



## ADMINISTRATIVE REPORT

Report Date: July 16, 2018  
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Meeting Date: July 24, 2018

TO: Vancouver City Council

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

SUBJECT: 2221-2235 Main Street Lease and Operator Selection

### **RECOMMENDATION**

- A. THAT Council approve Catalyst Community Developments Society ("Catalyst") as the selected non-profit partner to finance, build, operate and maintain the social housing project on the City-owned site located at:
- 2221-2235 Main Street [Lot 6; Lot 7, except the south 6.44 feet; Amended Lot 8 (See 124528L); Lot 9; Lot 10; and Lot 11, all of Block 37, District Lot 200A, Plan 197; PIDs: 013-420- 283; 013-420-305; 005-173-019; 005-173-027; 005-173-043 and 005-173-051, respectively (the "Property");
- B. THAT Council authorize the Director/Chief Executive Officer of VAHA to negotiate and execute a ground lease (the "Lease") for the Property with Catalyst 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 units must be rented below market, as follows:
    - a. rents may not exceed 30% of the Housing Income Limits (HILs);
    - b. occupants' household income may not exceed HILs by more than 20 percent; and,
    - c. average rent payments may not exceed 30% of occupant income, measured each three years across all 44 affordable units;

- iv. the remaining 70% of units must be rented at no more than 10% below DCL rents;
- v. the average rent across all units combined must be no greater than 80% of the rents for for-profit affordable rental housing in the Vancouver Development Cost Levy By-Law;
- vi. reporting requirements, including an annual rent roll and a periodic building condition report;
- vii. a requirement to create, implement and comply with a capital asset plan;
- viii. a requirement to maintain a capital replacement reserve at a level of funding determined by an independent third party consultant with relevant expertise and approved by the City;
- ix. a requirement that operating surplus generated from the project:
  - a. first, be used to create and maintain a reserve for the purpose of subsidizing the rent of HILs units as required to meet affordability requirements of the lease; and
  - b. second, be divided equally with the City with Catalyst's portion to be used to increase the affordability of HILs units in the building or increase the number of HILs units, or create or acquire net new, social housing within Vancouver; and,
- x. which will otherwise be on terms and conditions satisfactory to 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 \$16.85 million and requires eight (8) affirmative votes of Council.

- C. THAT Council authorize the Director of Real Estate to enter into a sublease between Catalyst as landlord and the City as tenant of the replacement parking facility component of the project as further described herein and to be constructed by Catalyst on the Property, which sublease will provide for:
  - (i) a term which is the term of the ground lease less a day;
  - (ii) a nominal prepaid rent; and
  - (iii) such other terms and conditions as are satisfactory to the General Manager of Engineering, General Manager of Real Estate and Facilities Management and Director of Legal Services.
- D. 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 Property; and
- E. THAT no legal rights or obligations will arise or be created by Council's adoption of Recommendations A through C unless and until all legal documentation has been executed and delivered by the respective parties.

## **REPORT SUMMARY**

This report seeks Council approval of Catalyst as the non-profit partner to finance, build, operate and maintain the social housing project at the City-owned sites addressed as 2221-2235 Main Street and authorization to enter into lease agreement with Catalyst based on the lease terms outlined in this report.

## **COUNCIL AUTHORITY/PREVIOUS DECISIONS**

In 2014, 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.

The site at 2221-2235 Main Street is highlighted in the Mount Pleasant Community Plan Implementation package as a City-owned site for potential affordable housing.

On May 26, 2015, Council designated the site to VAHA for the purpose of developing affordable housing.

On March 8, 2016 Council was updated on the selection of Catalyst Community Developments Society and Marcon Developments as the successful proponent of the Request for Qualifications to select a development partner to develop the affordable rental housing project at 2221 Main Street.

On September 5, 2017 the rezoning application for 2221-2235 Main Street was referred to public hearing.

On October 17, 2017, following public hearing, Council approved rezoning of the property to allow for the development of the proposed project. This application is one of the sites being processed through the City's new pilot affordable housing priority process.

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.

A lease of City-owned property at less than market rent is considered to be a grant, requiring eight (8) affirmative votes of Council.

