



ADMINISTRATIVE REPORT

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Meeting Date: September 18, 2018

TO: Vancouver City Council

FROM: General Manager of Planning, Urban Design and Sustainability, General Manager Real Estate and Facilities Management, General Manager of Arts, Culture and Community Services and General Manager of Finance, Risk and Supply Chain

SUBJECT: Vancouver Affordable Housing Endowment Fund (VAHEF)

RECOMMENDATION

- A. THAT Council approve in principle the provisional Mandate and Guiding Principles as outlined in this report for the creation of a new Vancouver Affordable Housing Endowment Fund (VAHEF).
- B. THAT Council approve the proposed activities to further develop the strategy and management of a Vancouver Affordable Housing Endowment Fund (VAHEF) as outlined in this report and direct staff to report back to Council in early/mid 2019.

REPORT SUMMARY

This report presents for Council's consideration and in-principle approval the provisional Mandate and Guiding Principles for the creation of a new Vancouver Affordable Housing Endowment Fund ("VAHEF"). The report summarizes the first phase of the project as per Council direction in June 2018 to advance consolidation of the City's affordable housing assets into a single portfolio, including the proposed provisional Mandate and Guiding Principles, the type of assets that will be managed by VAHEF upon its creation, considerations for the future state, and interim opportunities to better govern and manage the City's affordable housing assets while VAHEF's strategy is being developed. It also includes a summary of partner and stakeholder feedback gathered through initial consultation.

COUNCIL AUTHORITY/PREVIOUS DECISIONS

- Housing & Homelessness Strategy (2012-2021)
- Mayor’s Taskforce on Housing Affordability (2012)
- Housing Vancouver Strategy (2018-2027)
- Affordable Housing Delivery and Financial Strategy (2018-2027)

CITY MANAGER’S/GENERAL MANAGER’S COMMENTS

The City Manager recommends approval of the foregoing.

The Housing Vancouver Strategy aims to change the future of housing in Vancouver: housing should be affordable and suitable to local incomes and a variety of households, including low- and moderate-income workers, families, and seniors, while also addressing the needs of our most vulnerable populations. A key component of delivering the Strategy is to consolidate the City’s affordable housing assets into a dedicated fund – VAHEF – to serve current residents and future generations.

The creation of VAHEF is a critical opportunity to provide a more streamlined and effective approach to managing and growing the City’s affordable housing portfolio for the benefit of Vancouver residents over the long term. Establishing a clear mandate and guiding principles will set the fund up for success and inform its short and long term plans for achieving the City’s housing objectives and targets, now and in the future.

REPORT

Background/Context

The Housing Vancouver Strategy, approved by Council in November 2017, included new objectives and targets for housing over the next 10 years to meet the needs of a broad range of household types and incomes. The Strategy responds to an ongoing housing crisis which has had and continues to have serious impacts on residents and the overall health, diversity and vibrancy of the city. Approved in June 2018, the companion Affordable Housing Delivery and Financial Strategy (2018-2027) sets out the City’s strategic approach to delivering on these new housing targets with a particular focus on achieving 12,000 units of social and supportive housing (including co-operative housing) as these units are the most challenging to deliver, requiring the greatest level of subsidy and investment.

A key action within the Affordable Housing Delivery and Financial Strategy is the creation of VAHEF which is intended to manage and grow the City’s affordable housing assets as a portfolio in a sustainable way. Having a single, consolidated fund will enable the City to realize portfolio optimization, economies of scale, cross-subsidization and other benefits across approximately 200 affordable housing assets including land, buildings, and Air Space Parcels (turnkey social housing units secured through development).

Currently within the City, affordable housing is being delivered and managed across a number of City departments and governance structures. The Capital Fund (CF) and Property Endowment Fund (PEF) hold the majority of these assets and yet affordable housing delivery is not their

core mandate. These funds must consider affordable housing objectives alongside other City priorities. As well, decisions have been made typically on a transactional or project-by-project basis which limits the City's ability to optimize affordability and social outcomes through potential economies of scale, portfolio optimization, and clarity of purpose and decision-making.

