



IN CAMERA

ADMINISTRATIVE REPORT

Report Date: October 11, 2018
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Meeting Date: November 13, 2018

TO: Vancouver City Council

FROM: CEO Vancouver Affordable Housing Agency in consultation with the General Manager of Real Estate and Facilities Management

SUBJECT: 3185 Riverwalk Ave (Parcel 8A) Lease Terms

IN CAMERA RATIONALE

This report is recommended for consideration by Council on the In Camera agenda as it relates to Section 165.2(1) of the *Vancouver Charter*: (e) the acquisition, disposition or expropriation of land or improvements, if the Council considers that disclosure could reasonably be expected to harm the interests of the city; (k) negotiations and related discussions respecting the proposed provision of an activity, work or facility that are at their preliminary stages and that, in the view of the Council, could reasonably be expected to harm the interests of the city if they were held in public.

RECOMMENDATION

- A. That Council authorize the General Manager of Real Estate Services and Facilities Management to negotiate and execute a ground lease, (the "Lease") for the City-owned site located at 3185 Riverwalk Avenue, legally described as: Lot 12 Blocks 9, 10, and 17 District Lot 330 Group 1 New Westminster District Plan EPP 23174 (the "Property") with SUCCESS Affordable Housing Society ("SUCCESS") to enable the development of a non-market housing project, which ground lease will provide for:
- i) a term of 60 years;
 - ii) a nominal prepaid rent;
 - iii) no less than 30% of housing units in the building are rented to households with incomes below the then current BC Housing Income Limits (HILs) for subsidized housing in the city published each year by the commission or its successor in function or an equivalent publication approved by the City;

- iv) reporting requirements, including an annual rent roll and building condition report every five years;
- v) the creation of, implementation of and compliance with a capital asset plan;
- vi) a requirement to maintain a capital replacement reserve at a level of funding approved by the City;
- vii) an option in favour of the Provincial Rental Housing Corporation to assume the rights and obligations 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
- viii) a requirement that all surplus revenues generated from the project be divided equally between the City and SUCCESS as lessee, with the lessee's portion to be used:
 - a. first, to create and maintain a reserve for the purpose of subsidizing the rent of HILs unit occupants whose income decreases below the level approved at the commencement of the rental agreement;
 - b. second to: (i) increase the affordability of HILs units within the Building or increase the net number of HILs Units in the Building through turnover of non-HILs units or as the result of income-testing of existing occupants; (ii) meet the affordability target for non-HILs units within the Building of renting such units at no more than 90% of the appraised market rent for a comparable unit in the local area and no more than 30% of the low and moderate income limit as determined by BC Housing; or (iii) create or acquire net new, social housing within Vancouver;
- ix) a requirement that should BC Housing Management Commission ("BC Housing") become an equity contributor to the project, any surplus be divided equally among the City, the lessee and BC Housing, 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; and
- x) which will otherwise be in accordance with the terms and conditions outlined in this report and to the satisfaction of the General Manager of Arts, Culture and Community Services, the General Manager of Real Estate and Facilities Management, the Director of Finance, and the Director of Legal Services.

The proposed Lease at a nominal rent constitutes a grant valued at \$15.8 million and requires 8 affirmative votes of Council.

- B. 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.

REPORT SUMMARY

In June of 2017, Council approved SUCCESS as the non-profit partner to build, finance, operate and maintain social housing on the Property and authorized the General Manager of Real Estate and Facilities Management to negotiate and execute a ground lease to enable the construction and operation of the affordable housing project. Since 2017, completion of the detailed design and construction pricing has resulted in a reduction in affordability. The reduction is warranted to make the project viable and, as a result, there are changes to the lease terms originally approved by Council. This report outlines those changes and seeks Council authorization to enter into a lease agreement with SUCCESS based on the 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.

It is Council policy to lease City-owned land to non-profit societies or co-operative associations for the purpose of providing affordable housing. A 60 year lease is valued at 75% of freehold market value.

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"). VAHA's mandate is to expedite the delivery of diverse housing options within the City of Vancouver.

On May 26, 2015 Council designated the site for which the City had an option to purchase at 3185 Riverwalk Avenue (Parcel 8A, the "Property") to VAHA for the purpose of developing affordable housing.

In June of 2017, Council approved SUCCESS as the non-profit partner to build and operate social housing and authorized the General Manager of Real Estate Services and Facilities Management to negotiate and execute the Lease for the Property to enable the development of a non-market housing project.

