

A decorative graphic spanning the width of the slide, consisting of a blue line with circular markers that fluctuates in height. Below the line are green and blue shaded areas representing hills and water. On the right side, there is a silhouette of a city skyline with a prominent tower. Several yellow location pin icons are placed at various points along the line.

RTS # 13783

Lease Renewal Methodology for Co-operative Housing on City Land

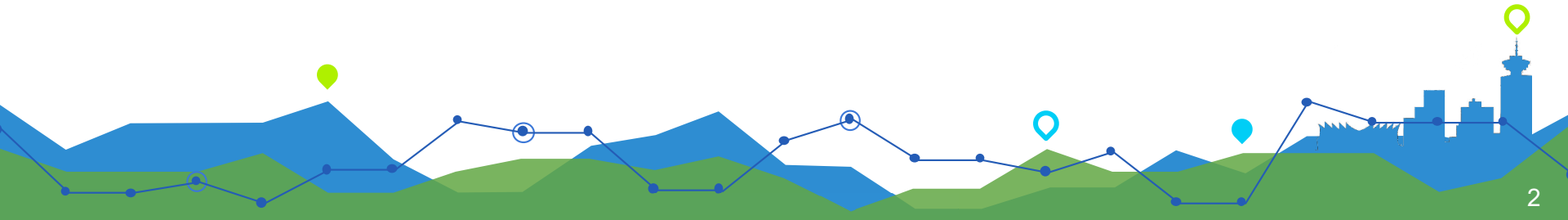
July 7 2021

Today's agenda

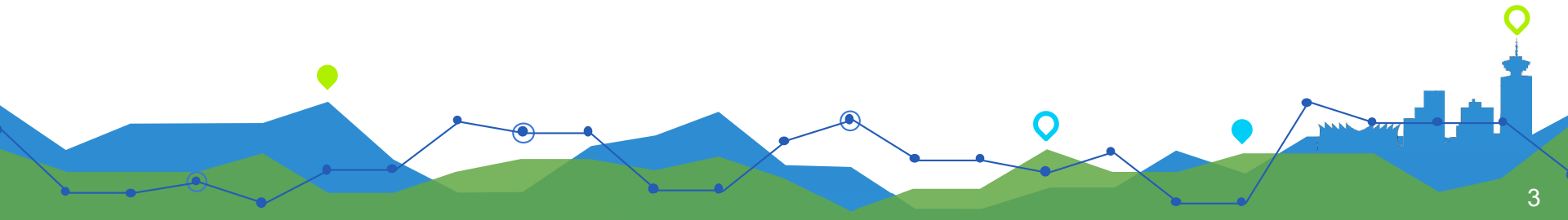


Purpose: To present and seek approval for the proposed methodology for co-op lease renewals.

1. Background and Context
2. Process: Developing the Methodology
3. Proposed Methodology for Co-op Lease Renewals
4. Council Decisions



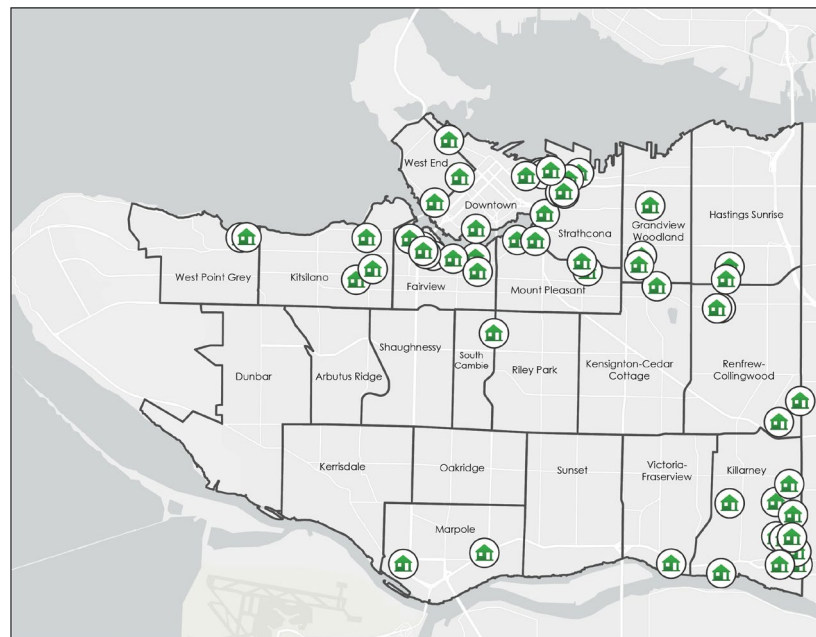
1. Background & Context



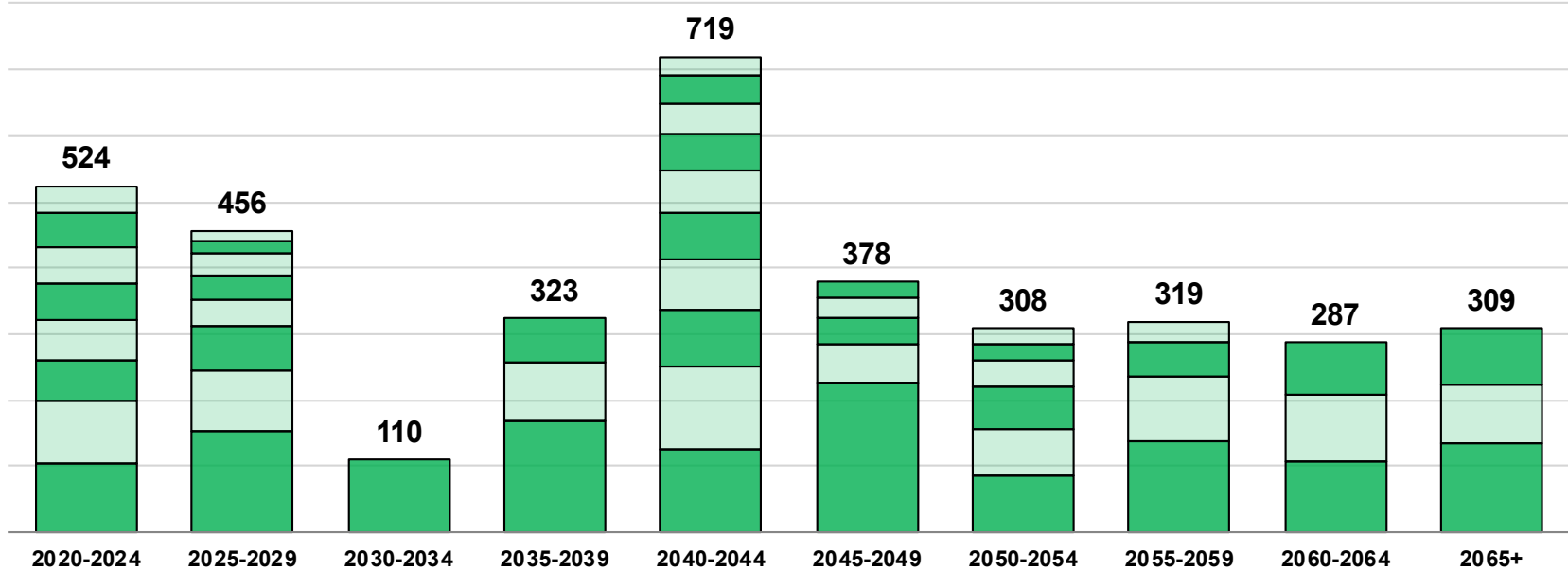
57 co-op sites on leased City land

- 22% of the City's non-market assets by land area
- 27% of existing non-market housing units on City land: (3,738 / 13,630 units)
- Represent at least \$721.5M* in land value