The creation of VAHEF introduces an opportunity to consider new delivery models to take advantage of the City's affordable housing portfolio built up over the past several decades and the availability of new funding programs under the Federal and Provincial governments. VAHEF will operate under a clear mandate to preserve and grow affordable housing for the benefit of current and future residents supported by dedicated funding streams (e.g. DCLs, CACs and revenues generated through housing assets managed by VAHEF) to leverage partner investment.

Since June 2018, staff have (1) developed a provisional Mandate and Guiding Principles for VAHEF, outlined in detail below, which will guide the vision moving forward; (2) clarified which assets will be managed by VAHEF upon its creation and considerations for what assets may be managed in the future; (3) scoped the analysis required to advance the creation of VAHEF and manage the City's portfolio of affordable housing assets; and (4) identified interim opportunities to better govern the City's existing affordable housing assets while the VAHEF strategy is being developed. A key part of this work involved engagement with a targeted group of senior government and housing partners and stakeholders to gather early input on what the purpose and objectives of VAHEF should be and what the City should consider going forward. Other housing asset managers, from both the private and non-profit sectors, were also consulted on potential models of governance, management, and operation of VAHEF. This consultation further assisted in the scoping of what additional analysis and resources will be required to support the remaining work, which will involve defining the strategy of VAHEF and designing its operations and management model. Further details of the remaining project scope are summarized in the following section.

Strategic Analysis

1. PROVISIONAL MANDATE AND GUIDING PRINCIPLES

The proposed provisional Mandate includes a purpose statement and associated goals which provide clear direction of what VAHEF is intended to accomplish and its contribution to the preservation and growth of affordable housing in Vancouver. The Mandate can be achieved in many ways; therefore, the proposed provisional Guiding Principles are intended to set parameters with respect to how VAHEF should be managed to achieve its provisional Mandate. The proposed provisional Mandate and Guiding Principles reflect input from staff and external partners.

Council endorsement of the provisional Mandate and Guiding Principles at this stage is important as they will guide the development of VAHEF's strategy and targets, governance structure, and operations and management models. The Mandate will also ensure alignment of specific decisions and work programs with clearly defined goals and deliberate unified direction.

The Mandate and Guiding Principles proposed are provisional until the end of 2019, after which they may be refined to reflect learnings from further analyses, more broad-based engagement, and VAHEF's strategy and targets, which will be developed in the near future. A consolidated version of the provisional Mandate and Guiding Principles is included in Appendix A.

VAHEF Provisional Mandate (Purpose & Goals)

The proposed purpose statement for VAHEF is to:

Make an enduring contribution to meeting the housing and affordability needs of Vancouver residents, by sustainably managing and growing the City of Vancouver's portfolio of affordable housing assets, contributing to complete and inclusive communities and city-wide housing targets.

Key considerations in the development of this purpose statement included:

- The term of VAHEF is not limited, as it is intended to be an endowment that continues into the future, beyond the term of the 10-year Housing Vancouver Strategy.
- Unlike some of the City's other funds which tend to have a broad range of objectives, VAHEF's primary focus is to contribute towards housing and affordability needs in Vancouver by managing the City's affordable housing portfolio across the asset life-cycle (separate from the regulatory and policy-setting role of the broader City organization), which must be done in a sustainable fashion to ensure the enduring nature of VAHEF.
- VAHEF's contribution should align with the City's broader city-wide housing targets, currently defined in Housing Vancouver and consider needs where the market does not actively fulfil.

There are five proposed goals that VAHEF will work towards. They are aligned with the Housing Vancouver Strategy values of diversity, security, affordability, connection and equity, all of which are to be achieved in a financially sustainable way. These goals will enable the development of short- and medium-term (approx. 5 and 10 years, respectively) measurable objectives, targets and outcomes. Below is a summary of each goal and the key considerations made during their development.



AFFORDABILITY

Create and maintain homes that are affordable to a diversity of Vancouver residents earning local incomes and for those living in poverty or are experiencing or at risk of homelessness.

Rationale:

- Affordability levels within the portfolio should be geared towards local incomes of Vancouver residents so they have access to housing options within their means.
- Affordability levels should reflect the diversity of needs of Vancouver residents, and not focused solely on one group or income bracket.

GROWTH

Invest in new affordable housing in line with the demand for affordable homes by Vancouver residents.

