



COUNCIL REPORT

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Contact: Ryan Bigelow
Contact No.: 604-673-8151
RTS No.: 16427
VanRIMS No.: 08-2000-20
Meeting Date: July 9, 2024
[Submit comments to Council](#)

TO: Vancouver City Council
FROM: Armin Amrolia, Deputy City Manager
SUBJECT: Below Market Lease and Grant to Helen's Court Co-op at 2137 West 1st Avenue

Recommendations

THAT Council authorize the Director of Real Estate Services to negotiate and execute a long term ground lease (the "Future Lease") with Helen's Court Co-operative Housing Association (the "Co-op") for the City-owned property located at 2137 West 1st Avenue, legally described as PID: 007-130-546, Lot D Block 204 District Lot 526 Plan 18606, together with all buildings and improvements (the "Property"), at below market rates summarized in Appendix A based on the Methodology for Co-operative Housing Lease Renewals ("Co-op Lease Methodology");

FURTHER THAT the existing lease of the Property, which was executed in 2017 and commenced on June 2, 2024 (the "Present Lease"), be terminated and be replaced by the Future Lease;

AND FURTHER THAT the ground rent under the Present Lease, for the period from June 2, 2024, to when the Present Lease is terminated and replaced, be amended based on the Co-op Lease Methodology.

As the rent for the Future Lease and the amended Present Lease will be below market, Recommendation constitutes a grant and requires at least 8 affirmative votes of Council, per Section 206(1) of the *Vancouver Charter*.

Purpose and Executive Summary

In 2005, Council approved an option to extend the original lease of the Property (the "Original Lease") for twenty (20) years. The Present Lease, executed in 2017 and commenced on June 2, 2024 following the expiry of the Original Lease, establishes ground rent based on 50% of market rate for the land. In July 2021, Council approved the Co-op Lease Methodology which establishes ground rent following an income-based approach rather than one tied to land value.

This report seeks Council authority to: i) replace the Present Lease (20-year less one day) with the Future Lease (40-year plus 20-year option to renew) with the Co-op based on the terms set out in the Co-op Lease Methodology, including a 10-year transition grant; and ii) adjust the ground rent under the Present Lease, for the period from June 2, 2024 to when the Present Lease is terminated, following the Co-op Lease Methodology.

Council Authority/Previous Decisions

On September 30, 2005, Council approved the Present Lease, with a term of twenty (20) years less one (1) day. This lease was executed in 2017 and commenced on June 2, 2024, following the expiry of the Original Lease.

On July 8, 2021, Council approved the [Methodology for Co-operative Housing Lease Renewals \(RTS 13783\)](#), which approved certain policies that are intended to guide or provide a framework for the negotiation of co-op lease renewals, including the 10-year transition grant.

City Manager's Comments

The City Manager concurs with the foregoing recommendations.

Context and Background

The Co-op is located at 2137 W 1st Avenue in the Kitsilano area. The City entered into the Original Lease with a term of 41 years with the Co-op on June 1, 1983, which expired on May 31, 2024.

In September 2005, Council approved the Present Lease, with a term of twenty (20) years less one (1) day, which was executed in 2017 and commenced on June 2, 2024, following the expiry of the Original Lease.

Council approved the [Methodology for Co-operative Housing Lease Renewals \(RTS 13783\)](#), providing a Lease Renewal Framework that establishes ground rent based on the incomes of co-op members rather than market land values, and includes the provision of a transition grant of up to 10 years.

Staff are seeking Council approval to replace the Present Lease with the Future Lease under the Co-op Lease Methodology.

Discussion

Following the Co-op Lease Methodology, the term for the Future Lease will be for an initial period of 40 years (the "Initial Term"). The Co-op may renew such term for one additional term of 20 years if certain conditions are met, to be specified in the lease agreement. The Co-op will have no further right of renewal or extension after the renewal term. See Appendix A for key lease terms.

Land Rent and Affordability

The Co-op Lease Methodology establishes an approach for the calculation of below market land rent for short and long term co-op lease renewals. The land rent calculation is based on the level of affordability provided by the Co-op, and a transition grant, for up to 10 years, is provided to ease the introduction of land rent into the Co-op's budget.

Membership Profile - RGI and Non-RGI Units

In accordance with the Co-op Lease Methodology, the Future Lease with the Co-op is intended to be below market where land rent is primarily determined by the number of non-Rent Geared to Income (“Non-RGI”) and Rent Geared to Income (“RGI”) member households as defined below.