## **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, 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.

The Mount Pleasant Community Plan Implementation package (2013) highlights this site as a City-owned site for potential affordable housing with public open space.

This project also contributes to addressing the housing targets in the Mount Pleasant Community Plan (2010) by providing housing that is suitable for singles, seniors, and families. Over 50 percent of the units are to include two or three bedrooms, and at least five percent will be accessible for people with disabilities. The project is proposed as a nine-storey mixed-use building over four levels of underground parking, containing a total of 145 social housing units.

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 this development site. The selected proponent team is comprised of Catalyst Community Developments Society and their development partner, Marcon Developments.

### ***Strategic Analysis***

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

The subject site is a full block on the west side of Main Street between East 6<sup>th</sup> and 7<sup>th</sup> Avenues, within the Lower Main sub-area in Mount Pleasant. It is a prominent site located in the heart of the community at the end-view terminus of Kingsway. The site has 80 m (264 ft.) of frontage on Main Street. The property is in the process of being subdivided to create the future affordable housing site and a future park in the south portion of the site (approx. 10,800 sq. ft). The property is currently a surface parking lot containing 100 stalls.

The property was zoned IC-2 and required rezoning to CD-1 to accommodate the proposed development. Council approved a rezoning of the property on October 17, 2017. CD-1 enactment conditions are currently being addressed.

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

- nine storey building, concrete construction with a gross floor area of 105,195 sq. ft.;
- 145 units containing 28 studios, 45 one-bedroom units, 42 two-bedroom units, 30 three-bedroom units (50% family units)
- at least five percent of the units are accessible units;
- four levels of underground parking for 51 residential spaces, 63 commercial spaces and approximately 100 replacement parking spaces (to replace existing surface parking); and,
- secured, bicycle storage.

VAHA is working with Catalyst to bring the Project forward to building permit issuance, with construction anticipated to begin in November 2018. It is expected that the building will be completed by November 2020.

### **Affordability**

Maximum rental rates in the project are set out in Table 1 below:

Table 1: 2221-2235 Main Street

| <b>Unit Type</b> | <b>Rental Rates in Housing Income Limits Units (2018)*</b> | <b>Rental Rates in Remainder of Units (10% below DCL maximum rents)**</b> |
|------------------|--|---|
|                  | 44 units (30% of total)                                    | 101 units (70% of total)  |
| Studio           | \$1,038  | \$1,346   |
| 1 Bedroom        | \$1,200  | \$1,557   |
| 2 Bedroom        | \$1,450  | \$2,255   |
| 3 Bedroom        | \$1,700  | \$3,029   |

\* Maximum rental rates are set at 30% of Housing Income Limits (HILS) on a monthly basis, as per BC Housing (2018): (<https://www.bchousing.org/publications/2018-Housing-Income-Limits-HILs.pdf>)

\*\* Maximum rents for 2018 as set out in the Rental Incentive Guidelines (<https://vancouver.ca/files/cov/rental-incentive-guidelines.pdf>)

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

The proposal is from Catalyst who has engaged Marcon Developments as their general contractor responsible for delivering the project. Catalyst will become the housing operator at completion.

Catalyst is a non-profit real estate developer, property owner and operator. Since 2013 Catalyst has partnered with community organizations, non-profits and municipal governments to create projects that deliver on their mission – to unlock the value of community assets to create vibrant, affordable, and inspiring places for people to live and work in.

Catalyst adopts a mixed-income model with a focus on building new rental homes that are affordable to individuals and families earning total household incomes of between \$20,000 and \$100,000 a year. Catalyst's goal is to offer rents that are initially in the range of 10 to 40% below market, and to work with partners to manage, and where possible reduce, rents over time.