Rationale:

- As the demand for affordable housing evolves over time, so should VAHEF's investment strategy for new housing.

SAFE & HEALTHY HOMES

Strategically manage the portfolio of affordable housing assets through appropriate operation, maintenance, renewal, development, and redevelopment to ensure safe and healthy homes for residents.

Rationale:

- Ongoing maintenance and reinvestment to preserve the City's affordable housing will benefit many generations of Vancouver residents.
- The City's affordable housing should strive to demonstrate leadership in ensuring the provision of healthy and safe homes and comply with applicable requirements and legislation.
- In the case of a ground lease where the City enables a housing partner to build on City land, adequate oversight will be provided to ensure building quality and safety.

COMMUNITY & SECURITY

Provide long-term homes that support resident's participation in the community and increases their sense of social inclusion and security.

Rationale:

- Long term tenancies are necessary to build a sense of belonging in the city.
- A diverse portfolio across the city will promote equitable access to jobs, education, and other opportunities for economic prosperity for people of all ages, incomes, and backgrounds.
- By enabling a diversity of housing options within all neighbourhoods, particularly for residents whose needs are not addressed elsewhere, the right mix of homes can support resilient neighbourhoods, with strong connections between people, places and communities.

FINANCIAL SUSTAINABILITY

Maintain the financial sustainability of the endowment to continually contribute to meeting housing needs in the city, serving current and future residents of Vancouver.

Rationale:

- As a steward for the City's affordable housing assets, VAHEF must be financially prudent to achieve enduring housing benefits for Vancouver Residents over the long term.

VAHEF Guiding Principles

There are also five provisional Guiding Principles proposed which provide parameters around how the planning and management of VAHEF should achieve its Mandate.

1. *Decisions made today should ensure that current and future residents will be served by a well-managed and diverse portfolio of affordable homes.*

Rationale: The assets managed by VAHEF will deliver affordable housing to Vancouver residents for generations. Additionally, the housing needs of Vancouver residents are diverse and will evolve over time. Therefore, VAHEF's investment strategy needs to consider both the short and long term needs of residents.

2. *VAHEF will contribute to the development of complete communities, which include a diversity of incomes, backgrounds and household types, while optimizing for asset-specific characteristics and the ability to attract partner investment.*

Rationale: VAHEF should strive to contribute to complete communities by providing a diversity of housing choice in neighbourhoods and delivering affordable housing where the market may not necessarily provide. To do so, VAHEF must be able to manage the City's affordable housing assets as a portfolio, creating cross-subsidization opportunities. As such, VAHEF will optimize individual assets in the portfolio to deliver more diversity and affordability, and create more homes.

3. *Partnerships are necessary for achieving financial sustainability, to grow the number of homes available to residents, and to ensure the depth of affordability of those homes can meet local needs.*

Rationale: The City is not positioned to deliver all aspects of affordable housing across the asset life-cycle (e.g. sourcing, development, operations, divestment/reinvestment) for every asset in the portfolio. Partnerships are essential for the effective delivery of services – such as development, housing operations, and property management – driving efficiencies and innovation which can deliver more affordable housing.

Additionally, to contribute to the deeper levels of affordability and unit creation targets set by Housing Vancouver while maintaining the financial sustainability of the portfolio, a greater amount of upfront equity and financing and ongoing operating subsidies from senior governments and partners will be required to supplement assets contributed by the City.

4. *Alongside the need to grow the portfolio of assets managed by VAHEF, the City and housing partners must responsibly reinvest in existing affordable housing over time to maintain affordability, condition and safety.*

Rationale: Investment in current housing stock is necessary to preserve building condition and extend the life of assets. Ongoing maintenance and repair of assets is critical to housing stability for residents and sustaining the deeper levels of affordability often present in older housing stock. Therefore, VAHEF must balance the need for investing in new housing stock with maintaining and reinvesting in existing housing, and enable the City's housing partners to do the same on projects built on City land.

