



## ADMINISTRATIVE REPORT

Report Date: August 20, 2018  
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RTS No.: 12494  
VanRIMS No.: 08-2000-20  
Meeting Date: September 18, 2018

TO: Vancouver City Council  
FROM: Chief Executive Officer / Director of Vancouver Affordable Housing Agency  
SUBJECT: 3183 and 3245 Pierview Crescent (Parcels 3 and 5A) Operator Selection and Lease Terms

### **RECOMMENDATION**

- A. THAT Council authorize the Director of Real Estate Services to negotiate and, subject to the conditions set out in Recommendation B, execute a ground lease, (the "Lease") for the City-owned sites located at 3183 Pierview Crescent (PID: 030.284.767, Lot 52, Block 10, District Lot 330, Group 1, New Westminster District, Plan EPP65172) and 3245 Pierview Crescent (PID: 030.284.775, Lot 53, Block 10, District Lot 330, Group 1, New Westminster District, Plan EPP65172) (the "Properties") with 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, to enable the development of non-market housing projects which Lease will provide for:
- i. a term of 99 years;
  - ii. a nominal prepaid rent;
  - iii. affordability requirements as follows:
    1. a minimum of 30% of the units must be rented below market, as follows:
      - a. rents are required not to exceed 1/40<sup>th</sup> 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;

or such other deeper levels of affordability as may be determined by the General Manager of Arts Culture and Community Services, in consultation with the Director of Finance, if such requirements do not compromise the ability of the project to raise capital funding and financing from senior governments and the long-term financial viability of the project;

2. following completion by CLT of the buildings to be constructed at: 1210 Seymour Street and 560 Davie Street; 1190 Burrard Street; 1001 Kingsway; 3279-3297 Vaness Avenue; and 177 West Pender, all as further described in RTS 12616, and intended to be managed by CLT on a portfolio basis with the Properties (the "Portfolio"), the units at the Properties must be rented at rates such that units across the Portfolio are rented in the aggregate at 15-30% below market;
- 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 any operating surplus generated from the project:
  1. first, be used to create and maintain a reserve for the purpose of subsidizing the rent of the HILs units as required to meet rental rate requirements as outlined in the housing agreement and targets of the lease; and,
  2. second, to be divided equally between the City and CLT, 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; orshould BC Housing become a funder of the project, to be divided equally among the City, BC Housing and CLT, on a one-third net basis, with 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. if applicable, 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 Term for bare land leases of this kind; and which will otherwise be in accordance with the terms and conditions outlined in this report and to the satisfaction of the CEO of VAHA, General Manager of Community Services, General Manager of Real Estate and Facilities Management, Director of Finance, and Director of Legal Services.

- B. THAT execution of the Lease be conditional on
- i. the approval by the City of a project pro forma submitted by CLT incorporating current financial information (including all sources of required debt and equity financing), a market rent analysis completed within the previous six months and Class A or B construction cost estimates and demonstrating that the project will meet or exceed the affordability requirements set out in Recommendation A;
  - ii. the development permit prior-to letter for the project has been issued or is issuable; and
  - iii. CLT has obtained commitment letters, letters of intent and/or memorandums of understanding in respect of all required project equity and debt financing on terms and conditions approved by the City;
- 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 Recommendation A unless and until all legal documentation has been executed and delivered by the respective parties.

The nominal Lease proposed in Recommendation A constitutes a grant valued at \$32.8 million 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 authorization to enter into lease agreement with CLT based on the lease terms outlined in this report.

## **COUNCIL AUTHORITY/PREVIOUS DECISIONS**

- 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.
- In March 2017, Council designated VAHA to enable the development of affordable housing on eight (8) City-owned and optioned sites.