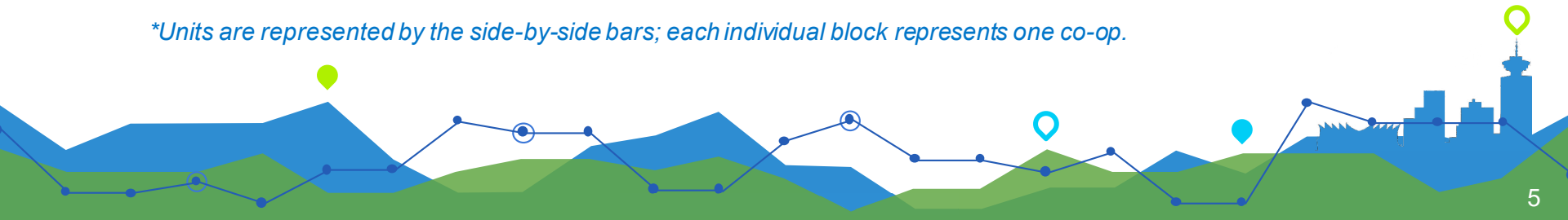
**Figure does not reflect true market value as the BC Assessment valuation methodology for some sites considers affordability requirements stipulated in registered lease agreements for non-profit and co-op housing (~70% discount from highest & best use/market value)*



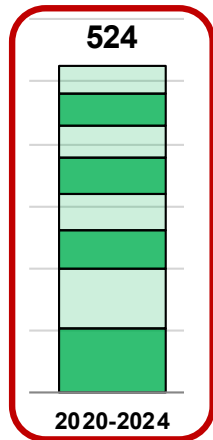
Co-op Leases on City Land: Upcoming Expiries & Number of Units on City Land



**Units are represented by the side-by-side bars; each individual block represents one co-op.*



Lease expiries prior to 2024



- Eight Oaks Co-op (October, 2021)
- Marina Co-op (2022)
- Cedar Mill Co-op (2022)
- Access Co-op North/South (2023)
- Alder Bay Co-op (2023)
- Creekview Co-op (2023)
- Amicae Co-op (2024)
- Northern Way Co-op (2024)

**Units are represented by the side-by-side bars; each individual block represents one co-op.*

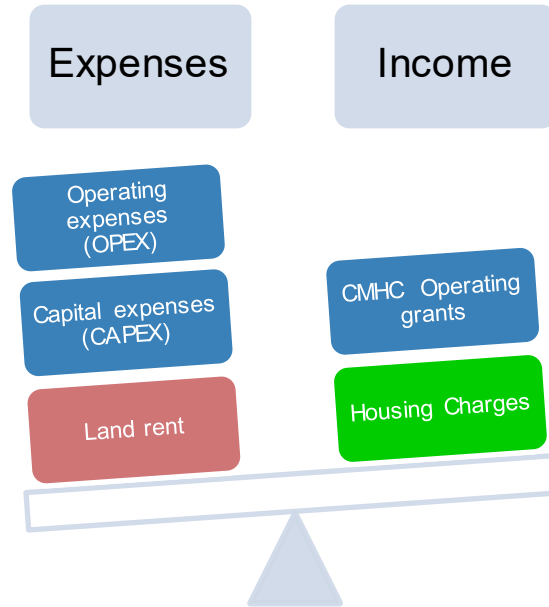
Co-op Lease Expiry: Changing Roles of Key Parties



Co-ops on City Land: Financial Model

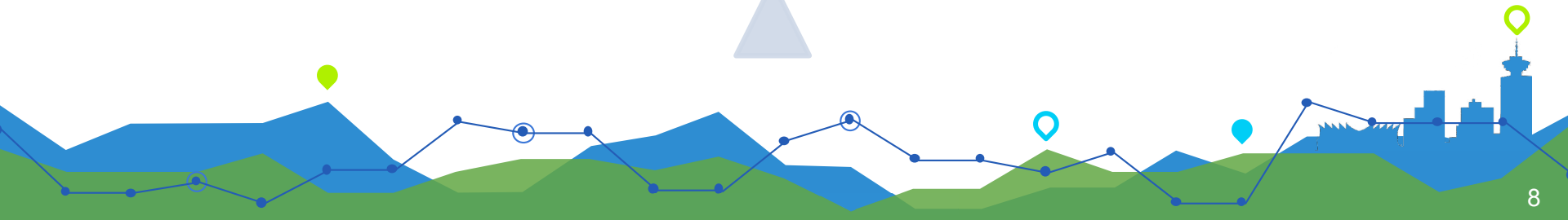
Co-ops prepaid for their initial lease lengths 40 years ago at market rates; City grants were not provided

Lease renewals mean land rent is reintroduced as an expense



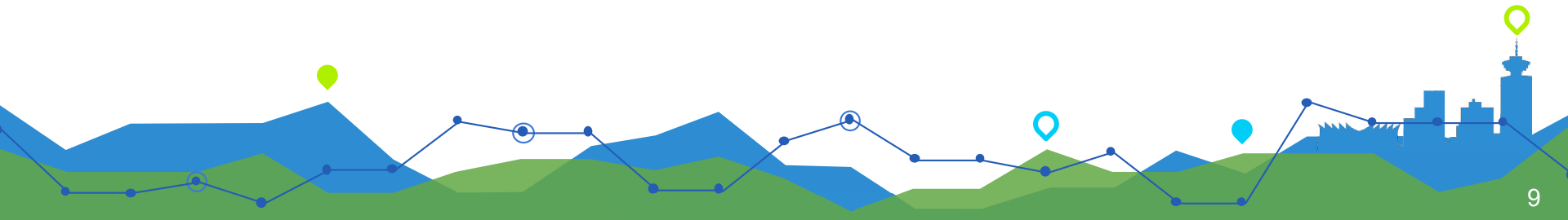
Co-ops change how much they charge shareholding members each year to balance income with expenses

This is the “**breakeven housing charge**”