5. *VAHEF will manage the City's affordable housing assets in a financially sustainable way, serving all Vancouver residents, such that the revenue generated from its activities and any operating subsidies from external parties must be sufficient to preserve the endowment, allowing for dedicated funding streams (e.g. CACs, DCLs) to be invested in growth of the portfolio.*

Rationale: For VAHEF to make an enduring contribution to addressing the affordable housing needs of Vancouver residents, it must do so in a financially sustainable and resilient way. Such an approach would entail not relying on operating subsidies from the City (which are not always predictable and stable) to sustain itself, and reinvesting any surpluses to sustain and grow the endowment. To achieve deeper levels of affordability, VAHEF will require operating subsidies from other levels of government, where available.

The City will also dedicate funds from the following sources to VAHEF to sustain and grow the affordable housing portfolio:

- Development contributions (DCLs and CACs);
- Emerging sources of revenue, such as the Empty Homes Tax;
- Affordable housing assets secured through inclusionary housing requirements and rezoning; and
- Revenues generated through the assets held in VAHEF, such as lease payments and surplus sharing with our housing partners.

Transitory Principles

While the Guiding Principles are intended to stand the test of time, the following principles will guide the consolidation of the City's affordable housing assets and the management of the endowment until the end of 2019 while the VAHEF strategy and operations are being established (Transitory Principles).

1. *The consolidation of the City's affordable housing assets should fairly consider the impact to the financial sustainability of the City's other funds and their ability to fulfil their respective mandates.*

Rationale: While the affordable housing assets currently managed by the PEF and CF will be consolidated under VAHEF management, the transfer pricing among the funds will need to be established to minimize any negative impact on the financial viability of other funds.

2. *Interim decisions regarding the City's affordable housing assets should strive to align with the provisional Mandate and Guiding Principles while the strategy for VAHEF is being developed.*

Rationale: The City may make significant decisions related to its affordable housing assets while the strategy for VAHEF is being developed. Rather than simply maintaining the status quo, this principle is intended to guide the City's decision making processes to adequately consider its alignment with the VAHEF provisional mandate.

2. ASSETS UNDER MANAGEMENT

The assets under VAHEF management upon consolidation include all non-market housing assets currently managed by the City's CF and PEF, including sites that have been designated for development by the Vancouver Affordable Housing Agency (VAHA), land leased to housing partners, buildings, and Air Space Parcels (turnkey social housing units within larger private developments). Consolidation with the assets held in Vancouver Public Housing Corporation (VPHC) will require more in-depth review to determine the practicality of transfer.

Other existing real estate or property assets held by the CF and PEF, such as market rental, strata leaseholds, commercial/industrial development sites, and arts/culture spaces, will continue to be managed by the CF and PEF as they do not contribute directly to the VAHEF provisional Mandate. Consideration will be made whether VAHEF should manage assets other than affordable housing in the future, such as mixed use sites, market rental and commercial/industrial development sites, if these assets can contribute to the VAHEF Mandate and do not compete with the management of the City's other funds.

3. NEXT STEPS TO ESTABLISH VAHEF

Subject to Council's in-principle approval of the Provisional Mandate and Guiding Principles for VAHEF as set out in this report, staff will complete the following activities to further advance the creation of VAHEF and manage the City's portfolio of affordable housing assets:

- (1) Develop the strategy for VAHEF;
- (2) Design VAHEF's governance structure, business model and operations model to deliver the strategy and manage portfolio activity;
- (3) Transition to the governance structure, business and operating models as defined in (2) above.

Staff will report back to Council on item (1) above in early/mid 2019, which will consist of the following:

- VAHEF objectives and targets
- Current state portfolio assessment and optimization strategy
- Delivery model(s) for new projects
- Financial strategy
- Partnership strategy
- Governance structure and legal construct options
- Final VAHEF mandate and guiding principles

Given the Strategy (1) will influence the governance structure, business and operating models (2) and implementation (3), the activity for items (2) and (3) will be completed in the remainder of 2019.

4. INTERIM VAHEF GOVERNANCE

While the VAHEF strategy, governance and operations are being established, staff have identified the need to define and operationalize a framework for managing the endowment in the interim (defined as the remainder of 2018 to the end of 2019). An interim framework may not necessarily reflect the ultimate management model of VAHEF, but recognizes the opportunity to better align the current management of the City's affordable housing assets in line with the VAHEF provisional Mandate and Guiding Principles.