- In July 2017, Council was informed of the issuance of Request for Proposals (RFP) to design, build, fund and operate rental housing on some of the City land that were designated by Council to VAHA to act as agent of the City to enable the development of affordable housing.
- 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 99 year lease is valued at 95% of freehold market value.
- On April 17, 2018, Council approved the selection of the CLT as the successful proponent to RFP PSVAHA2017-03 and authorized the CEO of the Vancouver Affordable Housing Agency to negotiate terms of development agreements and leases with the Community Land Trust to design, build, fund/finance, operate and maintain affordable housing on the subject properties. Council directed the CEO of VAHA to bring the final terms negotiated with the CLT back to Council for final approval.

### ***CITY MANAGER'S/GENERAL MANAGER'S COMMENTS***

The City Manager and General Managers of Arts, Culture and Community Services, Real Estate and Facilities Management and Finance 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 southeast corner of Vancouver on the Fraser River, and comprises approximately 52 hectares (128 acres) of land area. The EFL Official Development Plan (ODP) encompasses 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 for Affordable Housing which is defined as rental housing that includes at least 30% of the units rented to households with incomes below the Housing Income Limits (HILs) as published in the then-current "Housing Income Limits" table published by the British Columbia Housing Management Commission. Through the ODP, the CD-1 rezonings and subsequent legal agreements, the City has the option to purchase designated land parcels (the "Option Sites") from Park Lane River District Developments Ltd. to deliver affordable housing. This option has been exercised for the subject Properties and is the first of the Option Sites ready for construction.

In July of 2017, VAHA issued three RFPs seeking a proponent to finance, build, operate and maintain social housing on the seven City owned properties, including the Properties. On April 17, 2018, Council approved the selection of CLT as the successful proponent of all three RFPs.

The selection of the CLT as the successful proponent to finance, build, operate and maintain social housing for all seven properties included in the RFPs created the opportunity to manage the projects as a portfolio, improving overall affordability and revenue generation across the seven projects. The portfolio is to be governed by one Development Agreement, with the Properties subject to the first lease, as described in this report.

## Strategic Analysis

### Site and Project Description:

The Properties are situated within Area 2 of EFL development. EFL, also known as the River District, is located in the southeast corner of Vancouver on the Fraser River, and includes the land between Kerr Street and Boundary Road, south of Marine Way, as well as a triangular-shaped site north of Marine Way at Boundary Road.

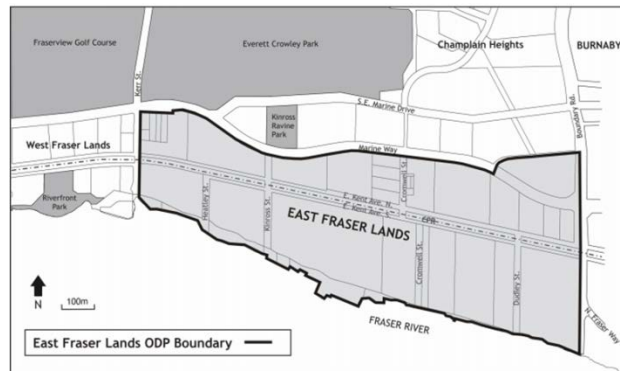


Figure 1: EFL Location Plan

EFL is subdivided into development parcels and rezoning areas. Area 2 was the first phase of development with the construction of low to midrise multiple dwelling development projects. The Properties are currently undeveloped.



Figure 2: Aerial Photo

Parcel 3 is 4077 m<sup>2</sup> (43,887 sf). The development proposal consists of the following components:

- 89 units comprised of 9 - studios, 10 – 1 BR, 45 – 2 BR (including townhouses), 25 – 3 BR (including townhouses) (79% family units);
- 13 townhouse units comprised of 10 – 2 BR, 3 – 3 BR
- 5 storey wood frame building over 2 storey concrete podium (below grade);
- 1 level of partially underground parking for 61 spaces, including car share; and,
- Secured storage for 113 bicycles.