Co-ops on City land: Qualities and Benefits

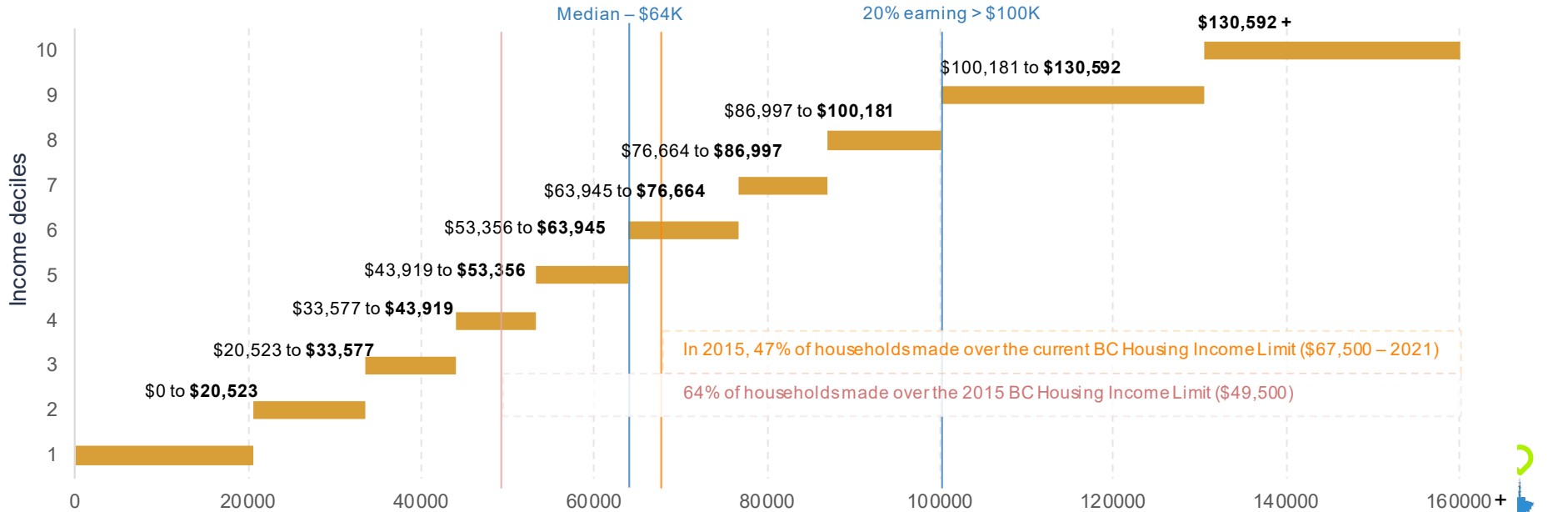
- *Mixed income communities*: Preserved/grew mixed income communities
- *Affordability*: Met/exceeded 15% units RGI rates at 1970s/80s rates and kept housing charges low for all members
- *Community building*: Self-governance supports community building within co-ops



Co-ops on City land: Qualities and Benefits – Mixed Income Communities



Income deciles for co-op households on leased land living in 2-bedroom units (2015)

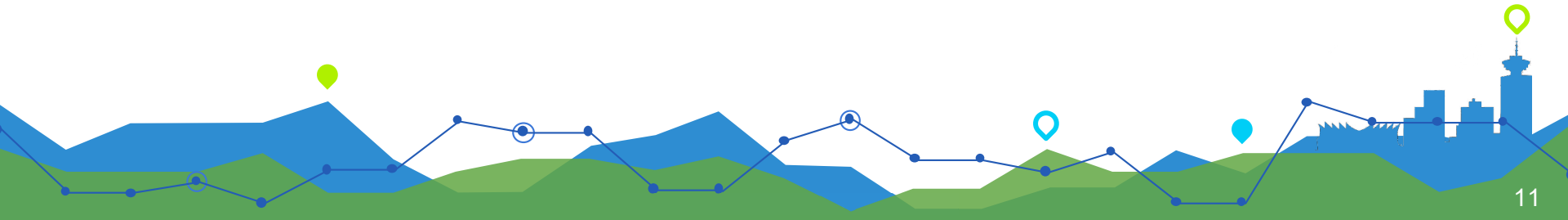


Co-ops on City land: Opportunities

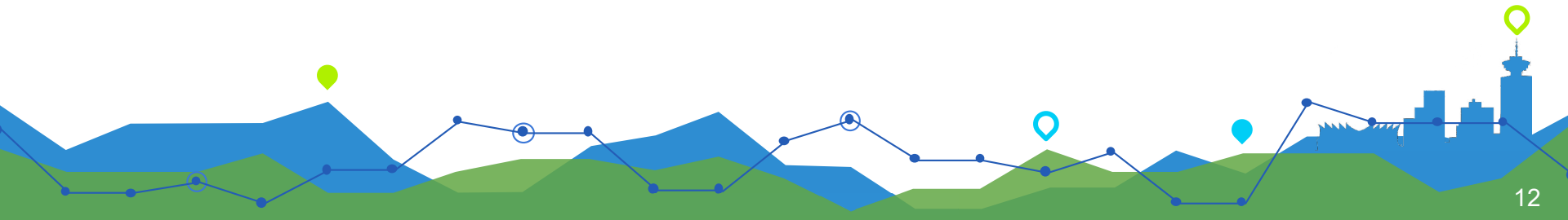
1. Preserve and support existing mixed income communities.

2. Redevelopment enables:

- Updating aging and increasingly expensive-to-maintain housing units
- Growing the number of affordable housing units
- Modernizing lease terms with reporting requirements
- Introducing mixed-uses into redevelopments



2. Process: Developing the Methodology



2017 Framework



The 2017 Co-op Framework key goals:

1. Protecting the affordable housing stock and ensuring this affordable housing stock is **accessible to those who need it most**.
2. Providing **security of tenure** for co-op residents to advance the City's goals of becoming a healthy and diverse city with strong community ties.
3. Addressing the **physical building challenges** and the upcoming expirations of ground leases and operating agreements in a financially and environmentally sustainable manner.
4. Ensuring that co-ops have a stable governance structure, and are **financially sustainable** through the term of the lease extension.



ADMINISTRATIVE REPORT

Report Date: January 30, 2017
Contact: Kathleen Lovelystein
Phone: 604.671.6858
Contact No.: 875 No.: 1124
VaulMS No.: 08-2000-20
Meeting Date: February 8, 2017

TO: Standing Committee on City Finance and Services
FROM: General Manager of Community Services
SUBJECT: Sustaining Affordable Co-op Housing on City Land

RECOMMENDATION

- A. THAT Council approve the Options for Sustaining Affordable Co-op Housing and Key Terms and Conditions for ground lease extension or modification agreements for Sustaining Affordable Co-op Housing on City Land as contained in Appendix A.
- B. THAT Council authorize staff to:
 1. Negotiate the extension or modification of any ground leases with the following Co-op Operators in accordance with the Options and Key Terms and Conditions contained in Appendix A:
 - a. Eight Oaks Co-op
 - b. Flag Steers Co-op
 - c. La Petite Maison Co-op
 - d. Marina Co-op
 - e. Northern Way Co-op
 - f. Rising Star Co-op
 - g. Vera Housing Co-op
 2. Report back to Council on each individual Co-op for approval of new extended or modified leases; and
 3. Report back on the collective outcomes and lessons learned from the negotiations, once all seven priority Co-op negotiations are substantially completed.
- C. THAT the City continue to work with the Federation of Canadian Municipalities ("FCM") to advocate to senior levels of government to provide support to low-income households so they can remain in Co-op housing as Operating Agreements expire.

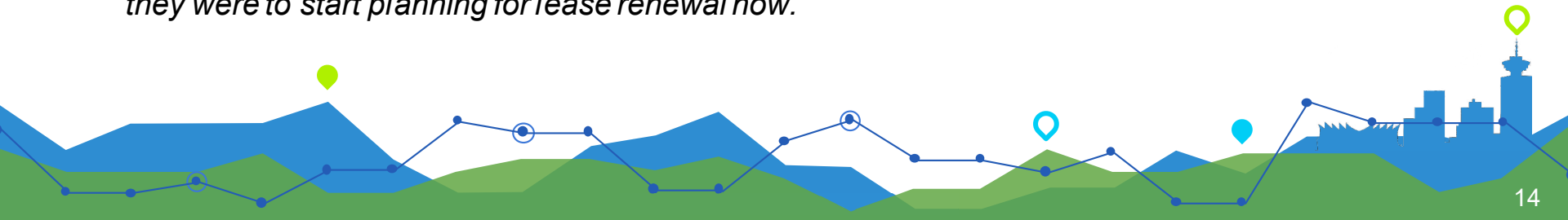


Co-ops on City land: Current challenges at lease end



- Original co-op leases were at market rate without City subsidy.
Note: In original lease agreements with renewal options, renewals were to be at market rates.
- Co-ops have not planned/saved for lease extensions.
- Many Co-ops have not set aside adequate capital reserves to address future major repairs.
- Co-op housing charges have not kept pace with members' income growth.