CITY MANAGER'S/GENERAL MANAGER'S COMMENTS

The General Managers of Arts, Culture and Community Services, Real Estate and Facilities Management, the Chief Executive Officer of the VAHA and the City Manager recommend approval of the foregoing.

REPORT

Background/Context

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. Planning has been underway since 2002 following closure of the White Pines Sawmill. The EFL ODP, approved in 2006, includes approximately 7.7 million sq. ft. of development, including housing, shops and services, a network of parks and plazas, four childcare centres, two school sites and a community centre.

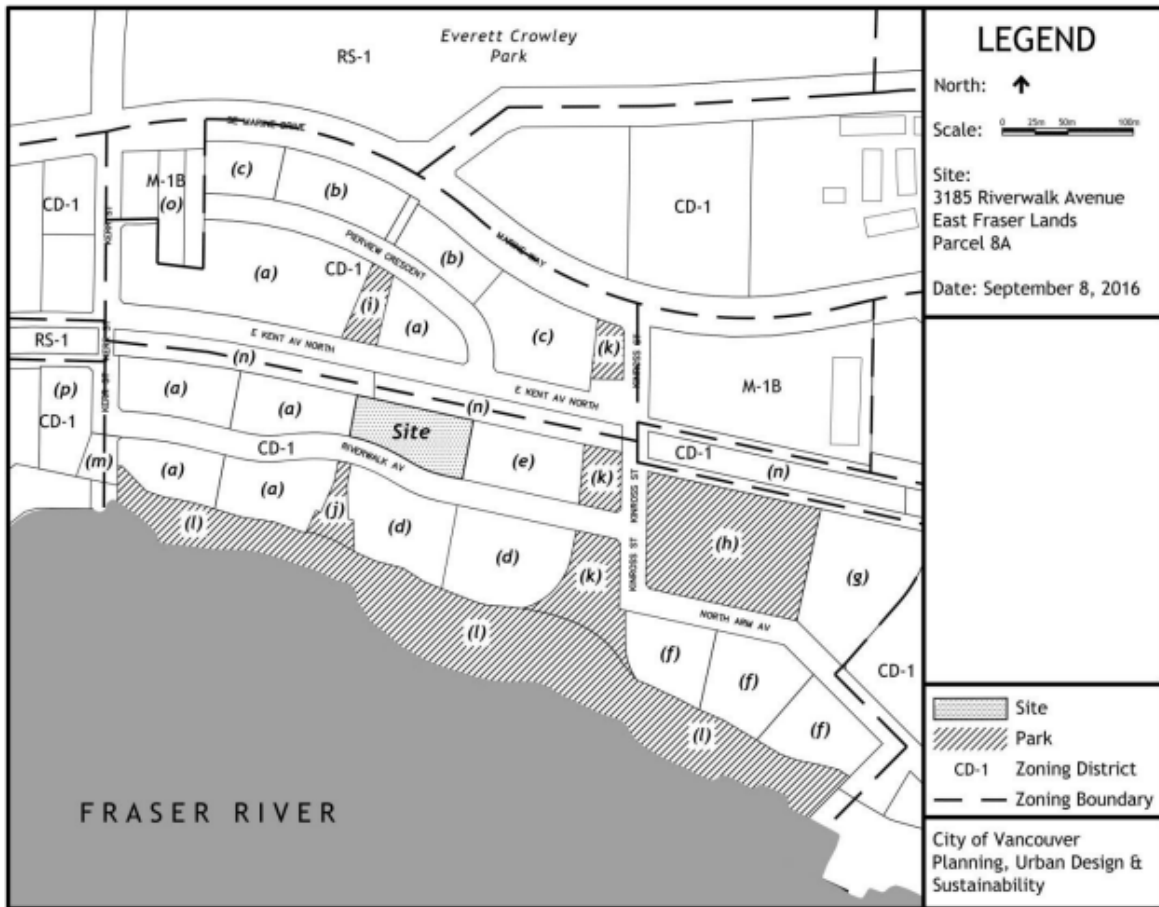
The EFL ODP also requires that 20% of the dwelling units in EFL be for affordable housing. Through the ODP, the CD-1 rezonings and subsequent legal agreements, the City has the option to purchase designated land parcels (the “Option Sites”) from Wesgroup Properties at \$35 per buildable square foot (2006 \$ to be adjusted for inflation) to deliver affordable housing. The Property (3185 Riverwalk Avenue, also known as Parcel 8A in the EFL ODP), is one of the first of the Option Sites to proceed with development.

