



**IN CAMERA**

**REPORT**

Report Date: July 5, 2022  
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Meeting Date: July 5, 2022

TO: Vancouver City Council

FROM: General Manager of Real Estate & Facilities Management in consultation with the General Manager of Arts, Culture & Community Services

SUBJECT: Approval of 1321 East 1<sup>st</sup> Avenue Lease Terms – Mixed-use Social Housing & Community Health Development

**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; and (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 approve the ground lease (the “Ground Lease”) between the City of Vancouver as lessor (the “City”) and the Provincial Rental Housing Corporation as lessee (“BC Housing”), providing for the construction and on-going operation of a mixed-use community health and social housing project located at 1321 East 1<sup>st</sup> Avenue, legally described as: PID 031-519-334, Lot 1, Block 60, District Lot 264A, Group 1, New Westminster District, Plan EPP110393 (the “Lands”, as shown on Appendix A), which Ground Lease will provide for:
- Use: Construction and operation of a 10 storey social housing and community health project in accordance with Development Permit DP-2019-00287, specifically:
- i) Community Health Services & Adult Transitional Services measuring ~54,000sf, including 51 inpatient withdrawal management units and 20

- transitional units (the “Community Health Component”);
- ii) Social Housing measuring ~83,000sf, including 90 units (the “Social Housing Component”); and
- iii) Social Enterprise Retail Space measuring ~3,100sf (the “Social Enterprise Component”)

(the “Development”)

- Term:** A Term of ninety-nine (99) years commencing on the date of issuance of the occupancy permit for the social housing component;
- Rent:** Basic Rent of \$10 being payable the date the Ground Lease is registered at the Lower Mainland Title Office (the “Lease Commencement Date”) plus any property taxes and/or rent in lieu of taxes applicable throughout the term of the Ground Lease;
- Subleases:**
- i) BC Housing shall grant the City an option to sublease the Social Enterprise Component (the “Social Enterprise Sublease”) for a term of 99 years expiring the day before the Term-expiry of the Ground Lease, at a nominal pre-paid Basic Rent of \$10.00 plus its proportionate share of property taxes and/or rent in lieu of taxes throughout the term of the Social Enterprise Sublease, exercisable by the City the earlier of: the date notice is given by the City to BC Housing of its intent to sublease, or the date of issuance of the first occupancy permit for the Development;
  - ii) BC Housing shall grant Vancouver Coastal Health (“VCH”) an option to sublease the Community Health Component (the “Community Health Sublease”) for a term of 20 years with one 5-year renewal provision at a Basic Rent equivalent to the balance of construction costs for the Community Health Component (the “Balance of Capital Costs”), repayable by VCH to BCH in accordance with the contribution agreement between the two parties (the “Contribution Agreement”). The Community Health Sublease is exercisable by VCH the earlier of: the date notice is given by VCH to BC Housing of its intent to sublease, or the date of issuance of the first occupancy permit for the Development;
- Other terms & conditions**
- i) Delivery of Social Enterprise Component - BC Housing will design and build the Social Enterprise Component, consistent with the City’s design specifications and technical guidelines and to the City’s satisfaction. The City shall reimburse BC Housing for the Social Enterprise Component construction costs and will reserve the right to not proceed with construction, at the City’s sole discretion, if such costs exceed s.17(1) ;
  - ii) Social Housing Component Operation – BC Housing may engage a third-party operator (the “Operator”) to operate, tenant and manage the Social Housing Component on behalf of BC

Housing in accordance with the operating agreement held between the two parties and the terms of the Ground Lease. The proposed Operator for the Social Housing Component is S.U.C.C.E.S.S.;

iii) Affordability Requirements – BC Housing shall ensure that not less than 30% of the residential units in the Social Housing Component (the “HILS Units”) shall be occupied by tenants whose income is no more than the Housing Income Limit (“HILS”) for the applicable unit type, as published by the British Columbia Housing Management Commission and otherwise that the Social Housing Component be rented in accordance with the Operator Agreement for the site;

iv) Proof of Income – BC Housing shall ensure income testing occurs at the time of initial occupancy for all residential units in the Social Housing Component, and thereafter on an annual basis for the HILS Units.

v) Reporting Requirements – BC Housing shall provide annual reporting to the Lessor on rent & affordability statistics, occupancy expenses & statistics, operating surplus details and audited financial statements.