Immediately, staff plan to form an internal steering committee (VAHEF Steering Committee) to guide portfolio planning and strategic decision making pertaining to City assets managed by VAHEF and streamline existing governing bodies and individual departments that deal with the City's affordable housing assets. This will improve consistency, transparency, and alignment of the City's affordable housing assets and its affordable housing objectives and targets.

The VAHEF Steering Committee will consist of the General Managers of City departments (or delegates) currently involved in the delivery of affordable housing with the City Manager (or delegate) as the Chair. Input into the governance of VAHEF from an external party will be a future consideration. Portfolio planning and strategic decisions to be considered by this committee may include items such as:

- Setting VAHEF portfolio objectives and targets,
- Developing housing site acquisition strategy,
- Establishing new deal structures/delivery models, and/or
- Major lease renewal and redevelopment decisions.

Upon further analyses, staff may make further adjustments to the governance, operation and management of affordable housing in the City to better align with the provisional VAHEF Mandate and Guiding Principles while the VAHEF strategy and operations is being established. Resources needed to execute the strategy and manage VAHEF will be evaluated once the strategy for VAHEF is further defined.

Public/Civic Agency Input

To develop the VAHEF provisional Mandate and Guiding Principles, staff consulted with a targeted group of partners and stakeholders. Broader consultation will occur during the second phase of this project to inform the development of the detailed VAHEF strategy and operations and management plans.

The first phase of engagement for this project conducted interviews with key local partners in the public, non-profit and private sectors to understand their views on:

- The purpose and goals of VAHEF;
- VAHEF's value proposition to its stakeholders;
- Alignment with other housing partners; and
- Important considerations in moving forward with this project.

Staff further interviewed asset managers in both the private and non-profit housing sectors to learn practical lessons and recommendations for setting up a sustainable and well-managed VAHEF. The interviews were conducted during August 2018 and involved nine different organizations.

Key findings from the interviews included:

- Partners appreciated the opportunity to provide input at this early stage in the project process and expressed keen interest in remaining involved going forward. Through these interviews, additional organizations and stakeholders were identified as contacts for future engagement on specific topic areas related to establishing VAHEF.
- VAHEF is an opportunity for the City to demonstrate leadership in the delivery of affordable housing through a clear and focused mandate and coherent set of goals and objectives, which would provide predictability for delivery partners.
- To ensure the enduring nature of the endowment and build the confidence of potential partners, the City's contribution and any financial returns derived from the endowment should remain in the endowment.
- Examine and clarify what VAHEF's role is in addressing the need for affordable housing in Vancouver and enable partners to focus on the roles they specialize in without undue interference. This will work to avoid duplication of efforts, create more value in the housing delivery value chain, and allow for productive partnerships. There is an opportunity for better alignment of purpose with partners under this approach.
- Simplify the interaction with the City when developing an affordable housing project to a 'single point of contact' to create more streamlined communication and coordination when delivering affordable housing projects with the City.
- Consider both financial and non-financial measures when defining and measuring the success of VAHEF. Non-financial measures could include measures such as diversity, social connection and partnerships.
- Enable transparency to both the public and partners in how the City manages affordable housing assets through regular monitoring and reporting activities.
- VAHEF can facilitate greater alignment with senior government approaches and requirements for affordable housing which would help streamline the delivery of projects.
- It is a huge challenge to secure funding for affordable housing, particularly deeply affordable homes. VAHEF will have to consider how best to balance investment in existing stock, new unit creation and maintaining affordability while ensuring the long-term economic viability of projects.

Implications/Related Issues/Risk

Financial

VAHEF will enable a portfolio approach to optimize the preservation of existing affordable housing assets while growing the affordable housing stock in Vancouver. It will benefit from dedicated land use policies and funding sources to acquire new assets to address the housing needs of Vancouver residents over the long term. These sources are expected to include:

- Development contributions (DCLs & CACs);
- Emerging sources of revenue, such as the Empty Homes Tax;
- Affordable housing assets secured through inclusionary housing requirements and rezoning; and
- Revenues generated from the affordable housing assets in VAHEF, such as lease payments and surplus sharing with housing partners.