Given the anticipated development revenues in the ODP area, it was contemplated that delivery of affordable housing would require significant senior government contributions in addition to the City’s land contribution. The creation of the Vancouver Affordable Housing Agency (VAHA), together with the recent provincial investments in affordable housing, has created an opportunity to advance the delivery of affordable housing on this Option Site in EFL.

Strategic Analysis

Site and Project Description:

The immediate context of the site is characterized by a mix of existing developments, developments under construction and undeveloped parcels. Existing and future developments around the site consist of apartments and townhouses ranging from 3 to 11 storeys. The site is in the second row of development north of the riverfront.



The Site area is 3609 m² (38,848 sf). The development proposal consists of the following components:

- 109 units comprised of 7 studios, 30 – 1 BR, 48 – 2 BR, 24 – 3 BR (66% family units);
- 5 storeys of wood frame construction with a gross floor area of 90,829 square feet;
- 1 level of underground parking for 88 spaces; and,
- Storage for 134 bicycles.

VAHA worked with Wesgroup to bring the project through the building permit stage, and the Stage 1 permit was issued in October of 2018. SUCCESS is in the process of entering a construction management contract with Performance Construction Limited and VAHA will continue to work with both SUCCESS and Performance to ensure that the Lease and construction green light conditions are fulfilled. It is expected that the building will be completed by December 2020.

Affordability

As further described in the financial section of this report, both the Province of British Columbia and the City of Vancouver are making significant financial contributions to this affordable housing project. The Province of British Columbia is providing a capital grant through its Investment in Housing Innovation program and low-cost financing, while the City is providing the land and preliminary development management services. These contributions create the economic conditions that enable the project's affordability.

The EFL ODP requires that a minimum of 30% of units rent to households with incomes below the Housing Income Limits (HILs) as published by BC Housing. In June of 2017, when Council first considered the Lease terms for this project, it was anticipated that the development would be able to exceed the requirements of the EFL ODP and achieve a minimum of 70% HILs units within the building. However, changes to several project parameters, including available funding opportunities, incremental cost increases due to design requirements and the price of construction; have reduced the percentage of HILs units to which the operator can commit to providing at the start of the project to the 30% minimum required by the ODP. This reduction is a change to the Lease terms originally approved by Council, thus requiring Council's reconsideration.

Further, it was first conceived that the project could accommodate a Rent Geared to Income (RGI) approach for units within the building. Under a RGI approach, the amount of rent charged is based directly on the tenant's income, usually 30% of the gross monthly household income. As a result, the rent charged to tenants can fluctuate depending on the economic circumstances of the tenants. To be eligible for project financing, the RGI approach requires that ongoing operating subsidies be available from senior governments to ensure that the project is going to be financially viable. Ongoing operating subsidies are not available and therefore the RGI component that was included in the Lease originally approved by Council has been removed, thus requiring Council's reconsideration.

This project continues to meet the requirements of affordable housing in the EFL ODP and will be enforced by the terms of the Lease with the City and the Operating Agreement with BC Housing. In addition, the Lease provides clear structure regarding how future surpluses that may be generated by the development during the 60 years of the Lease must be reinvested.

Lease Terms

The City's Standard Charge Terms are proposed to be included with the Lease for this site, as per standard City practice for Social Housing. The other terms for this Lease will provide for:

- a term of 60 years;
- a nominal prepaid rent;
- no less than 30% of housing units in the building are rented to households with incomes below the then current BC Housing Income Limits (HILs) for subsidized housing in the city published each year by the commission or its successor in function or an equivalent publication approved by the City as lessor;
- reporting requirements, including an annual rent roll and building condition report;
- the creation of, implementation of and compliance with a capital asset plan;
- a requirement to maintain a capital replacement reserve at a level of funding approved by the City;
- 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
- a requirement that all surplus revenues generated from the project be divided equally between the City as lessor and SUCCESS as lessee, with the lessee's portion to be used to:
 - a. first, be used to create and maintain a reserve for the purpose of subsidizing the rent of HILs Units Occupants who Income decreases below the level approved at the commencement of the rental agreement;
 - b. second, to (i) increase the affordability of HILs units within the Building or increase the net number of HILs Units in the Building through turnover of non-HILs units or as the result of income-testing of existing occupants(ii) meet the affordability target for non-HILs units within the Building of renting such units at no more than 90% of the appraised market rent for a comparable unit in the local area and no more than 30% of the low and moderate income limit as determined by BC Housing; or (iii) create or acquire net, new, social housing within Vancouver;
- a requirement that should BC Housing Management Commission ("BC Housing") become an equity contributor to the project, any surplus be divided equally among the City as lessor, SUCCESS as lessee and BC Housing, 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 lessor both support and as agreed to by the lessor), subject to approval from its Executive Committee and/or Board of Commissioners.
- a requirement to meet the terms and conditions specified in the Certificate of Compliance (CoC) for the site

Implications/Related Issues/Risk

Financial

Capital - The typical funding model for social housing projects entails leasing City land to housing partners at below market or nominal rent for 60 years or longer. Partners are responsible for the design, construction, 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. Projects will not proceed without confirmation of all funding and financing arrangements.