vi) Capital Asset Planning – BC Housing is required to manage and share with the Lessor a Capital Asset Plan and Capital Asset Fund that will set out the maintenance, repair and replacement practices and capital maintenance funding for the Building. BC Housing and the City will collaborate on a Long Term Asset Plan during the 15 year period prior to expiry of the Term.

vii) Operating Surplus – Operating Surpluses generated by the Social Housing Component shall be used in accordance with BC Housing’s Operator Agreement for the Social Housing Component to improve unit affordability within the project. For any year in which an Operator Agreement is not in effect, the Operating Surplus shall first be used to ensure the Capital Fund is adequately funded and secondly, upon mutual agreement of the Lessee and Lessor, to increase the affordability or net number of HILS Units, and/or to distribute the Operating Surplus equally between the Lessee and Lessor to create or acquire net new social housing within Vancouver.

- B. THAT Council authorize the Director of Real Estate Services to execute the Ground Lease on the terms and conditions noted in this report and on any other terms and conditions that the General Manager of Real Estate & Facilities Management, the General Manager of Arts, Culture & Community Services and the Director of Legal Services deem necessary, noting that no legal rights or obligations will arise or be created between BC Housing and the City unless and until BC Housing and the City execute and deliver the Ground Lease.

## **REPORT SUMMARY**

This report seeks Council's approval of the Ground Lease between the City as lessor and BC Housing as lessee, which shall provide for the development and ongoing operation of a mixed-use project at 1321 East 1<sup>st</sup> Avenue that will include a Social Housing Component operated by BC Housing or its Operator (with the proposed Operator being S.U.C.C.E.S.S.), a Community Health Component subleased to VCH and providing withdrawal management and transitional health services, and an option for the City to sublease the Social Enterprise Component for community-based social enterprise/infrastructure purposes. Operator selection for the Social Enterprise Component will be led by ACCS with support from Supply Chain Management.

## **COUNCIL AUTHORITY/PREVIOUS DECISIONS**

On May 2, 2018 at the Standing Committee of Council on City Finance and Services (RTS 12540), Council:

- i. Approved the executed Memorandum of Understanding ("MoU") between the City, BC Housing and VCH, setting out the redevelopment, capital contributions and lease tenure for the proposed Development on the Lands;
- ii. Approved a capital contribution in the amount of \$16.7 million in the form of a nominal Ground Lease for the Development; and
- iii. Authorized the Director of Real Estate Services to commence negotiations with BC Housing for the Ground Lease, subject to the Lands being consolidated, the Lands being rezoned, and approval of the fully-negotiated Ground Lease by Council.

At the Public Hearing held February 21, 2019, Council approved the application to rezone the Lands for the proposed Development, subject to the satisfaction of all prior-to conditions (the "Prior-to Conditions").

On December 8, 2021 at the Standing Committee of Council on City Finance and Services (Administrative Motion #4) following the satisfaction of all Prior-to Conditions, Council passed land-use Bylaw #13221 in relation to the proposed Development on the Lands.

## **CITY MANAGER'S COMMENTS**

The City Manager recommends approval of the foregoing.

## **REPORT**

### **Background/Context**

BC Housing, in conjunction with VCH and the City, is proposing to develop a 'state-of-the-art' multi-use Development on the Lands that includes approximately 90 units of social housing; a withdrawal management centre; transitional housing; an academic hub; culturally appropriate services; and a City-leased social enterprise space focused on indigenous healing and wellness. The development plan, tenure form and obligations of each party were documented via a non-binding Memorandum of Understanding ("MoU") signed in late 2017.

VCH currently operates a detox facility on a City-owned site at 377 East 2nd Avenue, a facility that no longer meets the health needs of the community, and many people are accessing services through emergency departments. VCH seeks a location nearby the Downtown

Eastside to modernize the detox program into a withdrawal management centre, as part of the implementation of VCH's recently-launched Downtown Eastside Second Generation Strategy. As per the MoU signed by the City, VCH and BC Housing, the City has received confirmation in writing that the Province of British Columbia will surrender its interest in the existing lease for the Detox Centre at City-owned 377 East 2<sup>nd</sup> Avenue.

The Lands, representing a \$16.7 million capital contribution from the City to BC Housing in the form of a 99-year nominal Ground Lease (approved under RTS # 12540), have recently been consolidated into a single legal parcel and the Development has received rezoning enactment, which (subject to issuance of the finalized development permit) shall provide for a mixed-use project not to exceed a floor space ratio of 3.22, including the following key components:

**1. VCH-operated Withdrawal Management Centre and Transitional Treatment Services (~54,000 sq. ft.), the “Community Health Component”**

The Community Health Component will offer outpatient and inpatient withdrawal management services and sobering at-home withdrawal services in an integrated setting. The Community Health Component will provide for 51 inpatient units and 20 short-term housing units for individuals that have completed detox and are transitioning to long-term solutions, to be operated by VCH under a sublease from BC Housing.

