funding requirements to deliver the target affordability of having 30% of the units at or below HILs:

Estimated Development Costs	
Land lease (60 years)	\$19.4 million
Development	<u>\$34.3 million</u>
Total	<u>\$53.7 million</u>
 Source of Funds	
City of Vancouver (60 year nominal lease)	\$19.4 million
Equity requirement	\$11.5 million
Mortgage financing	<u>\$22.8 million</u>
Total	<u>\$53.7 million</u>

The fair market (freehold) value for the site is estimated to be \$25.85 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 \$19.39 million, equates to approximately 36% of the overall project capital cost or \$190,000 per unit. In addition, as social housing, the project will be exempt from Development Cost Levies, which is estimated to be approximately \$1.3 million based on the square footage as submitted in the development permit application.

Lease execution is contingent on New Chelsea having secured all required funding and financing to deliver a viable project over the term of the lease at target affordability of having 30% of the units at or below HILs. In addition, New Chelsea will provide an updated pro-forma which reflects project costs (capital and operating), financing rates and rent levels that demonstrate project viability.

Operating

Consistent with Council policies, all affordable housing projects are expected to be self-sustaining over the life of the project 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 current pro forma indicates that at least \$11.5 million of upfront equity is required to make the housing project financially sustainable while achieving the affordability target over the term of the project. The lease will include conditions that address the allocation of any operating surplus arising from the project.

This innovative approach leverages the City's land to achieve partnership with a non-profit, a development team, and the senior government to deliver a self-sustaining affordable housing legacy.

Environmental

The City has undertaken environmental investigations and contamination is not anticipated to be present on the Properties. However, should contamination, as defined by the *Environmental Management Act* (EMA), be unexpectedly encountered during the completion of the work, New Chelsea shall immediately inform the City. The City will be responsible for any incremental costs associated with the management of contamination

in accordance with the EMA The City would also be responsible for the removal of any underground storage tanks and associated contamination should such be encountered.

CONCLUSION

The City Manager, the Director of Finance, General Manager of Arts, Culture and Community Services, and the General Manager of Real Estate and Facilities Management recommend Council approve Recommendations A through D and authorize staff to enter into a lease with New Chelsea consistent with the terms described in this report.

* * * * *