



ADMINISTRATIVE REPORT

Report Date: July 6, 2018
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VanRIMS No.: 08-2000-20
Meeting Date: July 25, 2018

TO: Standing Committee on Policy and Strategic Priorities

FROM: General Manager of Arts, Culture and Community Services in Consultation with the General Manager of Financial Services, the General Manager of Real Estate and Facilities Management, and the Director of Legal Services

SUBJECT: 1171 Jervis Street and 1345 Davie Street - Social Housing Operator Selection and Lease Terms

RECOMMENDATION

- A. THAT Council approve Vancouver Native Housing Society (VNHS) as the selected non-profit partner to operate:
- i. the 27 unit Social Housing Air Space Parcel located at 1171 Jervis Street and legally described as PID: 029-631-785, Lot 355, Plan EPP426205, District Lot FC NWD Group 1 (the "Social Housing Building"); and
 - ii. the future Air Space Parcel containing 68 social housing units at 1345 Davie Street currently legally described as PID: 030-275-768, Lot 1, Block 14, District Lot 200A Group 1 New Westminster, Plan EPP53535 (the "ASP").
- B. THAT Council authorize the General Manager of Real Estate and Facilities Management to negotiate and execute a lease and operating agreement with VNHS for 1171 Jervis Street -on terms and conditions outlined in this report and otherwise satisfactory to the General Manager of Real Estate and Facilities, General Manager of Arts, Culture and Community Services, General Manager of Finance, Risk and Supply Chain Management and Director of Legal Services, and including:
- i. a term of 60 years;
 - ii. a lease payment of \$1.85 million to be paid to the City by the end of the first year of operation;

- iii. all 27 social housing units to be rented at affordability targets outline in this report
- iv. adherence to the Service Level Agreements;
- v. all operating surplus generated from the project to be: first, used to fund an operating reserve up to an amount equal to the previous fiscal year's operating budget; and second, divided equally between the City and VNHS with VNHS 's portion to be used, with agreement from the City, to increase affordability within the project or to create or acquire net new affordable housing within the City of Vancouver;
- vi. the operator to provide insurance required by the City of Vancouver; and
- vii. a requirement to pay a proportionate share (to be negotiated and defined within the Reciprocal Easement and Indemnity Agreement) of maintenance and replacement costs for common aspects of the respective developments.

As the prepaid lease of \$1.85 million is below the applicable 60-year market lease rate of approximately \$13.15 million for the Social Housing Air Space Parcel, RECOMMENDATION B constitutes a grant valued at approximately \$11.30 million and approval requires two-thirds affirmative votes of all Council members per *Vancouver Charter* S. 206(1).

- C. THAT Council authorize the General Manager of Real Estate and Facilities Management to negotiate and execute a lease and operating agreement with VNHS for the Social Housing Air Space Parcel (ASP) at 1345 Davie Street on terms and conditions outlined in this report and otherwise satisfactory to the General Manager of Real Estate and Facilities, General Manager of Arts, Culture and Community Services, General Manager of Finance, Risk and Supply Chain Management and Director of Legal Services, and including:
- i. a term of 60 years;
 - ii. a lease payment of \$4.95 million to be paid to the City by the end of the first year of operation;
 - iii. all 68 social housing units to be rented at affordability targets outlined in this report;
 - iv. adherence to the Service Level Agreements;
 - v. all operating surplus generated from the project to be: first, used to fund an operating reserve up to an amount equal to the previous fiscal year's operating budget; and second, divided equally between the City and VNHS with VNHS 's portion to be used, with agreement from the City, to increase affordability within the project or to create or acquire net new affordable housing within the City of Vancouver;
 - vi. the operator to provide insurance required by the City of Vancouver; and

- vii. a requirement to pay a proportionate share (to be negotiated and defined within the Reciprocal Easement and Indemnity Agreement) of maintenance and replacement costs for common aspects of the respective developments.

As the prepaid lease of \$4.95 million is below the 60-year market lease rate of approximately \$26.28 million, RECOMMENDATION C constitutes a grant valued as approximately \$21.33 million and approval requires two-thirds affirmative votes of all Council members per *Vancouver Charter* S. 206(1).

- D. THAT no legal rights or obligations shall arise or be created by Recommendations A through C unless and until all legal documentation has been executed and delivered by respective parties.

Recommendations B and C require 2/3 affirmative votes of all Council members per *Vancouver Charter* S. 206(1).

REPORT SUMMARY

This report seeks Council authorization to enter into leases and an operating agreement with VNHS to operate the two social housing projects, the Social Housing Air Space Parcels at 1171 Jervis Street and 1345 Davie Street, based on the terms and conditions outlined in this report.