**2. Social Housing Component (~83,000 sq. ft.)**

The Development will include 90 social housing units. BC Housing will sub-lease the social housing units to a non-profit housing operator to manage with maximum affordability considerations, replacing 17 existing rental housing units currently on the Lands, which will be demolished as part of the Development. As per the MoU, the City will provide all existing tenants with a tenant relocation plan, as per the City's tenant relocation policy and BC Housing will provide right of first refusal into the new social housing units, depending on household income eligibility for social housing.

The proposed Operator for the Social Housing Component is S.U.C.C.E.S.S., a non-profit charitable organization with a 45 year history of managing and operating subsidized, affordable and market rental units in Metro Vancouver, in addition to offering a range of supportive services including employment and skills development, language training, health education, community development, and programming for families, youth and seniors. S.U.C.C.E.S.S. was identified as the preferred Operator through a BC Housing-administered public tender process, with City-staff being involved on the review panel.

**3. Social Enterprise Component (~3,100 sq. ft.)**

The City has secured an option to sub-lease the Social Enterprise Component from BC Housing and may sub-lease this space to a non-profit operator to support Indigenous community economic development. The City-subleased Social Enterprise Component will support Indigenous healing and wellness through meaningful employment, supporting opportunities for local job creation outside the DTES—a priority both in line with the City's commitments to its Community Economic Development Strategy, Spaces to Thrive: Vancouver's Social Infrastructure Strategy and City of Reconciliation framework. Incorporating Indigenous healing and wellness services, as well as design, into the Development reflects a connection to key service agency services such as the Vancouver Aboriginal Friendship Centre Society, Urban Native Youth Centre, Vancouver

Native Housing Society, and Britannia Community Centre. The City will work with the Metro Vancouver Aboriginal Executive Council (MVAEC) to explore opportunities and final tenant improvements of this space. The Current approved Capital budget for the construction and final TI's is s.17(1), any costs above this budget will require an adjustment to the budget either by reallocation from other capital projects or an increase to the approved Capital budget.

Figure 1 below provides a rendering of the proposed Development on the Lands.

**Figure 1 – the Development at 1321 East 1<sup>st</sup> Avenue**



BC HOUSING | VANCOUVER COASTAL HEALTH | CITY OF VANCOUVER | HDR | CEI

### **Strategic Analysis**

Real Estate Services, with input from Arts Culture & Community Services staff, have now concluded Ground Lease negotiations, including terms relating to securing the development and delivery of the City's Social Enterprise Component, Options to Sublease for both the City's Social Enterprise Component and VCH's Community Health Component (including the settled form of Sublease for both the City and VCH components), and affordability and reporting requirements for BC Housing's Social Housing Component.

The finalized Ground Lease (inclusive of the VCH and City Subleases) has been negotiated to balance the need for the City to secure all obligations for which it has granted the Lands for this project (namely, for the long-term operation of withdrawal health services and social housing) with BC Housing's standard practices for maintaining and operating social housing (which typically involves securing a third-party operator) and VCH's policies around length of tenure, in addition to the financing models being employed for this Development.

The Ground Lease provides for the construction and operation of a 10-storey social housing and community health project in accordance with Development Permit DP-2019-00287. The Term of the Ground Lease is ninety-nine (99) years, commencing on the date of issuance of the

occupancy permit for the Social Housing Component, with nominal Basic Rent of \$10 being payable the date the Ground Lease is registered at the Lower Mainland Title Office (the “Lease Commencement Date”) plus any property taxes and/or rent in lieu of taxes applicable throughout the term of the Ground Lease. Other key terms and conditions of the Ground Lease include:

Subleases:

The finalized Ground Lease provides for two options to sublease, the first exercisable by the City to secure a 99 year (less a day) nominal Social Enterprise Sublease, and the second exercisable by VCH to secure a nominal 20 year term (with one 5-year renewal option) Community Health Sublease.