Household Type	Definition
Non-RGI member households	lower of a 15% discount to Canada Mortgage and Housing Corporation (“CMHC”) average neighborhood area rents or 25% of median Vancouver renter incomes (Non-RGI Benchmark Rent)
RGI member households	30% of the average income of RGI Units below the lower of HILs/Non-RGI Benchmark Rent and to be no lower than Income Assistance Rates

The Co-op Lease Methodology requires a minimum of 15% of the Co-op’s units to be at RGI affordability. For the Co-op, 24 units (55%) are occupied by households that meet the RGI criteria and land rent will be set based on household income for these units. The remaining 20 units (45%) will have land rent based on the Non-RGI definition. The distribution of RGI and Non-RGI units is summarized below.

Figure 1: Summary of RGI and Non RGI Units

Unit type	Unit count	RGI units		Non-RGI units	
		Count	% of units	Count	% of units
1 BR	10	8	80%	2	20%
2 BR	24	13	54%	11	46%
3 BR	10	3	33%	7	67%
Overall	44	24	55%	20	45%

After operating, capital and vacancy deductions described in the ground rent formula in Appendix A, indicative Annual Rent for Year 1 amounts to \$209,417 as broken down below. Rent Revenue is the sum of land rent calculated for all RGI and Non RGI units in the Co-op.

Figure 2: Estimated Year 1 Annual Rent

	Total \$	\$ per unit per month
Rent revenue	774,986	1,468
Vacancy deduction	7,750	15
Opex deduction	245,395	465
Capex deduction	312,424	592
Net Land Rent	\$209,417	397

The calculation of land rent for the Co-op’s Future Lease incorporates the transition grant for the first 10 years of the 40-year term for Non-RGI members. Non-RGI household income varies per bedroom type. Some members occupying three bedroom units have annual incomes of \$150,000. While Non-RGI households can afford the increase in housing charges, a time-limited transition grant helps limit the pace of any increase. RGI members will not be impacted as their housing charges will always be based on 30% of their household income.

Income for the Co-op’s members, RGI and Non-RGI, will be confirmed before finalizing the Future Lease.

The estimated transition grant of \$1.2 million over 10 years is summarized as follows:

Figure 3: Estimated Transition Grant over 10 Years

Year	Est. land rent, before grant (\$)	Transition grant		Est. land rent, after grant	
		%	\$	\$ Total	Per unit per month
1	209,417	95%	198,947	10,471	20
2	213,390	90%	192,051	21,339	40
3	217,408	80%	173,927	43,482	82
4	221,471	70%	155,030	66,441	126
5	225,577	60%	135,346	90,231	171
6	229,725	50%	114,863	114,863	218
7	233,914	40%	93,566	140,348	266
8	238,141	30%	71,442	166,699	316
9	242,406	20%	48,481	193,925	367
10	246,706	10%	24,671	222,036	421
Total	2,278,155		1,208,324	1,069,835	

Recommendation A, as proposed, will amend the ground lease rent under the Present Lease, for the period from June 2, 2024, to when the Present Lease is terminated, based on Co-op Lease Methodology, which includes the transition grant.

Financial Implications

The table below shows the land rent forecast for the first 10 years under the Present Lease and under a Future Lease per Recommendation A.

Figure 4: Estimated Land Rent Forecast and Savings over 10 Years

Present Lease	~\$2.65 million
Future Lease	~\$1.07 million
Total Savings to Non RGI Households	~\$1.58 million (includes Transition Grant of ~\$1.21 million)
Savings per Non RGI Household	~\$76,000 over 10 years.

The below market lease (the Future Lease and the amended Present Lease) constitutes a grant and approval requires eight affirmative votes of Council, per Section 206(1) of the *Vancouver Charter*.

Consistent with Council policies, all affordable housing projects are expected to be self-sustaining over the long-term where rents are set at levels that will cover mortgage payments, operating costs and capital replacement, and do not require further operating subsidies, property tax exemptions, and/or financial guarantees from the City.

Legal Implications

No legal rights or obligations shall 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.

Recommendation constitutes a grant and require at least 8 affirmative votes of Council, per Section 206(1) of the *Vancouver Charter*.