Note: These challenges could be avoided by Co-ops whose leases expire further into the future if they were to start planning for lease renewal now.

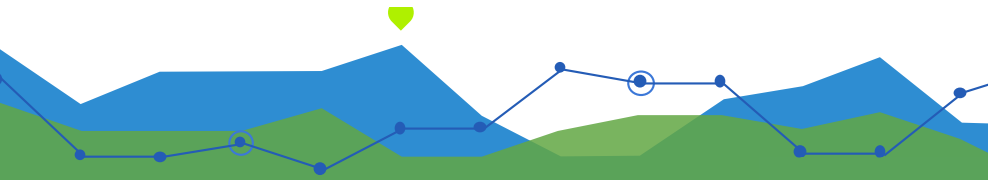


2020 Discussion Paper: Innovations to ensure co-op sustainability

- 1. Lease Term:** Up to 30 yrs. to amortize borrowing cost over long time and not trigger Property Transfer Tax
- 2. Annual rent model:** Apply mortgage interest savings (as in a prepaid lease scenario) to enhance affordability.
- 3. Median Vancouver incomes** used (instead of market rates) as the basis to calculate land rent:
 - Supports co-op viability and prevents displacement.
 - Ensures co-op housing continues to be affordable for median income households and in line with Housing Vancouver targets.
- 4. Built-in discount** in the Basic Renewal Scenario to support a minimum 15% RGI households.
- 5. City-administered grant programs:**
 - Provide support to income-tested members.
 - Ensure no one pays more than 30% of their gross household income in housing charges.
 - Slow the pace of housing charge increases for all members.

This approach meant:

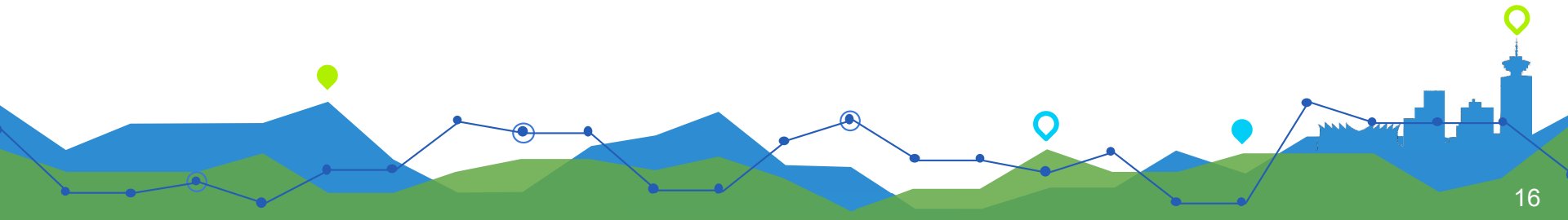
- Those with demonstrated need are supported.
- Higher-income households pay a below-market land rent which is linked to median Vancouver incomes.



Efforts to Renew Co-op Leases



- After years of work, could not find a solution that co-ops would accept: (1) co-ops rejected lease offers based on proposed approaches and (2) CHF BC not in agreement with approach in 2020 Discussion Paper.
- New Phase (Nov 2020 - June 2021): Staff worked closely with CHF BC to try to collaboratively come up with a solution that would work for both Co-ops and the City.
 - Have had positive discussions and reached many points of agreement



Goals and Interests

Common/Shared Interests

- Preserve existing sites for affordable housing; renew aging housing and increase supply via redevelopment & densification
- Ensure security of tenure for co-op in neighbourhood, including through redevelopment
- No displacement of existing co-op members
- Ensure housing is financially sustainable and buildings are maintained in an appropriate state of repair

City

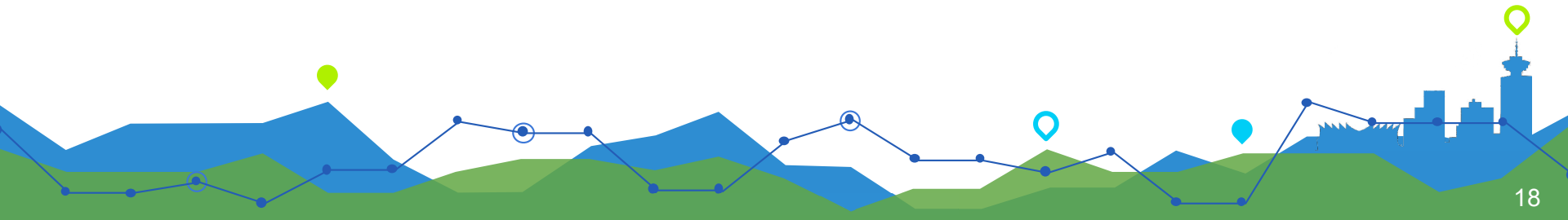
- Public subsidies to support those with demonstrated need
- Transparent & universal access to co-op housing
- Ongoing income testing & reporting to justify public subsidies
- Leverage senior gov. funds where available

Note: Main goal is NOT to maximize City revenue, but to focus on helping members with demonstrated need

CHF BC

- Minimize housing charges for all members
- Autonomy over operations and building maintenance with minimum external oversight
- No income testing for non-RGI units
- Ability to borrow to spread costs over time

3. Proposed Methodology for Co-op Lease Renewals



Proposed Methodology: Basis for Recommendations

- Co-ops offer important mixed-income housing across Vancouver.
- Co-ops have successfully offered deep affordability for lower-income households.
- Co-ops governance structure provides important community-building value to the city.

Proposed Approach: While co-op leases were originally market leases and intended to be renewed at market rates, staff recommend below market rent for lease renewals to support all existing co-op members, with deeper subsidies for those with demonstrated need.

Proposed Methodology: Policy Considerations (1/3)



Consideration 1: Providing City land rent subsidies to non-RGI Co-op members earning more than HILs with income testing/reporting

Proposed methodology based on the principles:

- Public subsidies should primarily be directed to income-tested households in a transparent manner
- Some limited public subsidies could be provided to support existing non-RGI members who earn more than HILs to preserve these mixed income communities
- Recommendations assume that all land rent subsidies should be supported by either income reporting or income testing, the latter if the grant is to below Low End of Market rates



Proposed Methodology: Policy Considerations (2/3)



Consideration 2: Prioritizing Land Rent Subsidies

Proposed methodology based on the principles:

- Affordable housing grants should be targeted to households in Vancouver with demonstrated need.
 - With over 4,700 households on BC Housing's waitlist and over 2,000 people experiencing homelessness in Vancouver, the City has traditionally sought to prioritize public support for those with most need.
- Market rates are often unaffordable for middle-income households and maintaining mixed-income communities is a Council priority.
- Recommended methodology targets deepest subsidy to households earning below HILs while still providing some subsidies for households earning over HILs