While VCH is committed to sublease and operate the Community Health Component for 99 years, there are barriers to this being an outright 99 year term (or for that matter, combinations of terms plus renewals that total 99 years). Those barriers are:

- Internal VCH Policy – VCH Finance and Accounting policy prohibits VCH from holding long-term leases exceeding 25 years in term, due to how such leases are classified within VCH's financial reporting; and
- Financing Strategy - VCH and BC Housing have determined the optimal financing structure is for BC Housing to secure funding for the entire Development (vs. VCH securing its own financing) and to seek repayment from VCH for the Balance of Capital Costs for the Community Health Component via the Contribution Agreement held between the parties. The Contribution Agreement provides for monthly repayments over a 35 year period for the Balance of Capital Costs of the Community Health Component that will be financed, estimated at s.17(1) (it being noted that during term of the Community Health Sublease, the Basic Rent will be equivalent to the monthly repayments made by VCH). To enable BC Housing to finance both the Social Housing Component and Community Health Component, the approved lender will require security to both Components which means a long-term sublease to VCH (which, if over 30 years would be classified as a disposition), cannot be committed-to.

To accommodate these matters, the negotiated Community Health Sublease provides for a term limited to 20 years plus a 5 year renewal, it being noted in the Contribution Agreement that consecutive 20 + 5 year Community Health Subleases shall be entered into between BC Housing and VCH upon the expiry of each previous sublease.

Upon VCH's repayment of the Community Health Component's financing, VCH's total capital contribution to the Development (inclusive of initial equity contributions and monthly repayments over the proposed 35-year amortization period) is estimated to be s.17(1). Staff are confident that while VCH cannot enter into an outright 99-year sublease, the size of the investment by VCH into the Development ensures that there is a long-term commitment to enter into consecutive Community Health Sublease terms, such that VCH's tenure matches the length of the Ground Lease.

BC Housing Delivery of Social Enterprise Component:

BC Housing will design and build the Social Enterprise Component for delivery to the City, consistent with the City's design specifications and technical guidelines and to the City's satisfaction. The Ground Lease provides change order mechanisms, and the

terms and timing under which the City shall reimburse BC Housing for the Social Enterprise Component construction costs, including deficiency holdback provisions.

The Ground Lease also provides for an “exit” clause that gives the City the right to not proceed with construction, at the City’s sole discretion, if construction costs for this component exceed s.17(1) . In the event this right is exercised, the City shall remain liable for all costs incurred to that point.

A budget of s.17(1) has been secured in the City’s Capital Budget for reimbursement of the Social Enterprise Component’s construction costs. The funding source is the 2022 Capital budget - Community and Social facilities. Any additional funding needed to cover cost escalation and Tenant – specific Improvements will require approval for reallocation of funding from other Capital projects or an increase to the Capital budget.

#### Social Housing Component Operation:

BC Housing may engage a third-party operator (the “Operator”) to operate, tenant and manage the Social Housing Component on behalf of BC Housing in accordance with the operating agreement held between the two parties (the “Operator Agreement”) and the terms of the Ground Lease. The proposed Operator for the Social Housing Component is S.U.C.C.E.S.S., who were selected through a public tender process. Terms and conditions of the Ground Lease have been drafted to ensure consistency between the Operator or BC Housing’s standard practices of managing the Social Housing Component, and the requirements of the City.

#### Affordability Requirements:

BC Housing shall ensure that not less than 30% of the residential units in the Social Housing Component (the “HILS Units”) shall be occupied by tenants whose income is no more than the Housing Income Limit (“HILS”) for the applicable unit type, as published by the British Columbia Housing Management Commission, and otherwise that the Social Housing Component be rented in accordance with the Operator Agreement for the site. Except for the HILS Units, rent currently defined in the Operating Agreement is described as being at or below an Affordable Market Rent (defined as average market rent, as determined by BC Housing from time to time based on the most recent, applicable Canada Mortgage and Housing Corporation rental market or housing report). BC Housing and S.U.C.C.E.S.S. (the proposed Operator) expect that over time, affordability requirements will exceed the minimum thresholds stipulated by the Ground Lease.

#### Proof of Income & Reporting Requirements:

BC Housing shall ensure income testing occurs at the time of initial occupancy for all residential units in the Social Housing Component, and thereafter on an annual basis in respect of the HILS Units. BC Housing shall also provide annual reporting to the Lessor on rent & affordability statistics, occupancy expenses & statistics, operating surplus details and audited financial statements.



Capital Asset Planning:

BC Housing is required to manage and share with the Lessor a Capital Asset Plan and Capital Fund which will set out the maintenance, repair and replacement practices and capital maintenance funding for the Building, in accordance with BC Housing's standard practices with respect to capital assets under their management. BC Housing and the City will collaborate on a Long Term Asset Plan during the 15 year period prior to expiry of the Term.