COUNCIL AUTHORITY/PREVIOUS DECISIONS

Housing and Homelessness Strategy 2012-2021: In July 2011, Council approved the Housing and Homelessness Strategy 2012-2021 and 3-Year Action Plan (2012-2014) as a framework to respond to Council's priorities for addressing street homelessness and increasing the variety of affordable housing options within the city.

Housing Vancouver (2017): In November 2017, Council approved the Housing Vancouver Strategy (2018–2027) and 3-Year Action Plan (2018-2020). The strategy seeks to shift the supply of new homes toward the right supply, with targets for new units along a continuum of housing types. The Housing Vancouver targets were based on the core goals of retaining diversity of incomes and households in the city, shifting housing production towards rental to meet the greatest need, and coordinating action with partners to deliver housing for the lowest income households. Overall, 72,000 new homes are targeted for the next 10 years, including 12,000 social, supportive and non-profit co-operative units and 20,000 purpose-built rental units. Nearly 50% of the new units will serve households earning less than \$80,000 per year, and 40% will be family-size units.

West End Community Plan (2013)

The West End Community Plan provides a framework to guide positive change, development and public benefits in the West End. The Plan seeks to maintain or enhance the existing affordability by requiring replacement of rental units as social housing. Deepening housing affordability and meeting the needs of a growing

community are a priority. The Plan identifies new social housing opportunities and has a goal of providing over 500 social housing units through additional density and rezoning applications in the Corridors. The Plan requires that 50% of social housing units are two and three bedroom units for families with children. In Area '4' within Lower Davie and Lower Robson, additional density can be bonused up to 7 FSR for new developments that provide 20% of floor space as social housing. These provisions are outlined in the RM-5D District Schedule.

1171 Jarvis Street (Social Housing Air Space Parcel): On May 4, 2015, the Development Permit Board conditionally approved DE418742. To develop this site with a 19 storey mixed used building with one level of CRU (first floor) and 19 levels of residential (1st to 19th floors) containing 91 dwelling units (63 Market/28 Social Housing) all over three levels of underground parking, having vehicular access from the lane.

On March 8, 2016, Council authorized the acquisition at a nominal purchase price, of an Air Space Parcel containing 28 units of Social Housing to be constructed at 1171 Jarvis Street, secured in accordance with the bonus density provisions outlined in the RM-5D District Schedule. A minor change to the plans which address a design condition to increase the number of family housing units in the social housing, has resulted in one fewer Social Housing unit (now 27 Social Housing units).

These units will be the first social housing secured under the new land use and affordable housing policies approved in the West End Plan. The building is under construction and the Air Space Parcel will be turned over to the City upon completion. It is due to be complete and ready for occupancy in September 2018.

1345 Davie Street (Social Housing Air Space Parcel): On March 20, 2017, the Development Permit Board conditionally approved DP-2016-00373, permitting the development of a 18 and 19 storey multiple dwelling building containing 221 dwelling units (153 Market / 68 Social Housing) all over four levels of underground parking, having vehicular access from the lane. On June 28, 2017, Council authorized the acquisition at a nominal purchase price, of an Air Space Parcel containing 68 units of Social Housing to be constructed at 1345 Davie Street, secured in accordance with the bonus density provisions outlined in the RM-5D District Schedule. The building is under construction and the Air Space Parcel will be turned over to the City upon completion. It is due to be complete and ready for occupancy during Q1 of 2021.

Consistent with previous housing operator selection processes, operator selection and lease terms, including any pre-paid lease amounts, are brought to Council in a report for approval.

CITY MANAGER'S/GENERAL MANAGER'S COMMENTS

The City Manager recommends approval of the foregoing.

REPORT

Background/Context

The Social Housing Air Space Parcel located at 1171 Jarvis Street contains 27 units of social housing and associated amenity spaces, parking and storage. The building is

being developed by Intracorp in accordance with provisions of the West End Plan and the RM-5D District Schedule. The City secured the social housing Air Space Parcel through a construction and transfer agreement, at no cost.

The Social Housing Air Space Parcel located at 1345 Davie Street contains 68 social housing units and associated amenity spaces, parking and storage.

Given the proximity of the two sites, the City sought a single housing proponent to operate both.

RFP Process

In early 2016 the City pre-qualified 12 non-profit housing operators through a Request for Qualifications No. PS20151802 “In Respect of a Pre-Qualifications Shortlist for Non-Profit Housing Operators” to operate and manage City owned social housing buildings received as in-kind CACs.