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APPENDIX A
GROUND LEASE – TERMS AND CONDITIONS

Category	Terms
Landlord	City of Vancouver
Tenant	Helen's Court Housing Co-operative Association
Term	40 years will commence upon the termination of the Present Lease
Option to Renew	One, 20 year option to renew effective at the expiry of the 40 year term
Basic Rent	<p>Basic Rent will be determined annually each year throughout the 40 Year Term in accordance with Schedule A.</p> <p>Basic Rent for the 40 Year Term may be set annually and is payable monthly starting on the Commencement Date.</p> <p>The Tenant should strive to ensure its unit mix represents the Housing Vancouver Strategy of equity and diversity.</p>
Taxes:	<p>The Tenant will pay, directly to the taxing authority, all property taxes in respect of the Premises.</p> <p>The Tenant will pay, every tax and permit and licence fee (including penalties and interest) in respect of any business carried on in the Premises or in respect of the use or occupancy of the Premises by the Tenant or its members.</p>
Utilities:	The Tenant will be responsible for charges for utilities and services including heat, electricity, gas, water, waste and recycling collection, telephone, cable and internet, used by the Tenant during the term.
Permitted Use:	The Tenant will use the Premises only for the purpose of providing residential housing to its members in accordance with the terms and conditions of the Lease Agreement, unless otherwise approved by the Landlord in its sole discretion.
Assignment and Subleasing:	The Tenant may not assign its interest in the Lease Agreement without the Landlord's consent, which may be arbitrarily withheld.
Maintenance and Repairs:	<p>The Landlord will not be obliged to furnish any services or facilities or to make repairs, replacements or alterations in or to the Premises, and the Tenant hereby assumes the full and sole responsibility for the condition, operation, repair, replacement, maintenance and management of the Premises and all expenses related thereto.</p> <p>The Tenant will operate, manage and maintain the Premises or will cause the Premises to be operated, managed and maintained in a good, efficient and businesslike manner and will properly and adequately supervise the Premises, will supply or cause to be supplied all necessary building services to the occupants thereof, will impose and enforce rules and regulations relating to the use and occupancy of the Premises, and will generally manage the Premises as would a prudent owner pursuant to the terms of the Lease.</p>
Affordability	Requires a minimum of 15% of the Co-op's units to be at Rent Geared to Income (RGI) affordability

<p>Recording Keeping and Financial Management:</p>	<p>Annual income testing for all members occupying RGI Units (as defined in Schedule A) throughout the 40 Year Term to support discounts in land rent, and to support any adjustments if required.</p> <p>For remaining members occupying units which are not RGI units (“Non-RGI Units”), income reporting at commencement of the Lease Agreement.</p> <p>Within 12 months of the Commencement Date and upon replacement from time to time during the 40 Year Term, provide to the Landlord: (a) the Tenant’s member referral and selection policy as approved by the Tenant’s members and enforced by the Tenant; and (b) the Tenant’s unit occupancy and over/under housing guidelines/policies as approved by the Tenant’s members and enforced by the Tenant, which the Tenant will make reasonable efforts to align with the National Occupancy Standard developed by Canada Mortgage and Housing Corporation. The City strongly encourages Tenants to incorporate more equity based approaches to member selection policies.</p> <p>Annually provide to the Landlord (a) financial statements; (b) schedule of repairs/capital expenditures; (c) housing charge statistics (i.e., housing charges to all members); (d) occupancy statistics (i.e., vacancy and turn overs); and (e) operating budget and expense statistics (detail and summary operating expenses).</p> <p>Provide to the Landlord on the Commencement Date of the Lease Agreement and every three years following or as otherwise approved by the Landlord: (f) a building condition report; and (g) an asset management plan.</p> <p>Other Tenant reporting obligations to be detailed in the Lease Agreement.</p>
<p>Insurance Requirements:</p>	<p>The Tenant will take out Commercial General Liability insurance of not less than \$10M per occurrence, all risk property insurance to the full replacement cost value of the building, business interruption (rental income) insurance in an amount equal to or greater than the Basic Rent payable for the relevant 12 month period, and insurance covering boilers, machinery and pressure vessels protection against usual and unusual perils.</p>
<p>Tenant Default for RGI Unit Count or Reporting Deficiencies:</p>	<p>In addition to standard events of default to be listed in the Lease Agreement, it will be an event of default for the Tenant if: (a) the number of members occupying RGI Units in the building and receiving income adjusted housing charges at a maximum of 30% of the member’s household income is less than 15% of the total number of housing units in the building; or (b) income information from members is grossly misstated or not reported for a 5% or more of the housing units as required to validate the below market land rent rates.</p>
<p>Redevelopment</p>	<p>During the Term, the City may elect to terminate the Future Lease in order to redevelop the Premises on the terms outlined in Appendix B of the LRF.</p>

**SCHEDULE A
GROUND LEASE BASIC RENT TERMS AND CONDITIONS**

<p>RGI/Non-RGI Household Target</p>

- Basic Rent will be reduced for member households that meet the RGI Unit Eligibility Criteria. The number of RGI Units that meet the RGI Unit Eligibility Criteria must be agreed-upon at the beginning of the year (i.e., the Minimum RGI Units) and must be at least 15% of total units in the Current Premises. The Minimum RGI Units can be adjusted at the beginning of each year.