It should be noted that provision of social housing is primarily the responsibility of senior governments. In recent months, both Federal and Provincial governments have introduced funding programs for creating and sustaining affordable housing. In November 2017, the Federal Government announced the National Housing Strategy, which includes a number of funding programs to support creation of new housing and preservation of existing housing. In February 2018, the Provincial Government announced “A 30-Point Plan for Housing Affordability in British Columbia”, which includes a number of new tax measures to dampen speculative demand and generate new revenues to fund affordable housing. The City welcomes these new initiatives, since in the absence of senior government support, the City alone will not be able to sustain and grow the affordable housing portfolio over the long term.

The City is actively pursuing strategic partnerships with other levels of government to deliver much-needed affordable housing through various means, including funding for capital and operating costs in new affordable housing; low-cost financing to support affordable housing construction; and legislative changes to enable new housing and land use initiatives. Having a sustainable partnership and funding arrangement with senior governments would substantially enable new affordable housing supply as well as the much needed building repairs for all co-op and affordable housing on City land.

With the existing City-owned affordable housing assets and dedicated funding sources identified above, as well as an agreement from senior governments to work with the City towards a predictable partnership and funding strategy, it is expected that VAHEF will have the resources, capacity and focus required to support the preservation and growth of the City’s affordable housing portfolio in a sustainable and resilient manner.

Further work will be undertaken to determine how best to transfer existing affordable housing assets from PEF and CF to VAHEF to ensure financial viability of all three funds over the long-term. As well, staff will examine other innovative business and operating models to optimize affordability and social return for the entire portfolio over the long term.

Staff will report back on resource requirements to further develop the VAHEF strategy, governance structure, business and operating models as part of the 2019 Budget process. Funding requirements for the remainder of 2018 (~ \$300,000) will be funded from the existing budget.

Legal

Upon creation of VAHEF, legal ownership of the City's affordable housing assets will not change and will remain in the name of the City of Vancouver.

CONCLUSION

This report seeks Council adoption of a provisional Mandate and Guiding Principles to inform the next steps in establishing the VAHEF. The provisional Mandate and Guiding Principles were informed by initial engagement with local partners and asset managers. The report also recommends that the Mandate and Guiding Principles remain provisional as additional analyses and engagement work will be undertaken to develop the VAHEF strategy, governance structure, business, operating and management models.

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Vancouver Affordable Housing Endowment Fund (VAHEF) PROVISIONAL MANDATE, GOALS AND GUIDING PRINCIPLES

Purpose

Make an enduring contribution to meeting the housing and affordability needs of Vancouver residents, by sustainably managing and growing the City of Vancouver's portfolio of affordable housing assets, contributing to complete and inclusive communities and city-wide housing targets.

Goals

- **AFFORDABILITY** - Create and maintain homes that are affordable to a diversity of Vancouver residents earning local incomes and for those living in poverty or are experiencing or at risk of homelessness.
- **GROWTH** - Invest in new affordable housing in line with the demand for affordable homes by Vancouver residents.
- **HOUSING PRESERVATION** – Strategically manage the portfolio of affordable housing assets through appropriate operation, maintenance, renewal, development, and redevelopment to ensure safe and healthy homes for residents.
- **COMMUNITY & SECURITY** - Provide long-term homes that support resident's participation in the community and increases their sense of social inclusion and security.
- **FINANCIAL SUSTAINABILITY** – Maintain the financial sustainability of the endowment to continually contribute to meeting housing needs in the city, serving current and future residents of Vancouver.

Guiding Principles

1. Decisions made today should ensure that current and future residents will be served by a well-managed and diverse portfolio of affordable homes.
2. VAHEF will contribute to the development of complete communities, which include a diversity of incomes, backgrounds and household types, while optimizing for asset-specific characteristics and the ability to attract partner investment.
3. Partnerships are necessary for achieving financial sustainability, to grow the number of homes available to residents, and to ensure the depth of affordability of those homes can meet local needs.
4. Alongside the need to grow the portfolio of assets managed by VAHEF, the City and housing partners must responsibly reinvest in existing affordable housing over time to maintain affordability, condition and safety.
5. VAHEF will manage the City's affordable housing assets in a financially sustainable way, serving all Vancouver residents, such that the revenue generated from its activities and any operating subsidies from external parties must be sufficient to preserve the endowment, allowing for dedicated funding streams (e.g. CACs, DCLs) to be invested in growth of the portfolio.