



## COUNCIL REPORT

Report Date: October 31, 2023  
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Meeting Date: November 28, 2023  
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TO: Vancouver City Council  
FROM: Deputy City Manager  
SUBJECT: Lease Extension with Covenant House Vancouver for 326 West Pender Street

### Recommendations

THAT Council authorize the Director of Real Estate Services to negotiate and execute an extension to the ground lease (the "Lease") between the City of Vancouver as lessor (the "City") and Covenant House Vancouver as the lessee, providing for the on-going operation of a social housing project and youth drop in and outreach centre located at 326 West Pender Street, legally described as Parcel B, Block 36, DL 541, Group 1 New Westminster District., Plan LMP 32300 (the "Lands"), which will be in accordance with the following terms and conditions:

- i. An extension of the current term of up to seven (7) years commencing on June 25, 2057, the expiry of the current lease (the "Lease Extension Commencement Date") granted at the discretion of the City;
- ii. Nominal Basic Rent determined in accordance with the Non-Profit Lease Renewal Framework for valuing ground rent, plus property taxes or rent in lieu of taxes;
- iii. Affordability requirements will extend to all units; and
- iv. All other existing terms and conditions, within the existing Lease to remain unchanged.

As the rent for the proposed lease extension will be for nominal rent, Recommendation A constitutes a grant and requires at least 8 affirmative votes of Council, per Section 206(1) of the *Vancouver Charter*.

### Purpose and Executive Summary

This report recommends Council approve the negotiation and execution of an extension to the existing Lease with Covenant House Vancouver at 326 West Pender Street for a period of up to

seven (7) years. This allows Covenant House to comply with CMHC's Rapid Housing Initiative requirements and secure approximately \$1.9 million to convert existing rooms to self-contained housing and to add new social housing units for youth. The Lease expires on June 25, 2057. The additional 7 years would bring the lease expiry to June 25, 2064.

### **Council Authority/Previous Decisions**

- Housing Vancouver Strategy and Housing Vancouver Three-Year Action Plan (2017)
- Affordable Housing Delivery and Financial Strategy (2018)
- Downtown Eastside Plan (Victory Square sub area). In 2014, Council approved the Downtown Eastside (DTES) Plan that sets a vision for the future of the DTES and aims to improve the lives of those who currently live in the area, including low and middle-income residents, the homeless, seniors, children and families. The goal of the Plan is to “enhance and accelerate a strategy to implement Council’s 2005 DTES Housing Plan: thereby improving the delivery of affordable market and social housing options for all residents, and to support local serving commerce, social services and cultural activities where all feel welcome, valued and at home.”
- On July 24, 2019, Council approved the Non-Profit Lease Renewal Framework and authorized staff to negotiate future ground lease(s) with non-profit operators in accordance with the Options, Key Terms, and Ground Rent Valuation contained in the Non-Profit Lease Framework
- On July 20, 2021, Council directed staff to keep Council apprised of specific opportunities and proposals for youth housing that could be enabled within the City’s existing housing policy structures

### **City Manager’s Comments**

The City Manager concurs with the foregoing recommendations.

### **Context and Background**

The original Lease for 326 West Pender Street was executed with Vancity Place Society (Vancity) in June 1997 for a 60 year term at a nominal rate. The Lease expires on June 25, 2057.

Based on Council approval, the Lease was assigned to Covenant House Vancouver in April 2001. The assignment was for the remaining term of the original 60 years.

Covenant House Vancouver, through its Rights of Passage program, provides supports and housing for youth ages 16 to 24 who are homeless or at risk of homelessness. These youth have fled physical, emotional, and sexual abuse, have been forced from their homes or have aged out of foster care. Covenant House Vancouver operates its Rights of Passage program from its site at 326 West Pender Street.

## Discussion

Covenant House is seeking to expand the Rights of Passage program and intends to dedicate the entire building at 326 West Pender to the delivery of this program. Expansion includes converting the existing 25 sleeping rooms into self-contained suites and adding 19 new supportive units for a total of 44 supportive transitional housing units for youth. In addition, the renovations will include a life-skills teaching kitchen, counselling, meeting, storage, intake, and staff rooms.

Covenant House has applied for \$1.9 million from CMHC's Rapid Housing Initiative (RHI) for these renovations. The Federal government's Rapid Housing Initiative (RHI) was created in 2020 to rapidly create 3,000 units of new affordable rental housing in response to the urgent housing needs of vulnerable and marginalized individuals. The RHI aims to support communities and individuals in critical housing need: women and children fleeing domestic violence, seniors, young adults, Indigenous peoples, people with disabilities, people dealing with mental health and addiction issues, veterans, LGBTQ2+, racialized groups, Black Canadians, recent immigrants or refugees, and homeless people or those at risk of homelessness. The RHI program requires the housing delivered to be geared towards households in severe housing need.

In support of its application, Covenant House has asked the City for a 7 year extension to its Lease. CMHC requires assurances that Covenant House will commit to 40 years of affordable housing. At present, the remaining lease term provides for 35 years. CMHC requires an additional 7 years (42 years in total) as the Lease provides the lessee with an option to terminate the Lease within the last 2 years of the term in the event of substantial damage or destruction to the building. Without an extension of 7 years, CMHC would not have assurance for a minimum of 40 years.

Recently released data from the 2023 Homeless Count shows that 8% of all respondents were youth under age 25. Additionally 37% of all Homeless Count respondents indicated they are currently or previous had been in the care of the Ministry as a child or youth. LGBTQ2S+ and Indigenous youth continue to be overrepresented in the homeless population pointing to a need for services and supports to meet a diversity of needs.

Given the significant need for youth housing, a lease extension is necessary for Covenant House to secure the funding from CMCH necessary to complete its projects. Staff recommend the extension of the current Lease to align with CMHC's funding requirements.

## Financial Implications

Consistent with longstanding 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. Housing partners are responsible for operating and maintaining the housing project at prescribed affordability where rent and other revenues (including senior government subsidies) are sufficient to cover operating and capital expenditures over the term of the lease.

Covenant House does not collect rent from residents under the Rights of Passage program. Instead, it collects a flat program fee that is equivalent to the shelter portion of Income Assistance, and returns up to one year's worth of program fees to residents to be applied

towards future accommodations when they successfully complete the program and move into other forms of housing.

Covenant House generates 95% of its revenue from private fundraising, and receives an annual subsidy of \$178,000 from BC Housing through its Homeless Outreach Program. Covenant House operates the Rights of Passage program on a break even basis. Pursuant to the Council-approved Lease Renewal Framework, staff recommend a nominal Basic Rent, plus property taxes or rent in lieu of property taxes, for the extended term, with affordability that is consistent with the existing lease terms and that would extend to additional units.

The Director of Real Estate Services has estimated the market value of the proposed 7-year ground lease extension, discounted to 2023, at approximately \$1.15 million. The recommended lease extension at nominal basic rent constitutes a grant and requires at least eight (8) affirmative votes of Council, per Section 206(1) of the *Vancouver Charter*.

**Legal Implications**

No legal rights or obligations will arise or be created between the Covenant House and the City unless and until a legally binding extension is successfully negotiated and executed by the City through its authorized signatories as authorized by Council and Covenant House.

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