



ADMINISTRATIVE REPORT

Report Date: August 21, 2018
Contact: Luke Harrison
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RTS No.: 12495
VanRIMS No.: 08-2000-20
Meeting Date: September 20, 2018

TO: Vancouver City Council

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

SUBJECT: 3510 Fraser Street Lease and Operator Selection

RECOMMENDATION

- A. THAT Council approve Community Land Trust Foundation of BC ("CLT") or, at the request of CLT, a wholly-owned subsidiary of CLT provided that CLT will remain liable for all obligations of such subsidiary as guarantor, as the selected non-profit partner to finance, build, operate and maintain the 58 unit, seniors, social housing project on the City-owned site located at 3510 Fraser Street, legally described as PID: 028-868-218, Lot A Block 54 District Lot 301 Group 1 new Westminster District Plan BCP50970 (the "Property");
- B. THAT Council authorize the Director of Real Estate Services to negotiate and execute a ground lease (the "Lease") on behalf of the CEO of VAHA for the Property with CLT to enable the development of a non-market housing project, which Lease will provide for:
- i) a term of 60 years;
 - ii) a nominal prepaid rent;
 - iii) a minimum of 30% of the units with distribution across studios and one bedroom units must be rented below market, as follows:
 - (a) rents are required not to exceed 1/40th of the Housing Income Limits (HILs) for the applicable unit type;
 - (b) HILs unit occupants' household income may not exceed HILs as set out in the then-current "Housing Income Limits" table published by the British Columbia Housing Management Commission;
 - iv) reporting requirements, including an annual rent roll and a 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 determined by an independent third party consultant with relevant expertise and approved by the City;
 - vii) 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 the 18 HILs units as required to meet rental rate requirements outlined in the Housing Agreement, and targets of the lease;
 - (b) second, to be divided equally among the City, BC Housing and CLT, on a one-third net basis, with CLT'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 BC Housing's portion to be reinvested in affordable housing projects in Vancouver under the new Vancouver Affordable Housing Endowment Fund (or other affordable housing projects in Vancouver that BC Housing and the City both support and as agreed-to by the City), subject to approval from its Executive Committee and/or Board of Commissioners.
 - viii) 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
 - ix) an option to sublease back to the City the seniors centre on the ground floor of the new development to be operated by 411 Senior Centre Society (1977) as further described herein (the "Seniors' Centre"), which sublease will provide for:
 - a. a term which is the term of the ground lease less a day;
 - b. a nominal prepaid rent;
 - c. an option to sub-sublease the Seniors' Centre to 411 Senior Centre Society (1977), the terms and conditions of which will be as described in Recommendation D below; and
 - d. such other terms and conditions as are satisfactory to the General Manager of Real Estate and Facilities Management and Director of Legal Services; and
 - x) which will otherwise be in accordance with the 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.
- C. THAT Council authorize the Director of Real Estate to enter into a sublease between CLT as landlord and the City as tenant of the Seniors' Centre and to be constructed by CLT 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;
 - iii) an option to sub-sublease the Seniors' Centre to 411 Senior Centre Society (1977), the terms and conditions of which will be as described in Recommendation D below; and
 - iv) such other terms and conditions as are satisfactory to the General Manager of Real Estate and Facilities Management and Director of Legal Services;
- D. THAT Council authorize the Director of Real Estate Services to negotiate and execute a sub-sublease between the City as sub-landlord and Seniors' Centre to 411 Senior Centre Society (1977) as sub-tenant for the purpose of operating a seniors' centre as further described herein, which sub-sublease will provide for:
- i) a term of 60 years (less two days);
 - ii) a pre-paid rent payable upon registration of the sub-sublease with the pre-paid rental value for the 60 year term being 75% of the fee simple fair market value of the land portion (exclusive of the buildings and/or improvements) of the Seniors' Centre space as at the date of commencement of the CLT Ground Lease;
 - iii) 411 to be responsible for all operating costs, utilities and management in respect of the 411 Component and will be responsible for the maintenance and repair of the Seniors' Centre; and
 - iv) which will otherwise be in accordance with the 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.
- E. 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
- F. THAT no legal rights or obligations will arise or be created by Council's adoption of Recommendations A, B, C and D unless and until all legal documentation has been executed and delivered by the respective parties.

The nominal Lease proposed in Recommendation B constitutes a grant valued at \$6.38 million and requires an affirmative vote of 2/3 of all Council members, pursuant to section 206(1) of the Vancouver Charter.