### **Lease Terms**

It is expected that Catalyst will enter into a 60-year ground lease with the City at a nominal fee (\$10.00). Consistent with Council policy for ground leases to non-market housing operators, the property will be leased to Catalyst in accordance with the City's terms and conditions for long-term leases of City land for Social Housing, including:

- a term of 60 years;

- a nominal prepaid rent;
- not fewer than 44 of the residential units must be rented at affordable rates;

Note: affordability is defined here as:

- a. Rents may not exceed 30% of the Housing Income Limits (HILs) on a monthly basis (to ensure rents are kept modest);
  - b. Occupants' household may not exceed HILs by more than 20 percent (to ensure low and moderate income households can access the housing); and,
  - c. Average rent payments may not exceed 30% of occupant income, measured each three years across all 44 affordable units (to temper the level of rent relative to household incomes throughout the affordable units). This means that in the event that the lessee does not meet this requirement (e.g. if tenants suffer job loss or injury), the lessee will be required to maintain a reserve fund that may be used to subsidise rents and achieve the 30% ratio requirement (see requirement below on reserve fund); however, the requirement to meet this provision does not apply if the reserve fund is insufficient to provide the subsidy;
- the average rent across all units is no greater than 80% of the rents for for-profit affordable rental housing in the Vancouver Development Cost Levy By-Law
  - the Housing Charge for non-HILs Units will be at least 10% below the rents for for-profit affordable rental housing in the Vancouver Development Cost Levy By-Law
  - 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 that operating surplus generated from the project:
    - a. first, be used to create and maintain a reserve for the purpose of subsidizing the rent of HILs units as required to meet affordability requirements of the lease; and
    - b. second, be divided equally with the City with Catalyst's portion to be used to increase the affordability of HILs units in the building or increase the number of HILs units, or create or acquire net new, social housing within Vancouver; and
  - an option to sublease back to the City the replacement parking facility comprised of approximately 100 spaces, which sublease will provide for:
    - a. a term which is the term of the ground lease less a day;
    - b. a nominal prepaid rent; and
    - c. such other terms and conditions as are satisfactory to the General Manager of Engineering, General Manager of Real Estate and Facilities Management and Director of Legal Services.

In addition to the above terms, the lease will be on terms and conditions satisfactory to 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.

### ***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 over the lease term. Depending on the target affordability, these projects will likely require additional equity contributions from senior governments, foundations, charities and investors. Projects will not proceed without confirmation of all funding partners and financing arrangements.

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

|   |                               |
|---|-------------------------------|
| <b>Estimated Development Costs</b>        |                               |
| Land lease (60 years)                     | \$16.85 million               |
| Development                               | <u>\$54.30 million</u>        |
| <b>Total</b>                              | <b><u>\$71.15 million</u></b> |
| <b>Source of Funds</b>                    |                               |
| City of Vancouver (60 year nominal lease) | \$16.85 million               |
| Mortgage financing                        | \$45.50 million               |
| COV replacement parking                   | \$ 4.00 million               |
| Additional equity financing               | <u>\$ 4.80 million</u>        |
| <b>Total</b>                              | <b><u>\$71.15 million</u></b> |

The fair market (freehold) value for the site is estimated to be \$22.47 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 \$16.85 million, equates to ~24% of the overall project capital cost, or ~\$116,000 per unit. In addition, as social housing, the project will be exempt from Development Cost Levies, which are estimated to be approximately \$2.97 million (including the newly adopted utilities DCL program) based on the floor area as submitted in the development permit application.

The current pro forma indicates that at least \$4.8 million of upfront equity is required to make the housing project financially sustainable while achieving the affordability target over the term of the project. Catalyst proposes to finance \$4.8 million mainly from social equity investors who will provide a 10-year mezzanine loan.

Catalyst will provide an updated pro forma which reflects project costs (capital and operating), financing rates and rent levels that demonstrate project viability. Lease execution is contingent on Catalyst having secured all required funding and financing to deliver a viable project over the term of the lease at target affordability.

### ***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, or financial guarantees from the City.

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 a partnership with a non-profit development partner to deliver a self-sustaining affordable housing legacy.

### ***Environmental***

A Phase 1 Environmental Site Assessment (ESA) was completed on the subject property in 2013 and a Phase 2 ESA was completed in 2015. No contamination was identified and no remediation requirements are expected to support the proposed redevelopment.

### ***CONCLUSION***

The proposal for 2221 Main Street before Council will facilitate a significant contribution towards the City's affordable housing objectives as set out in Housing Vancouver Strategy. The Director/Chief Executive Officer of VAHA and the General Manager of Arts, Culture and Community Services recommend that Council approve Recommendations A through E and authorize staff to enter into a lease with Catalyst consistent with the terms described in this report.

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