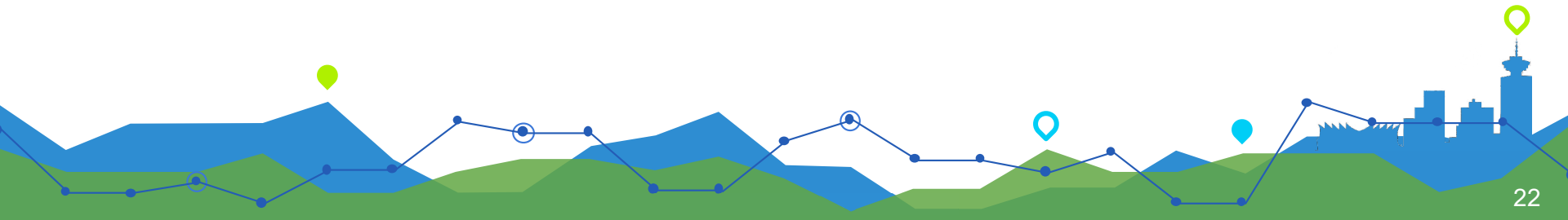
Proposed Methodology: Policy Considerations (3/3)



Consideration 3: Alignment of policy and practice for rent subsidies and reporting requirements within City-supported affordable housing

Proposed methodology based on the principles:

- Policy and practice should be consistently applied across the City's affordable housing portfolio:
 - Approaches to rent/housing charge subsidies and income testing/reporting requirements should be consistent whether a person is living in a Co-op, City-owned non-market housing, or City-supported below-market rental housing.
 - There are currently differing approaches across leases that have been signed over decades, but staff have been working to standardize such approaches and would recommend that effort be continued.



Proposed Methodology: Overview



1. Redevelopment: If near term redevelopment potential or part of a phased large site redevelopment, co-op will receive a Redevelopment Agreement with commitment for long-term lease for new housing.
2. If no near-term redevelopment potential or not part of a phased redevelopment: renewal of lease; term will be 40 years + 20 year option to renew.
 - *Note: compromise on part of City (originally proposed up to 30-yr renewal term)*
 - Includes a redevelopment clause to allow early redevelopment at City's option
3. Lease payments: combination of upfront and scheduled annual land rent payments in lease
4. Lease rate: next slides
5. Reporting: next slides
6. Other Terms: Appendix A

Reminder: Housing Income Limits (HILs) and RGI

- Housing Income Limits (HILs) represent the maximum gross household income for eligibility in many affordable housing programs.
- HILs are based on figures by BC Housing and reflect the minimum income required to afford appropriate accommodation in the private market.*

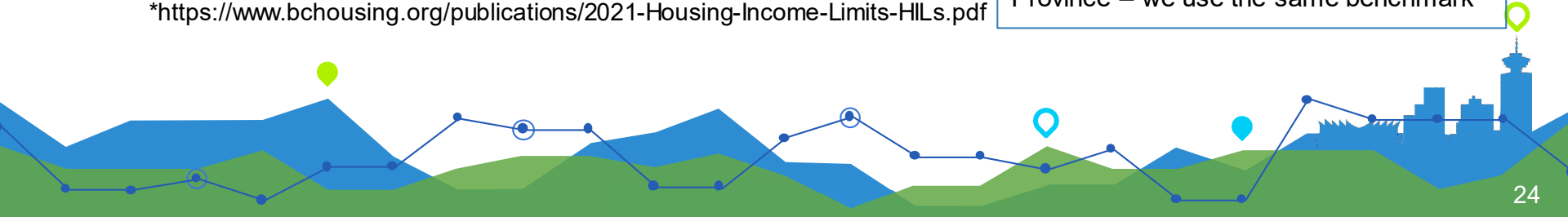
| BC Housing 2021 HILs: Vancouver | | |
|---------------------------------|----------|------------------------------|
| Unit type | HILs | 30% of 70% of HILs per month |
| 1 bdrm or less | \$55,500 | \$971 |
| 2 bdrm | \$67,500 | \$1,181 |
| 3 bdrm | \$78,000 | \$1,365 |
| 4+ bdrm | \$83,500 | \$1,461 |

RGI: Rent Geared to Income

Members who meet HILs requirements would be the co-op's RGI members and would pay no more than 30% of their household income before taxes and adjustments to housing charges.

Members who earn above HILs are not eligible for rent subsidies from the Province – we use the same benchmark

*<https://www.bchousing.org/publications/2021-Housing-Income-Limits-HILs.pdf>



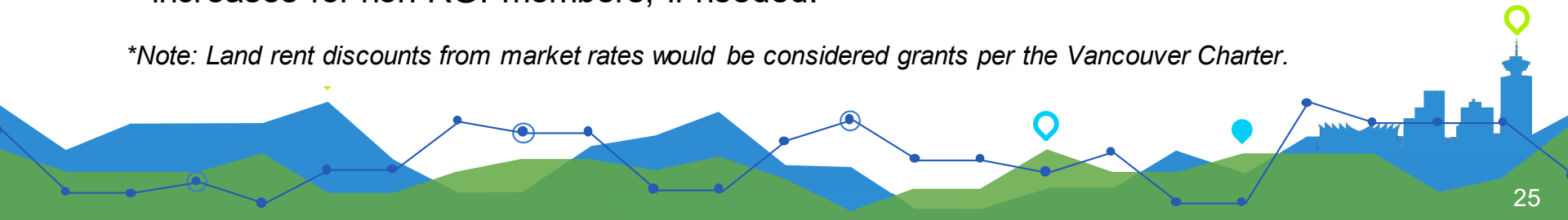
Proposed Approach: Lease rate / Land rent



1. Co-op identifies desired income mix at the start of the lease term based on existing membership profile (e.g., X% of units will be RGI units)
2. City calculates lease rate based on:
 - a) Generous monthly allowances for capital and operating costs
 - b) RGI-units: 30% of 70% of BC Housing HILs as the benchmark
 - c) Non-RGI units: Lower of 25% of median Vancouver incomes or 15% discount from CMHC market area average rents as the benchmark
 - d) Leases will provide a formula for the adjustment of land rent based upon the income levels of the RGI unit members
3. City provides *Transition Grant* for up to 7 years to slow pace of housing charge increases for non-RGI members, if needed.

R

**Note: Land rent discounts from market rates would be considered grants per the Vancouver Charter.*



Proposed Approach: Outcomes

- ✓ No one is displaced due to housing charges over 30% of income
- ✓ RGI-qualifying households receive the deep affordability they need
- ✓ Non-RGI households earning more than HILs pay less than their peers in non-co-op settings:
 - ✓ Maintains some incentive for higher income members to stay
 - ✓ Still enables internal cross-subsidization within the co-op at their discretion
 - ✓ Allows 7 years for higher income households to transition to housing charges set in lease rate
- ✓ Maintains: (a) co-op financial model, (b) co-op autonomy over housing charges, (c) co-op autonomy over income mix profile and operations (community building).

Proposed Approach: Lease rate - Grant Value



Grant value if all co-ops on City land were renewed at once:

- Represents a **\$15.5M annual subsidy** in support of co-op housing
- About 25% - **\$4.3M annual subsidy** - would go to households earning above HILs
 - Reasonable to do: (1) LEM units supports middle income households and (2) the 25% benchmark represents a compromise to support existing members during these co-op lease renewals.

Note: Answers question of what could this mean in terms of support for all co-ops.

Note: These estimates are illustrative based on analysis compiled using a custom StatsCan dataset of co-ops on City land. 15% CMHC averages are assumed to represent the market benchmark. The actual discount to market will vary based on site-specific assessments.

Note: Assumes 48% of households would be income tested as below HILs based on the StatsCan income survey of Co-ops on CoV land.