REPORT SUMMARY

This report seeks Council approval to approve CLT as the non-profit partner to finance, build, operate and maintain the seniors, social housing project at the City owned site addressed as 3510 Fraser Street and authorization to enter into lease agreement with CLT 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 Property on June 11, 2013 for the future development of social housing, funded by the Property Endowment Fund (PEF). On May 26, 2015 Council designated the sites to VAHA for the purpose of developing affordable housing. VAHA will reimburse the PEF for the 60 year leasehold value of the land upon execution of the ground lease to CLT.

On March 8, 2016, Council was updated on the selection of Ventana Construction Corporation and dys architecture as the successful proponent of the Request for Qualifications to select a development partner to develop the social housing project at 3510 Fraser Street.

On April 11, 2017, Council approved a Capital Grant of up to \$800,000 to cover all or a portion of the land value of the prepaid rent for the long-term lease for 411 Senior Centre Society (1977) to operate the seniors centre on the ground floor of the new development.

On June 5, 2018, 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, 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, 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 Kensington-Cedar Cottage neighbourhood by providing housing that is suitable for seniors. The Property is located at the corner of Fraser Street and 19th Avenue. It's located at the intersection of three Vancouver neighbourhoods that are currently underserved by senior's services and represent a large number of low income seniors and seniors living alone. This project is strongly aligned with the City's Age Friendly Action Plan and the Healthy City Strategy. Forty-five percent of the units are

studio units, fifty-five percent will be 1 BR units, and five percent will be housing that is accessible for people with disabilities. The project is proposed as a 6-storey seniors, social housing project containing a total of 58 dwelling units over a ground floor seniors' centre.

In 2015, VAHA issued a Request for Qualifications (RFQ) 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 Ventana Construction Corporation, and dys architecture.

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 income households within the Province of B.C. VAHA submitted proposals to BC Housing for several social housing development projects in Vancouver. On October 6, 2016, 3510 Fraser Street was one of the projects selected by BC Housing to proceed forward under a subsequent funding program - the Investment in Housing Innovation Program (IHI).

Strategic Analysis

Site and Project Description:

The Property is located on the southeast corner of Fraser Street and 19th Avenue and is currently occupied by a one-storey commercial building and surface parking. The site size is 1,197.2 m² (12,886.5 sq.ft.), and it has a frontage of 32 m (105.7 feet) along Fraser Street and is 37 m (121.9 feet) along 19th Avenue. There is no rear lane. To the east are RS-1 zoned properties with detached houses. Adjacent to the south is a recent C-2 mixed-use strata development. A large church, zoned CD-1, is located to the north across 19th Avenue. Fraser Street frontages are C-2 across the street and to the north, and are improved with one to four storey commercial and mixed-use buildings. RT zoned sites located in the block to the south. The Property is situated close to transit.

The Property was zoned C-2 and required rezoning to CD-1 to permit a mixed-use development with a seniors centre at grade, 58 secured seniors social housing units, a height of 21.1 metres (72.5 feet) and a floor space ratio (FSR) of 3.5. Council approved rezoning for the Property on June 5, 2018 (RTS 12531) and CD-1 enactment conditions are currently being addressed.

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

- 6 storey building of primarily wood frame construction with a gross floor area of 4,654.2 m² (50,097 square feet);
- Seniors' centre on the ground floor and L2, with a gross floor area of 713.5 m² (7,680 square feet);
- 58 units containing 26 studios, 32 – 1 BRs;
- 5% of the units are accessible units;
- Surface parking with 6 spaces, including one car share; and
- Secured, bicycle and scooter storage.

VAHA is working with Ventana Constructors to bring the Project forward to building permit issuance, with construction anticipated to begin in Q2 2019. It is expected that the building will be completed by Q1 2021.

Affordability

Affordability targets reflecting the minimum requirements that CLT 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.

The remaining units are expected to be offered at Affordable 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 provided that at least 51% of units will be below market rents, and has provided a potential funding contribution of \$7.2 million, subject to their Executive Committee approval, with the possibility to access additional funding pending project approval. There is interest by the parties to see more affordability beyond what has already been approved and secured here; a target of 70% of homes at, or below the BC HILs maximums will require additional equity of around \$2.5M, and further discussions on this are underway with BC Housing.