Basic Rent Calculation and Payment

- At the beginning of each year of the 40 Year Term, (a) the Landlord will provide the Tenant with the RGI Unit Eligibility Criteria; (b) the Tenant and the Landlord will define the Minimum RGI Units, which will impact the calculation of Basic Rent; and Basic Rent will be set annually by determining an indicative rent at the beginning of the year using the previous year's income for members occupying the Minimum RGI Units.
- Rent will be paid monthly in advance.
- At the end of each year of the 40 Year Term, (a) Basic Rent will be adjusted based on income testing results of that year for Minimum RGI Units; and (b) any amounts owing to the Landlord will be paid the next rent payment date, and any amounts owing to the Tenant may be deducted from the next payment date(s).
- If the Tenant does not maintain its committed Minimum RGI Units, the Tenant will pay additional rent equivalent to the Non-RGI amounts for the deficit.
- At all times, the Tenant must deliver a minimum of 15% RGI Units.

Rent Formula:

	Non-RGI Revenue
+	RGI Revenue
+	Sr. Government Subsidies
-	Vacancy Allowance
-	OPEX Deduction
-	CAPEX Deduction
=	Rent before Grant
-	Transition Grant
=	<u>Annual Net Rent</u>

Non-RGI Revenue

- Non-RGI Rent revenue = # of units x lower of:
 - 25% of Median Vancouver Renter Income (MVRI), and
 - 15% discount of CMHC average area rents (Downtown zone);
 - MVRI is adjusted when new census data is published and escalated by RTA rate between census periods.
 - CMHC area rents are published annually.
- Eligibility/income threshold:
 - Non-RGI Unit households must report income at the beginning of the 40 Year Term
 - Should members occupying Non-RGI Units not provide income information, the Landlord reserves the right to determine land rent for these units at the prevailing market rates for the number of units with income information outstanding

RGI Revenue

- Rent revenue = # of eligible units x 30% of household income and not lower than the maximum shelter rate component of Income Assistance;
- Eligibility/ income threshold:
- Household income is at or below HILs; or
 - 30% of annual household income is below Non-RGI rent rate; whichever is higher
 - Should members occupying RGI Units be over-housed according to the Tenant's unit occupancy and over/under housing guidelines/policies, the Landlord reserves the right to determine land rent for these units at the Non-RGI unit rate
- Tenant Housing Charge Conditions:
- Housing charges set by Tenant for households in RGI eligible units cannot exceed 30% of income
 - RGI Unit households must report income at the beginning of the 40 Year Term and be income tested (and adjusted) annually
 - Tenant sets number of RGI Units; minimum 15% of total Tenant Allocated Units

OPEX Deduction

OPEX deduction of \$465 PUPM in year 1 of the 40 Year Term, escalated annually by rate of escalation of Non-RGI and RGI Revenue from the previous year

CAPEX Deduction

CAPEX deduction of \$592 PUPM, escalated annually by rate of escalation of Non-RGI and RGI Revenue from the previous year

Vacancy Allowance

Vacancy deduction of 1% of RGI Revenue and Non-RGI Revenue

Transition Grant

The Transition Grant is only available for the first 10 years, and for a maximum of 10 years of the 40 Year Term.

The Transition Grant is not available to new co-op members of the Tenant after the commencement of the 40 Year Term *as its purpose is to assist existing members with lease payments*. The Tenant's existing co-op members moving to different units leased to the Tenant are not considered new members.

Rent Discount Formula:

- Total Unadjusted Rent x Year Rent Discount %

Year Rent Discount #:

- Yr 1 – 95%
- Yr 2 – 90%
- Yr 3 – 80%
- Yr 4 – 70%
- Yr 5 – 60%
- Yr 6 – 50%
- Yr 7 – 40%
- Yr 8 – 30%
- Yr 9 – 20%
- Yr 10– 10%

Term & Eligibility:

- Available only to existing members at commencement of the 40 Year Term
- Member must report income at beginning of 40 Year Term for unit to be eligible

Senior Government Subsidy

Adjustment for senior government operating subsidy received by the Tenant

Adjustment cannot exceed the difference in lease rate between RGI and Non-RGI units by unit type x total RGI units by unit type