Proposed Approach: Accountability and Reporting



1. Annual income testing for RGI members

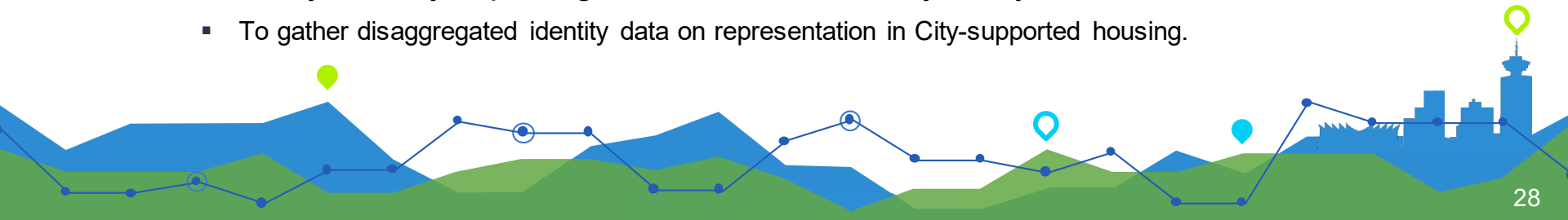
- To justify deeper grant
- Standard practice across all City-supported rent subsidies (non-market housing & below market rental)
- As member income profile changes over time, land rent will be adjusted accordingly

2. Income reporting every five years for non-RGI members

- Enables some transparency and accountability for rent subsidies to non-RGI households
- Consistent with requirements for LEM units in new non-market housing projects and below market rental projects.

3. Voluntary identity reporting for all members every five years

- To gather disaggregated identity data on representation in City-supported housing.



Key Matter: Property Transfer Tax

Provincial Tax that is applied by Province to leases with a term of 30 years or longer.

- PTT is a considerable financial cost that impacts housing affordability.
- CHF BC representatives and City staff agree that joint advocacy to the Province to either waive the PTT for affordable housing lease renewals or implement a grant offset would be a reasonable approach.
- If the Province does not agree to cover the PTT either through a waiver or grant offset, then the renewing Co-op will be responsible for the cost of the PTT.

CHFBC Feedback



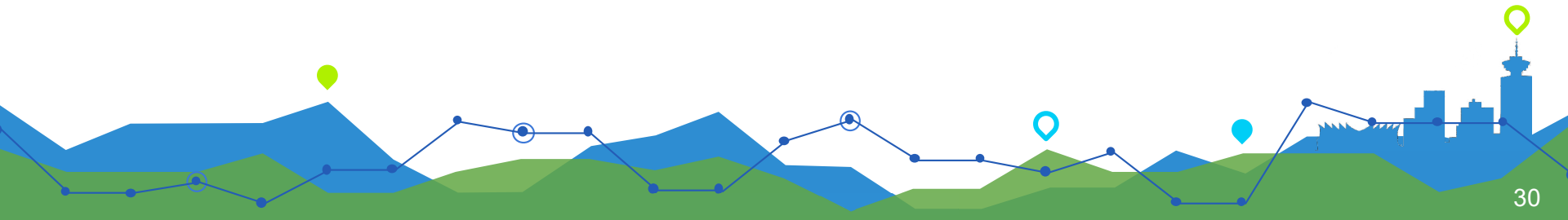
Staff and CHF BC are in alignment on all matters except: lease rate (land rent)

Issue: CHF BC concerned about annual % increase for non-RGI members who earn above HILs to transition from current housing charges to new lease rates

Preference: Have indicated a preference to have lease rate based on the following:

- Keep housing charges the same as now for all members, regardless of income
- 2.5% average annual increase across all households to 2028, when CMHC subsidies expire; 2% thereafter

Note: Some higher income households are paying as low as 10% of income on housing charges



CHFBC Feedback: Challenges for City



Challenges:

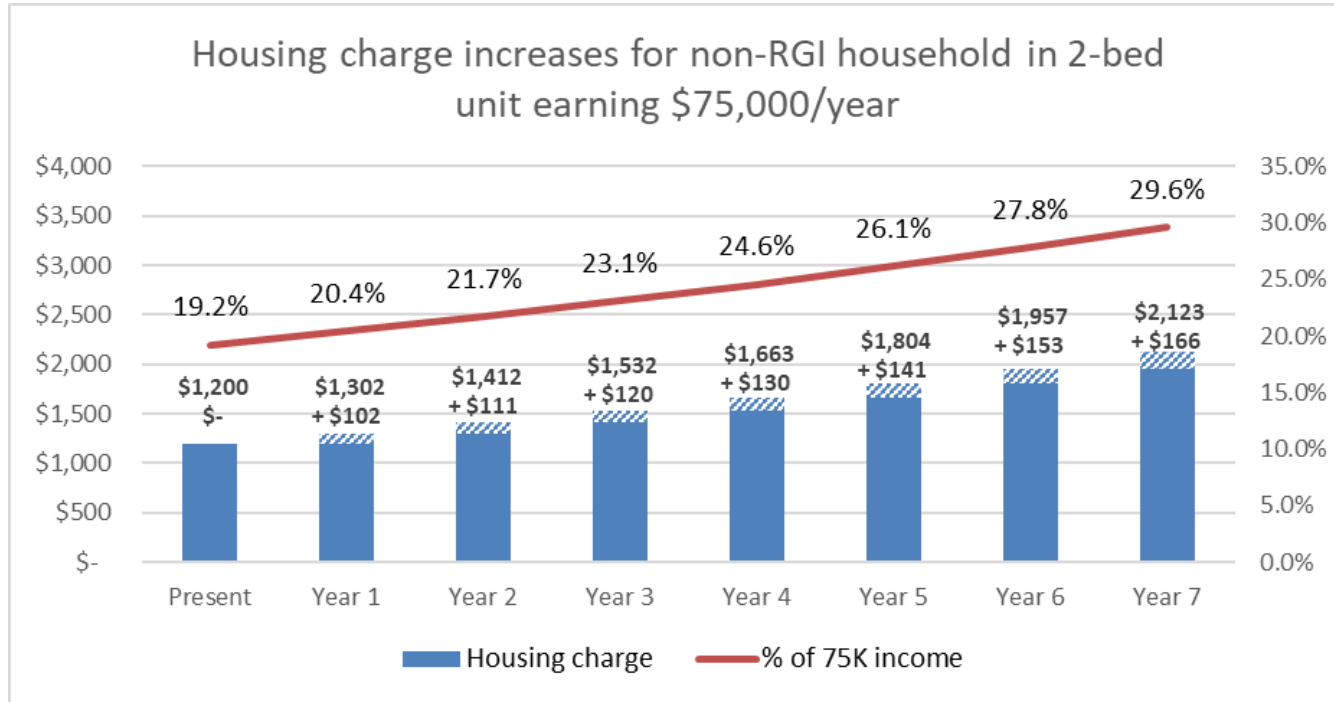
- Very deep subsidy for non-RGI households who have greater means to access housing in the market
Issue: 4,700 people on BC Housing waitlist, 2,000 of them homeless – where does City target limited subsidies?
- Estimated value: Additional **12.3M annual subsidy** to households earning above HILs
- Inequitable treatment of similar non-RGI households in other City non-market housing and below market rental projects

City support:

- Transition Grant: ease these increases over 7 years.