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

Table 1: Target Monthly Rents for 3510 Fraser Street

Unit Type	Housing Income Limits Target -Average Rents at 80% of Maximum HILs (2018)*	Affordable Market Rents**
Studio	\$830	\$1,105
1 Bedroom	\$960	\$1,445

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

(<https://www.bchousing.org/publications/2018-Housing-Income-Limits-HILs.pdf>)

** Affordable market rent means the CMHC market average rent based on the Canada Mortgage and Housing Corporation, Rental Market Report – BC Highlights, Fall (Row/Townhouse and Apartment), or as determined by BC Housing from time to time. (BCH – Investment In Housing Innovation (IHI) Fund) and adjusted to reflect the target demographics of seniors. .

The City, BC Housing and CLT 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. It is anticipated that over time, greater affordability will be offered in the HILs units and in the building as a whole.

Selection of CLT as Operator and Ground Lease to CLT

BC Housing and VAHA jointly issued a Request for Proposals (RFP) to select a Non Profit Operator (NPO) for the social housing project located at the Property. 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 Affordable Housing staff reviewed the proposals and CLT was selected as the successful Proponent.

CLT is an incorporated society with 24 years' experience in the non-profit housing sector and is the real estate development arm of the Co-operative Housing Federation of British Columbia (CHF BC). Their goal is to make land permanently available for housing and service providers targeting low to moderate income households, seniors, and special interest groups. CLT's mission statement is to:

- Provide and preserve opportunities for low and moderate income households to live in communities which would otherwise be unaffordable;
- Develop and make available for development real estate housing for primarily low and moderate income households, seniors and special interest groups ;
- Develop and make available for development real estate held by it for mixed use and mixed income projects that contribute towards the objectives of the CLT; and
- Promote and model ecologically.

It is expected that CLT will enter into a 60 year ground lease with the City of Vancouver for a nominal fee (\$10.00). Consistent with Council policy for ground leases to non-market housing operators, the Property will be leased to CLT 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 CLT will enter into an Operating Agreement with BC Housing, as a condition of project funding and financing, to manage and operate the project.

Lease Terms

Should capital contribution from BC Housing be approved and all required funding and financing be secured, it is expected that CLT 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 CLT in accordance with the City's standard charge terms and conditions for long-term leases of City land for Social Housing as summarized below.

- i) a term of 60 years;
- ii) a nominal prepaid rent;
- iii) a minimum of 30% of the units with distribution across studios and one bedroom units must be rented below market, as follows:
 - (a) rents are required not to exceed 1/40th of the Housing Income Limits (HILs) for the applicable unit type;
 - (b) HILs unit occupants' household income may not exceed HILs as set out in the then-current "Housing Income Limits" table published by the British Columbia Housing Management Commission;
- iv) reporting requirements, including an annual rent roll and a 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 determined by an independent third party consultant with relevant expertise and approved by the City;
- vii) 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 the 18 HILs units as required to meet rental rate requirements outlined in the Housing Agreement, and targets of the lease;
 - (b) second, to be divided equally among the City, BC Housing and CLT on a one-third net basis, with CLT'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 BC Housing's portion to be reinvested in affordable housing projects in Vancouver under the new Vancouver Affordable Housing Endowment Fund (or other affordable housing projects in Vancouver that BC Housing and the City both support and as agreed-to by the City), subject to approval from its Executive Committee and/or Board of Commissioners.
- viii) 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
- ix) an option to sublease back to the City the seniors centre on the ground floor of the new development to be operated by 411 Senior Centre Society (1977) as further described herein (the "Seniors' Centre"), which sublease will provide for:
 - a. a term which is the term of the ground lease less a day;
 - b. a nominal prepaid rent;
 - c. an option to sub-sublease the Seniors' Centre to 411 Senior Centre Society (1977), the terms and conditions of which will be as described in Recommendation D below; and
 - d. such other terms and conditions as are satisfactory to the General Manager of Real Estate and Facilities Management and Director of Legal Services; and
- x) which will otherwise be in accordance with the terms and conditions satisfactory 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.