On August 2, 2017, the City issued an RFP directly to the twelve pre-qualified non-profit housing operators to operate both the 27 social housing units at 1171 Jervis Street and the 68 social housing units at 1345 Davie Street. The two projects were bundled in one RFP to take advantage of the efficiencies that arise from a greater economy of scale and the proximity of the two sites. All 12 pre-qualified vendors declined to submit proposals so the City re-issued the RFP publicly (outside of the pre-qualified shortlist) in early May of 2018 on the City’s website and on BC Bid. The City received proposals from the following groups:

- Vancouver Native Housing Society;
- Entre Nous Femmes Housing Society;
- Community Builders Benevolence Group.

The proposals were evaluated through the work of an evaluation team comprised of representatives from Affordable Housing, Partner Agreements, Long-term Financial Strategy and Planning and Real Estate and Facilities Management, under the guidance of Supply Chain Management to ascertain which proposal offered best overall value to the City.

Evaluation criteria included:

- a. Governance and Strategic Direction;
- b. Property Management Expertise and Compliance Track Record;
- c. Operational and Tenants Services;
- d. Operational Efficiency;
- e. Access to Funds and Ability to Raise Financing;
- f. Rental Housing Program Proposed;

- g. Project Staffing, Capacity and Property Management Plan;
- h. Project Affordability and Financial Information Proposed; and
- i. Strategic Fit and Innovation.

Based on the overall evaluation, the team concluded that the proposal submitted by VNHS best met the City's requirements and was identified as the recommended proponent for the two projects.

VNHS is a non-profit society with a mission to provide safe, secure, affordable housing for Aboriginal individuals and families living in the urban setting. It was founded in 1984 and owns or manages a portfolio of 18 buildings with a total of 815 units. VNHS houses approximately 8% of the urban Aboriginal population. Over the past 34 years, the organization has expanded its operations to include housing solutions for seniors, youth, women-at-risk, persons living with mental illness, and the homeless and homeless-at-risk populations of Vancouver.

VNHS has experience in operating Air Space Parcels; most recently at a building at Broadway and Fraser where tenant management is performed jointly with VNHS's partner, Pacific Community Resources Society. As well, VNHS's property managers have considerable experience with strata organizations since many have previously worked as property managers for other organizations. The operations at Jervis and Davie fit within its plan to diversify its client base.

Minimum Affordability Requirements

The target for rent levels in the social housing reflect the West End Plan objective to maintain or enhance the affordability offered in the current rental stock in the neighbourhood. As a result, the rents will range from the shelter component of Income Assistance to a maximum of the CMHC average market rent for the local area. The inclusion of shelter rate units is intended to maintain the affordability lost in the housekeeping units previously on the site (1171 Jervis).

Between the two sites at 1171 Jervis Street and at 1345 Davie Street, the minimum affordability requirements are:

- 33 units must be rented at no more than the shelter component of Income Assistance;
- the remaining 62 units may be a combination of units rented at rents affordable to people who earn below the Housing Income Limits ("HILs") as defined by BC Housing (rent geared to thirty percent (30%) of income), with rents targeting an average rent at 80% of maximum HILs, and Low end of Market ("LEM") rents where the rents are targeted at current CMHC average area rents and must not exceed the following benchmarks as per the LEM definition to be included in the operating agreements:
 - 90% of appraised market rent; and
 - 30% of the BC Housing's Moderate Income Limits.

Affordability Benchmarks

Unit Type	Shelter Component of Income Assistance	Housing Income Limits Target Average Rents at 80% of Maximum (2018)*	Low End of Market (LEM) Target Average Rents
Studio	\$375	\$830	\$1,109
1 Bedroom	\$375-570	\$960	\$1,386
2 Bedroom	\$570	\$1,120	\$2,076
3 Bedroom**	\$660	\$1,360	\$2,611***

* Housing Income Limits HILS as per BC Housing (2018):

(http://www.bchousing.org/resources/HPK/Rent_Calculation/HILs.pdf)

** Only applies to 1345 Davie, there are no three bedroom units at 1171 Jervis

*** Based on 2017 CMHC average rents as target. 3-bedroom maximum capped at 30% of BC Housing Moderate Income Limit as per definition within operating agreement.

Please note shelter component can vary with number of children per unit.

Strategic Analysis

Tenant Relocation Plan – First Right of Refusal for ASP at 1171 Jervis Street

The original buildings on this site contained a total of 43 units: 34 sleeping and 9 dwelling units. The developer for this site provided a Tenant Relocation Plan. This Plan will be shared with VNHS which will be responsible for offering the first right of refusal in the new ASP to former tenants of the site, provided that they meet all eligibility criteria for social housing, noting there will be a range of rents with commensurate eligibility criteria offered within the social housing ASP. Some tenants may be offered to move to housing units at 1345 Davie Street or another housing site.