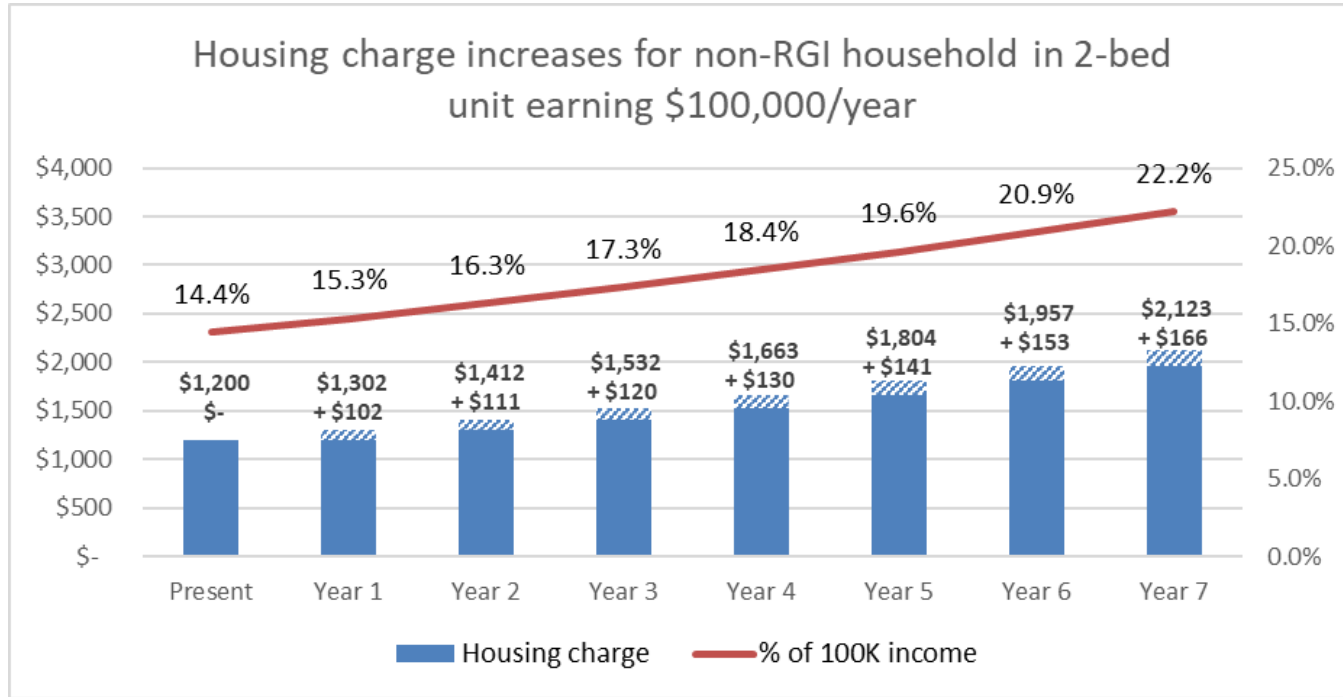


Annual Housing Charge: to LEM/25%MVI – w/ Transition Grant



Note: Indicative estimate based on 2% forecast inflation and 8.49% annual housing charge increases; actual housing charges may vary.

Annual Housing Charge: to LEM/25%MVI – w/ Transition Grant



Note: Indicative estimate based on 2% forecast inflation and 8.49% annual housing charge increases; actual housing charges may vary.

Subsidy analysis: Extrapolating Across All Co-ops



If all co-ops on City land were renewed, the current estimate of **CHF BC's** approach would represent a **\$27.7M** annual subsidy to co-op households:

- 50%+ (**\$16.6M**) of this would go to households earning above HILs.

Staff recommended approach provides a **\$15.5M annual subsidy** (assuming 48% of households would be income tested as below HILs, based on the StatsCan income survey)

- About 25% (**\$4.3M**) would go to households earning above HILs. Subsidy required to keep housing charges based on lesser of 25% of income or 15% discount from CMHC area rents market.
- CHFBC approach results in **\$12.3M** more in annual subsidy from the City for non-RGI households earning above HILs than the staff methodology.

**Note: These estimates are illustrative based on analysis compiled using a custom StatsCan dataset of co-ops on City land. 15% CMHC averages are assumed to represent the market benchmark. The actual discount to market will vary based on site-specific assessments.*

Extrapolating Across All Co-ops: Trade-offs



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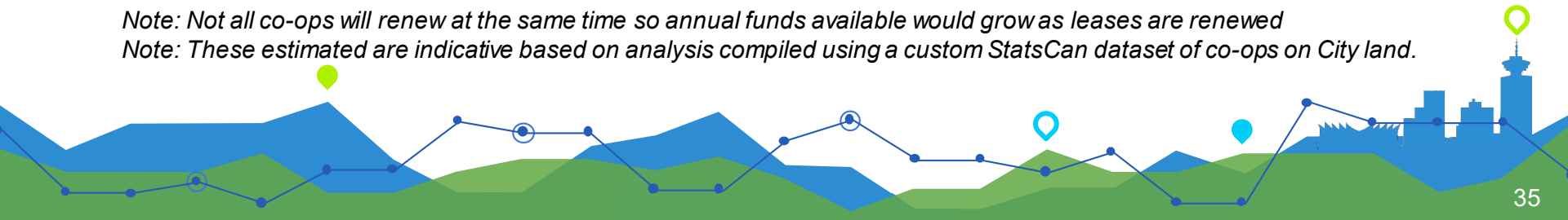
Difference: an additional **\$12.3M per year in subsidy to non-RGI households** earning more than HILs

Trade-offs: If this subsidy were available for developing other affordable housing:

- *Deepen Affordability*: Double the number of HILs units. This could be used to accommodate ~1/3 of the BC Housing waiting list for Vancouver or
- *Expand CHIP*: Double current \$6.25m/year CHIP program to deepen affordability in NP projects (up to \$35-\$100k/unit for shelter & HILs rate units) or
- *Land acquisitions*: Acquire additional land that will enable the creation of ~80-120 social housing units a year on top of the current \$19M/year acquisition budget or
- *SRO Strategy*: replace an existing City SRO building with self-contained housing every 3-4 years.

Note: Not all co-ops will renew at the same time so annual funds available would grow as leases are renewed

Note: These estimated are indicative based on analysis compiled using a custom StatsCan dataset of co-ops on City land.



Reminder: Proposed Approach: Overview (1/2)

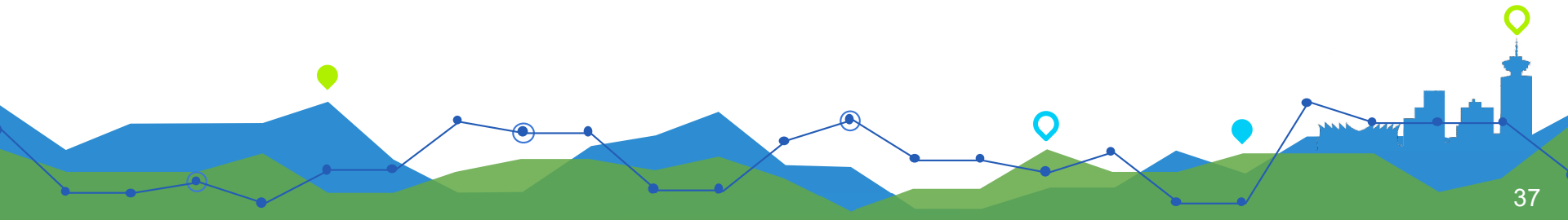


1. **Redevelopment:** If near term redevelopment potential or part of a phased large site redevelopment, co-op will receive a Redevelopment Agreement with commitment for new housing with a long-term lease
2. If no near-term redevelopment potential or not part of a phased redevelopment: renewal of lease: renewal of lease; term will be 40 years + 20 year option to renew
 - Includes a redevelopment clause to allow early redevelopment at City's option
3. **Lease renewal rate:**
 - Generous operating and capital allowances
 - Mixed incomes set by co-op; income mix can change over life of lease
 - RGI units: 30% of 70% of HILs as benchmark
 - Everyone else: Lower of LEM or 25% of median Vancouver incomes as benchmark
 - 7 year Transition Grant for non-RGI households earning above HILs