Operating Surplus: Operating Surpluses generated by the Social Housing Component shall be used in accordance with the Operator Agreement for the Social Housing Component, being to improve unit affordability within the project. For any year in which an Operator Agreement is not in effect, the Operating Surplus shall be used firstly to ensure the Capital Fund is adequately funded and secondly, upon mutual agreement of the Lessee and Lessor, to increase the affordability or net number of HILS Units, and/or to distribute the Operating Surplus equally between Lessee and Lessor to create or acquire net new social housing within Vancouver.

The terms and conditions of the Ground Lease (and attached Subleases) finalized between the City, BC Housing and VCH satisfy Council's previous authorizations and direction to secure the redevelopment and operation of the Lands as a social housing and community health project.

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

The following table summarizes the current estimated overall development costs and partner contributions.

<b>Development Cost Estimates</b>	<b>(\$ M)</b>
Land lease (99-year nominal lease)	16.70
Development	s.17(1)
<b>Total Capital Budget Estimate</b>	
<b>Partner Contributions (\$ million)</b>	
City of Vancouver (99-year nominal lease)	16.70
City of Vancouver's share of Social Enterprise Component	s.17(1)
Development cost levies (Vancouver) - Exempted	
Development charge charges (Metro Vancouver & TransLink) - Waived	
VCH's share of Community Health Component	
BC Housing Capital Grant	
BC Housing Mortgage financing	
<b>Total</b>	

***Social Housing Component*** - The typical funding model for non-market housing projects entails leasing City land to housing partners at below market or nominal rent for 60 years or longer, with the partners responsible to design, build, finance, operate and maintain the housing project at prescribed affordability over the lease term. Depending on the target affordability, these projects will likely require additional equity contributions from senior governments, foundations, charities and investors.

Consistent with Council policies, all affordable housing projects are expected to be self-sustaining over the life of the project and do not require further operating subsidies, property tax exemptions, and/or financial guarantees from the City.

Operating Surpluses will be used to improve unit affordability onsite in accordance with the Operator Agreement. For any year in which an Operator Agreement is not in effect, the Operating Surplus will be used firstly to adequately fund the Capital Fund and secondly to increase the affordability or net number of HILS Units, or be distributed equally between BC Housing and the City to create or acquire net new social housing within Vancouver (subject to the mutual agreement of both BC Housing and the City).

**Social Enterprise component** - s.17(1) in funding to support the Construction of the Social Enterprise component is included in the 2022 Capital Budget. Additional funding to support cost escalation and Operator Specific tenant improvements will require reallocation or an increase to the Capital budget. Funding for the tenant relocation costs related to the housing component is included in the 2022 Capital budget.

### ***Environmental***

Per RTS 12540, Real Estate & Facilities Management were to investigate the environmental condition of the Property to prepare a remediation budget for approval by Council. Based on the review completed, it was determined that a former service station located at 1716 Clark Drive contaminated multiple City properties including portions of East 1<sup>st</sup> Avenue, Clark Drive, and a portion of 1636 Clark Drive (the Lands). Under the *Environmental Management Act* and Contaminated Sites Regulation, the former service station is the source site of contamination, and therefore the legal owner of 1716 Clark Drive is considered the responsible person for the contamination (the “Responsible Person”).

Environmental Services has been working collaboratively with the Responsible Person since 2018 to complete the necessary environmental site investigations to obtain the required regulatory approvals to support BC Housing’s zoning, development, and building permit applications. The Responsible Person is committed to continuing to work with the City and BC Housing to manage and pay the incremental costs of remediation of soil, groundwater and vapour contamination, if required, during development of the Lands. The City, the Responsible Person, and BC Housing will work collaboratively to minimize costs according to the terms in the Ground Lease. It is anticipated that the City will incur s.17(1) in environmental consulting costs during development of the Lands, with the source of funding to be the 2023 Property Endowment Fund Capital Budget.

### ***CONCLUSION***

The finalized Ground Lease secures the rights and obligations of the City, BC Housing and VCH to develop and operate the Lands as a mixed-use community health and social housing project, serving current and future Vancouverites over the next century, and formalizes the City’s contributions as a major partner in this innovative project. The General Manager of Real Estate & Facilities Management, in consultation with the General Manager of Arts, Culture & Community Services recommends Council’s approval of Recommendations A and B of this report.

\* \* \* \* \*

**Subject Property**