Tenant Relocation Plan – First Right of Refusal for ASP at 1345 Davie Street

The original building on this site contained 68 dwelling units. The developer for this site provided a Tenant Relocation Plan. This Plan will be shared with VNHS which will be responsible for offering the first right of refusal to former tenants of the site for an appropriate unit within the new social housing ASP, provided that they meet the eligibility criteria, noting there will be a range of rents with commensurate eligibility criteria offered within the social housing ASP.

Lease and Operating Agreement Terms

It is expected that the VNHS will enter into two separate leases with the City and one Operating Agreement covering both sites that will allow management of sites on a portfolio basis. VNHS will be required to pay to the City prepaid rent amounts of \$1.85 million for 1171 Jervis Street and \$4.95 million for 1345 Davie by the end of the first year of operation of the respective sites.

The lease payments for 1171 Jervis Street and 1345 Davie Street will be equivalent to the amount of mortgage that VNHS can secure against their leasehold interest and is proportionate to the rental income of the property based on target affordability. The key components of the leases and Operating Agreement between the City and VNHS include:

- a term of 60 years;
- a lease payment of \$1.85 million for the 1171 Jervis Street Social Housing Air Space parcel and \$4.95 million for 1345 Davie Street Social Housing Air Space Parcel, to be paid to the City by the end of the first year of operation for each respective building;
- 33 units must be rented at no more than the shelter component of Income Assistance;
- the remaining 62 units may be a combination of units rented at rents affordable to people who earn below the Housing Income Limits (“HILs”) as defined by BC Housing (rent geared to thirty percent (30%) of income), with rents ranging from Income Assistance rates to the maximum HILs rates, targeting an average rent at 80% of maximum HILs and Low end of Market (“LEM”) rents where the rents are targeted at current CMHC average area rents and must not exceed the following benchmarks as per the LEM definition in the operating agreements:
 - 90% of appraised market rent; and
 - 30% of the BC Housing’s Moderate Income Limits.
- adherence to the Service Level Agreements;
- all operating surplus generated from the project to be: first, used to fund an operating reserve up to an amount equal to the previous fiscal year’s operating budget; and second, divided equally between the City and VNHS with VNHS ‘s portion to be used, with agreement from the City, to increase affordability within the project or to create or acquire net new affordable housing within the City of Vancouver;
- the operator to provide insurance required by the City of Vancouver;
- a requirement to pay a proportionate share (to be negotiated and defined within the Reciprocal Easement and Indemnity Agreement) of maintenance and replacement costs for common aspects of the development;
- responsibilities of the City, non-profit (housing) operator, and adjacent landlords (owners of Air Space Parcels);
- reporting requirements sufficient to provide oversight on the long-term operations and management of the buildings, including the leverage to ensure deeper levels of affordability can be provided through reinvestment of any operating surplus into the buildings, in particular, should monthly operating costs be less than anticipated at present; and
- consistency with the City’s standard terms and conditions for long-term leases of City-owned social housing.

Financial Implications

Prepaid Lease

The typical operating model for social housing projects secured through development entails leasing City-owned ASPs and buildings to housing partners at below market rent for 60 years or longer, who will operate and maintain the housing project at a prescribed affordability over the lease term.

The estimated market value of the Social Housing ASP at 1171 Jervis is approximately \$17.53 million (assuming it is rented at full market rents); the resulting 60-year lease value (calculated at 75% of market value) will therefore be \$13.15 million. It is anticipated that VNHS will be making a prepaid lease

payment of \$1.85 million to the City by the end of the first year of operation. The grant associated with the Social Housing ASP 60-year lease to VNHS (the “Social Housing ASP City Contribution”) is therefore expected to be \$11.30 million.

The estimated market value of the Social Housing ASP at 1345 Davie is approximately \$35.04 million (assuming it is rented at full market rents); the resulting 60-year lease value (calculated at 75% of market value) is approximately \$26.28 million. It is anticipated that VNHS will make a prepaid lease payment of \$4.95 million to the City by the end of the first year of operation. The grant associated with the Social Housing ASP 60-year lease to VNHS (the “Social Housing ASP City Contribution”) is therefore expected to be \$21.33 million.

Combined, the Social Housing ASP City Contributions total approximately \$32.63 million and constitutes a grant, requiring eight affirmative votes of Council to approve.

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 finance the prepaid lease to the City), operating costs and capital replacement; and do not require further operating subsidies, property tax exemptions, and/or financial guarantees from the City. VNHS’ preliminary operating budget indicates that the operation of the two social housing ASP will be financially sustainable while achieving the affordability target over the term of the project.

CONCLUSION

Having completed careful review of the three proposals, and detailed discussions with the preferred operator, staff are recommending the approval of the proposed lease terms and authorization to enter into a lease agreement with Vancouver Native Housing Society to operate the Social Housing Air Space Parcels at 1171 Jervis Street and 1345 Davie Street.

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