SUCCESS's original RFP submission (December 2016) entailed an affordability target of 70% of units to be rented at HILs, at an overall construction cost of ~\$25.5 million (\$281/sq ft) and operating cost of \$418 per unit per month for property management and \$55 per unit per month for support & programming costs, requiring BC Housing capital grant of \$9.0 million and mortgage financing of ~\$16.5 million.

In October 2018, SUCCESS revised the above with an affordability target of 30% of units to be rented at HILs, at an overall construction cost of ~\$36.2 million (\$400/sq ft) [42% increase] and combined operating cost of \$525 per unit per month [~10% - 20% increase]. This adjustment has substantially altered the affordability target and equity and financing requirements for the Project. To deliver the revised target affordability, upfront equity of \$9.0 million and mortgage financing of \$27.2 million are required from BC Housing in order to make the Project viable. The City will work with SUCCESS to refine and agree on the starting operating and programming cost for per unit per month based on benchmarking with comparable projects to ensure the project is financial viable over the long term.

The following table summarizes the estimated project capital costs and funding/financing requirement to deliver the target affordability for the Project.

Estimated Development Costs	
City Land	\$15.8 million
Construction	\$36.2 million
	\$52.0 million
Source of Funds	
City of Vancouver (60-year Nominal Land Lease)	\$15.8 million
BC Housing Mortgage Financing	\$27.2 million
BC Housing Capital Grant	\$9.0 million
Total	\$52.0 million

The funding model is based on the City's standard requirement of 35-year amortization at an assumed initial rate of 4.5% p.a. and refinancing at 5% in Year 6; affordability targets of 30% of units rented at HILS rates and 70% of units rented at LEM rates. SUCCESS is currently seeking additional capital grant and/or higher mortgage financing from BC Housing.

The fair market (freehold) value for the site is estimated to be \$21.1 million and a 60-year lease is priced at 75% of the freehold value. In addition, social housing is exempt from Development Cost Levies, which is estimated to be approximately \$2.1 million based on the square footage as submitted in the development permit application. As such, the City's overall contribution, the grant

of the nominal land lease of \$15.8 million plus DCL exemption, equates to approximately 33% of the overall project capital cost or \$164,000 per unit.

Lease execution is contingent on SUCCESS having secured all partner equity and mortgage financing, on terms and conditions that are satisfactory to the City, to deliver a viable project over the term of the lease at the target affordability outlined above. In addition, SUCCESS 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.

The current pro-forma indicates that at least \$27.2 million in mortgage financing is required to make the housing project financially sustainable while achieving the affordability target over the term of the project. Upon execution, the lease will include terms on the allocation of any operating surplus arising from the Project. Over time, as the mortgage is repaid, the Project will likely generate increasing operating surplus. As the affordability target is met and sustained, homes are properly maintained, sufficient operating contingency and capital replacement reserves are set aside, residual surplus will be divided equally between the City and SUCCESS, with SUCCESS'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 SUCCESS, 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 deliver a self-sustaining affordable housing legacy through partnerships with a non-profit housing partner and a senior government.

Environmental

Contaminated Sites Management

Parcel 1 was formerly contaminated but was remediated to residential and urban parkland soil use standards, and freshwater aquatic life water use standards. A numerical Certificate of Compliance (CofC) was issued for the site by the BC Ministry of Environment in 2005. It is not anticipated that any further remediation will be necessary to support the proposed development. The non-profit partner will be responsible for ensuring that the development is conducted in accordance with the terms and conditions specified in the CofC, including any associated costs. This obligation is included in the lease terms specified above.

Hazardous Building Materials Management

There are no hazardous building materials present on-site.

CONCLUSION

Staff recommends that Council authorize the General Manager of Real Estate Services and Facilities Management to negotiate and execute a ground Lease with SUCCESS as the non-profit partner to build and operate social housing at the City owned 3185 Riverwalk Ave site, consistent with the terms described in this report.

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