



ADMINISTRATIVE REPORT

Report Date: July 12, 2018
Contact: Luke Harrison
Contact No.: 604.829.4259
RTS No.: 12460
VanRIMS No.: 08-2000-20
Meeting Date: July 24, 2018

TO: Vancouver City Council

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

SUBJECT: 8501 Boundary 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 8501 Boundary, and legally described as: PID 029-292-221, Lot 34, District Lot 331, Group 1, New Westminster District, Plan EPP 31354 (the "Property");
- B. THAT Council authorize the Director of Real Estate Services to negotiate and execute a ground lease (the "Lease") for the Properties 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 \$7.8 million and requires eight (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 Property; 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 of Catalyst as the non-profit partner to finance, build, operate and maintain the social housing project at the City-owned site addressed 8501 Boundary Road 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 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.

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

In August, 2016, VAHA issued a Request for Proposals (RFP) to select a development partner to commence the design and entitlement process to develop an affordable rental housing project at 8501 Boundary Road. Catalyst Community Developments Society and their development partner, Marcon Developments, were selected to develop this affordable rental housing project.

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, Director of Finance, 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.

East Fraser Lands ("EFL") is located in the south-east 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 Official Development Plan ("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 affordable housing. Through the ODP, the CD-1 rezonings and subsequent legal agreements, the City had the option to purchase designated land parcels (the "Option Sites") from Wesgroup Properties to deliver affordable housing. The subject site 8501 Boundary Road, also known as Parcel 43A in the EFL ODP, was purchased in October 2016.

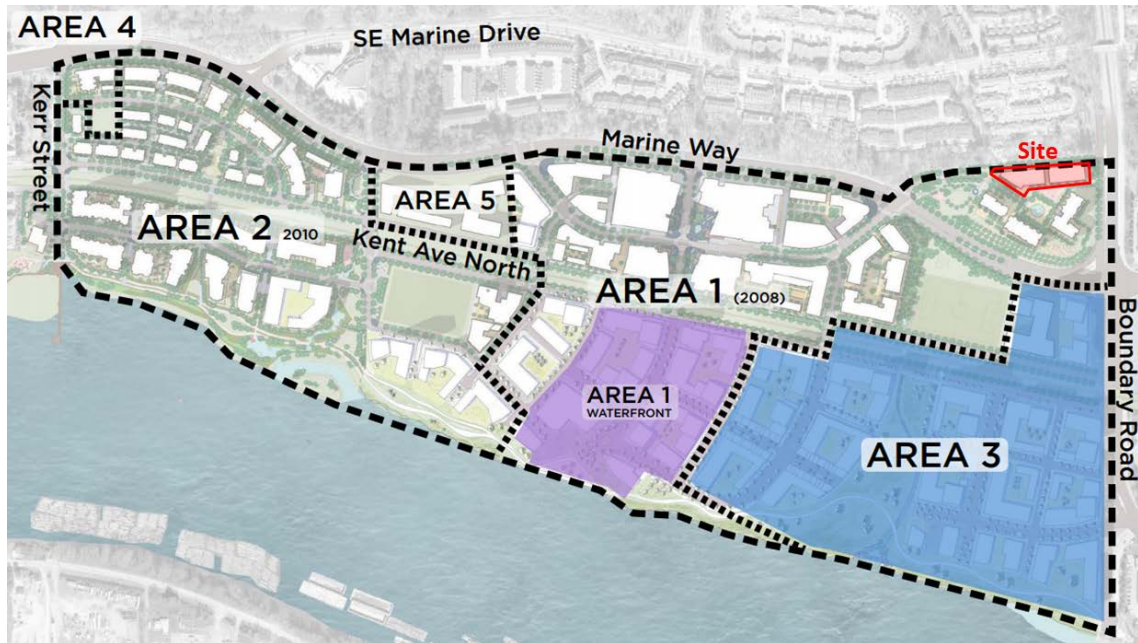
Based on the EFL Public Amenity Financial Plan & Strategy, it was contemplated that delivery of affordable housing would require significant contributions from private investors or senior government in addition to the City's land contribution.

In August 2016 VAHA issued a Request for Proposals (RFP) to select a development partner to commence the design and entitlement 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 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 north-east corner of development area.



The site area is 3 964 m² (42,678 sq. ft.). The development proposal consists of the following:

- 119 units comprised of 12 studios, 24 – one bedroom units, 47 – two bedroom units, 36 – three bedroom units (70% family units);
- 5 storeys of wood frame construction with a gross floor area of 93,592 sq. ft.;
- 1 level of underground parking for 64 spaces; and,
- Storage for 155 bicycles.

VAHA is working with Catalyst to bring the project forward to building permit issuance, with construction anticipated to begin in January 2019. It is expected that the building will be completed by October 2020.

Affordability

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

Table 1: 8501 Boundary rent range

Unit Type	Rental Rates in Housing Income Limits Units (2018)*	Rental Rates in Remainder of Units (10% below DCL maximum rents)**
	36 units (30% of total)	83 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>)

** Average 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 Properties will be leased to Catalyst 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;

- not fewer than 36 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 36 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 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 to maintain a capital replacement reserve at a level of funding approved by the City; and,
 - 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.

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:

Estimated Development Costs	
Land lease (60 years)	\$ 7.8 million
Development	<u>\$35.6 million</u>
Total	<u>\$43.4 million</u>
Source of Funds	
City of Vancouver (60 year nominal lease)	\$ 7.8 million
Mortgage financing	\$33.6 million
Additional equity financing	<u>\$ 2.0 million</u>
Total	<u>\$43.4 million</u>

The fair market (freehold) value for the site is estimated to be \$10.46 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 \$7.8 million, equates to ~18% of the overall project capital cost, or ~\$66,000 per unit. In addition, as social housing, the project will be exempt from Development Cost Levies, which are estimated to be approximately \$2.5 million (including the newly adopted utilities DCL program) based on the floor area as submitted in the development permit application.

Catalyst proposes to finance \$2.0 million mainly from social equity investors who will provide a 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; they 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

The Property received a Final Determination from the BC Ministry of Environment in 2007, stating that the site was not contaminated in comparison to residential land and urban park land use standards.

CONCLUSION

The proposal for 8501 Boundary Road 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 D and authorize staff to enter into a lease with Catalyst consistent with the terms described in this report.

* * * * *