Parcel 5 is 2743 m<sup>2</sup> (29,529 sf). The development proposal consists of the following components:

- 51 units comprised of 7 – studios, 12 – 1 BR, 20 – 2 BR (including townhouses), 12 – 3 BR (including townhouses) (63% family units);
- 7 – 4 – 2 BD, 3 - 3 BR townhouse units
- 4 storey wood frame building over 2 storey concrete podium (below grade) ;
- 1 level of partially underground parking for 34 spaces, including car share; and,
- Secure storage for 65 bicycles.

VAHA is working with CLT to bring the project forward to building permit issuance, with construction anticipated to begin in the fall of 2018. It is expected that the building will be completed by Q2 2020.

### ***Affordability***

As this project is part of the Development Agreement for CLT's seven site Portfolio, it will be managed with the same optimization principles and contribute to the Portfolio's overall affordability target of 15-30% below market.

For this project specifically, affordability targets set out in the Lease will reflect the minimum requirements that CLT must meet including at least 30% of the units rented to households with incomes below the Housing Income Limits (HILs) as published in the then-current "Housing Income Limits" table published by the British Columbia Housing Management Commission.

In addition, housing offered in the development will also include:

1. On or about 43% of units will be at the Low End of Market (LEM) which is rented at  $\leq$  90% of the appraised market rent for a comparable unit in the local area &  $\leq$  30% of the low and moderate income limit (as determined by BC Housing).
2. The remainder of the units will be rented at market rate.

### ***Implications/Related Issues/Risk (if applicable)***

#### ***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 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 target affordability.

<b>Estimated Development Costs</b>	
Land lease (99 years)	\$32.8 million
Development	\$53.9 million
<b>Total</b>	<b>\$86.7 million</b>
<b>Source of Funds</b>	
City of Vancouver (99 year nominal lease)	\$ 32.8 million
Equity requirement	\$14.3 million
Mortgage financing	\$39.6 million
<b>Total</b>	<b>\$86.7 million</b>

The estimated \$14.3 million of equity requirement is based on the City's standard requirement of 35-year loan amortization at an assumed initial rate of 4% p.a. and refinancing in Yr 10 at 5.5% p.a. CLT intends to go for 50-year loan amortization and assumes an initial rate of 3.5% p.a. and refinancing in Yr 10 at 4.25% should no additional equity be secured from senior governments. To ensure project viability, reduce refinancing risks and long-term interest costs in a rising interest rate environment, staff intends to work with CLT to pursue both BC Housing and CMHC for upfront capital equity contributions on a portfolio basis. If successful, loan amortization will be reduced from 50 to 35 years, reducing overall interest costs and ensuring viability of the project. If the required upfront equity cannot be secured in whole or in part, the City and CLT will need to revisit the affordability target on specific projects to ensure the entire portfolio is viable.

The fair market (freehold) value for the social housing Properties is estimated to be \$34.5 million and a 99-year lease is priced at 95% of the freehold value. As such, the City's overall contribution, the grant of the nominal land lease of \$32.8 million, equated to approximately 38% of the overall project capital cost over the 99 years of the Lease.

Lease execution is contingent on CLT having secured all required equity and financing to deliver a viable project over the term of the Lease at the target affordability outline above. These include commitment letters, letters of intent and/or memorandums of understanding in respect of their equity and debt financing on terms and conditions approved by the City. In addition, CLT is required to 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.

Assuming 35-year loan amortization, the current pro forma indicates that at least \$14.3 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 terms on the allocation of any operating surplus arising from the project, which is to be divided equally between the City and CLT, 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. Should BC Housing become a funder of the project, operating surpluses will be divided equally among the City, BC Housing and CLT, on a one-third net basis, with 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.

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***

Both Parcels 3 and 5A were formerly contaminated. Contamination on both Parcels was remediated to residential land use standards and Certificates of Compliance (CofC) were obtained from the BC Ministry of Environment in 2007 and 2011, respectively. To ensure fulfilment of the CofC conditions, CLT shall immediately inform the City Project Manager should any suspect contamination be encountered during site redevelopment. The City will be responsible for any incremental costs associated with the management of contamination as defined by the *Environmental Management Act* (EMA).

### **CONCLUSION**

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 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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