Reminder: Proposed Approach: Overview (2/2)



4. Lease payments: mix of upfront and scheduled annual land rent payments
5. Reporting and Accountability
 - Annual Income testing for RGI units
 - 5 year mandatory income reporting for non-RGI members (still receiving a rent subsidy)
 - 5 year voluntary identity reporting for all members



Reminder: Proposed Approach: Outcomes



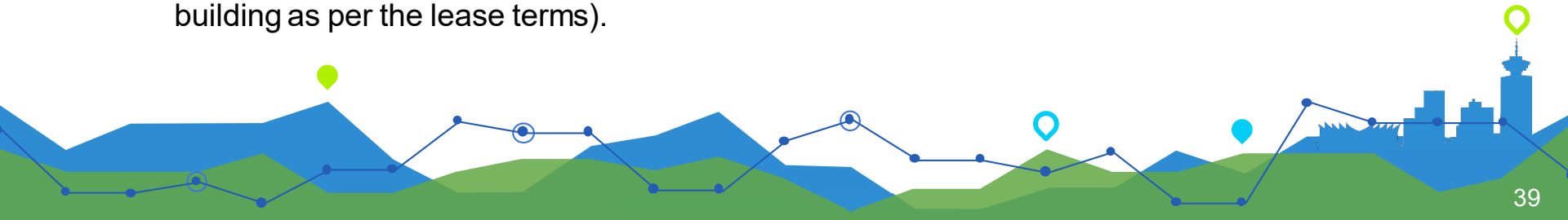
- ✓ No one is displaced due to housing charges over 30% of income
- ✓ RGI-qualifying households receive the deep affordability they need
- ✓ Non-RGI households earning more than HILs pay less than their peers in non-co-op settings:
 - ✓ Maintains some incentive for higher income members to stay
 - ✓ Still enables internal cross-subsidization within the co-op at their discretion
 - ✓ Allows 7 years for higher income households to transition to housing charges set in lease rate
- ✓ Maintains: (a) co-op financial model, (b) co-op autonomy over housing charges, (c) co-op autonomy over income mix profile (community building).

Key Matter: Lease expiry without a renewal

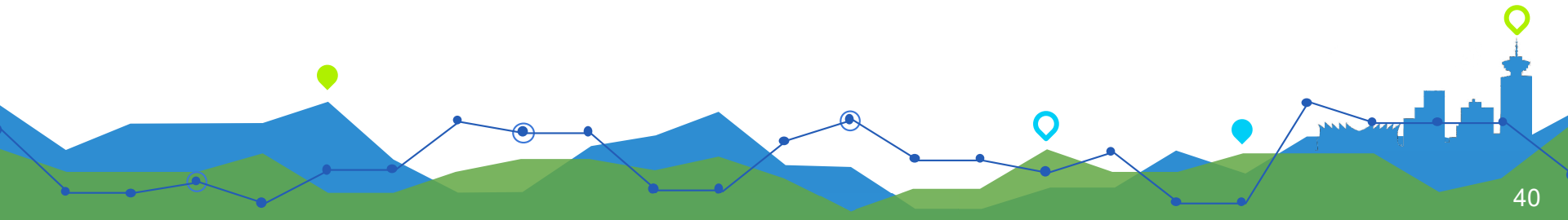


Some co-ops may choose not to renew their leases under this methodology. They may instead elect to (a) renew at market rates or (b) chose to not renew their lease at all. If the latter (b):

- Per current lease: Lease will terminate and land and buildings returned to the City.
- The City will publicly tender to identify a new non-profit or co-op operator to take over the existing buildings and tenants.
- Existing members will be taken care of: implement the methodology proposed by staff in this framework irrespective of the operator. No one will be displaced.
- Co-op can continue to exist as an association to maintain sense of community, but will not be a party to the new lease.
- Co-op may need to cover some deferred maintenance (i.e., if they have not maintained their building as per the lease terms).



4. Recommendations



Recommendations (1/2)



A. THAT, pursuant to *Vancouver Charter* section 206(1)(j), Council approve that housing co-operatives operating on City land may be deemed organizations contributing to the welfare of the City.

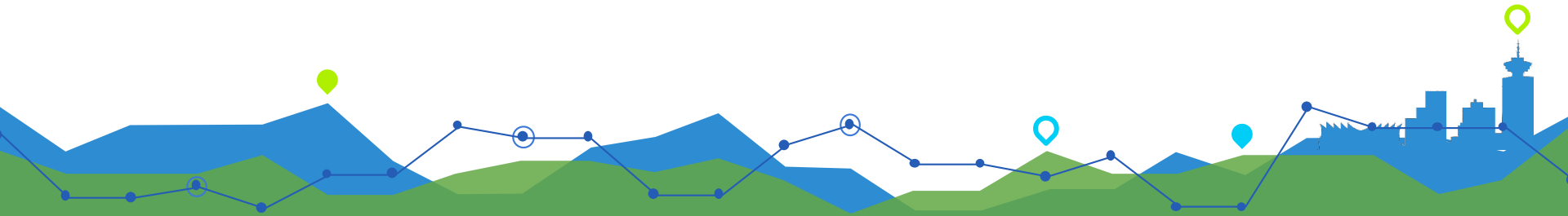
B. THAT Council approve the following policies that will guide or provide a framework for the negotiation of co-op lease renewals:

- i. That any land rent subsidies made to co-ops for households earning above HILs as part of a lease renewal (a) be based on a rental rate benchmark that is the lesser of 15% below average area rents or 25% of median Vancouver household income and (b) will require regular income reporting, as more specifically described in the report.
- ii. That any land rent subsidies made to co-op for households earning HILs or less as part of the lease renewal (a) be based on a rental rate benchmark that is equivalent to 30% of the average household income of those units and (b) will require annual income testing, as more specifically described in the report;
- iii. That any additional land rent subsidies to support a time-limited transition from a co-op's existing housing charges will require income testing at the commencement of the future lease to support the additional subsidy as part of a lease renewal, as more specifically described in the report.

Recommendations (2/2)



- C. THAT Council approve the proposed Co-op Lease Renewal Methodology as a framework to guide future lease renewal negotiations as described in this report, including as set out in Appendices A and B.
- D. THAT subject to approval of Recommendations A, B, and C, Council authorize staff to negotiate future lease renewal(s) with existing Housing Co-operatives on City land which agreements shall be brought back to Council for its consideration and approval.
- E. THAT Council support the Co-operative Housing Federation of British Columbia (CHF BC) to advocate for Property Transfer Tax offset or waiver opportunities with the Province of British Columbia.
- F. THAT Recommendations A, B, C, D, and E be adopted on the following conditions:
- i. THAT the passage of the above resolutions creates no legal rights for a lessee or any other person, or obligation on the part of the City and any expenditure of funds or incurring of costs in relation thereto is at the risk of the person making the expenditure or incurring the cost; and
 - ii. THAT the City and all its officials shall not in any way be limited or restricted in the exercise of their authority or discretion, regardless of when they are called upon to exercise such authority or discretion.



Thank you