Sub-Lease to 411 Seniors

That Council authorize the CEO of VAHA to negotiate and execute a sub-sublease between the City as sub-landlord and Seniors' Centre to 411 Senior Centre Society (1977) as sub-tenant for the purpose of operating a seniors' centre as further described herein, which sub-sublease will provide for:

- i) a term of 60 years (less two days);
- ii) a prepaid rent payable upon registration of the sub-sublease with the pre-paid rental value for the 60 year term being 75% of the fee simple fair market value of the land portion (exclusive of the buildings and/or improvements) of the Seniors' Centre space as at the date of commencement of the CLT Ground Lease;
- iii) 411 to be responsible for all operating costs, utilities and management in respect of the 411 Component and will be responsible for the maintenance and repair of the Seniors' Centre; and

- iv) which will otherwise be in accordance with the 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

Public/Civic Agency Input

BC Housing is supportive of this development and has indicated a funding contribution of \$7.2 million towards this project, with the opportunity for additional funding, subject to BC Housing's Executive Committee approval.

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. Housing partners are responsible for the design, build, financing, operation and maintenance of 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 minimum affordability requirement, whereby 30% of the units are to be rented at or below HILs as published by BC Housing:

Estimated Development Costs	
Land lease (60 years)	\$ 6.38 million
Development	\$16.86 million
411 shell space	<u>\$ 2.50 million</u>
Total	<u>\$25.74 million</u>
 Source of Funds	
City of Vancouver (60 year nominal lease)	\$ 6.38 million
411 Contribution (shell space)	\$ 2.50 million
CMHC Seed Funding Grant	\$ 0.05 million
Mortgage financing	\$ 7.77 million
Equity requirement	<u>\$ 9.04 million</u>
Total	<u>\$25.74 million</u>

The City's affordability requirements are that a minimum of 30% of the homes rent to households with incomes below the Housing Income Limits (HILs) as published by BC Housing. The remaining units are expected to be offered at Affordable Market Rents. BC Housing's pending funding approval of \$7.2 million will be contingent on at least 51% of homes being below market rents. There is interest by the parties to see more affordability targeting 70% of homes at, or below the BC HILS maximums but this will require additional equity of around \$2.5M, and further discussions on this are underway with BC Housing.

Under the Seed Funding Program established pursuant to Section 76 of the National Housing Act, CMHC provides funding for the development or implementation of proposals to help increase the supply of affordable housing. This Project received a contribution of \$50,000 under this program.

The fair market (freehold) value of the site is estimated to be \$8.5 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 \$6.38 million, equates to approximately 25% of the overall project capital cost or \$110,000 per unit. In addition, social housing projects are exempt from both Development Cost Levies (City-wide and Utilities), which is estimated to be approximately \$807,000 based on the square footage as submitted in the development permit application. The seniors centre will be subject to a reduced DCL of \$10 as per the DCL By-Law because it meets the definition of Social Service Centre.

The construction cost of the 411 space (~\$2.5 million) is based on preliminary estimate which will be updated as the development progresses, and (ii) excludes the proportional land value to be recovered from 411 which will be assessed in due course. Council already approved a Capital Grant of up to \$800,000 to cover all or a portion of the prepaid rent for the long-term lease for 411 Senior Centre Society. Any residual prepaid rent beyond the \$800,000 grant, where applicable, will offset the value of the City's land contribution.

Lease execution is contingent on CLT having secured all required funding and financing to deliver a viable project over the term of the Lease at a minimum target affordability of having 30% of the units at or below HILs. In addition, CLT 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.

As mentioned above, the current pro forma indicates that at least \$9.70 million of upfront equity is required to make the housing project financially sustainable while achieving the target affordability of 70% of units at or below HILs over the term of the project. The Lease will include terms on the allocation of any operating surplus arising from the project, which is to be divided equally among the City, BC Housing and CLT on a one-third net basis, with CLT'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 BC Housing's portion to be reinvested in affordable housing projects in Vancouver under the new Vancouver Affordable Housing Endowment Fund (or other affordable housing projects in Vancouver that BC Housing and the City both support and as agreed-to by the City), subject to approval from its Executive Committee.

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

Contamination is present on the property and remediation will be conducted during site redevelopment. The City will be responsible for remediating the environmental contamination to meet the applicable Contaminated Sites Regulation land use standards. Based on environmental site investigations completed to-date, it is estimated that investigation and remediation costs will be approximately \$300,000. These costs are included within the PEF-funded site development project budget. Due to the age of the building, there is strong likelihood that hazardous building materials are present within the building. CLT will be responsible for managing any hazardous buildings materials as part of demolition in accordance with terms and conditions of City permits and all applicable legislation. Incremental costs associated with managing hazardous building materials and undertaking site remediation are included in the PEF project budget.

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 CLT consistent with the terms described in this report

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