



COUNCIL REPORT

Report Date: April 18, 2025
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VanRIMS No.: 08-2000-20
Meeting Date: July 8, 2025
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TO: Vancouver City Council
FROM: Armin Amrolia, Deputy City Manager
SUBJECT: Below Market Lease and Grant to Pacific Heights Co-op at 1019 Pacific Street

Recommendations

- A. THAT Council authorize the Director of Real Estate Services to negotiate and execute a long term renewal ground lease (the "Lease") with Pacific Heights Housing Co-operative (the "Co-op") for the City-owned property located at 1019 Pacific Street, legally described as PID 014-258-196, The East 1/2 of Lot 12 Block 13 District Lot 185 Plan 92 together with all buildings and improvements (the "Property"), at below-market rent based on the Methodology for Co-operative Housing Lease Renewals ("Co-op Lease Methodology") and the terms and conditions set out in Appendix A.
- B. THAT Council authorize the Director of Real Estate Services to amend the Existing Lease of the Property with the Co-op, registered at the Land Title Office under registration no. M8748, as amended by lease modifications under registration nos. M18860 and M34243 (collectively, the "Existing Lease"), which has been in overhold since January 31, 2025, by amending the overhold rent for the period, from January 31, 2025 to the commencement of the Lease to below-market rent based on the Co-op Lease Methodology.
- C. THAT Council authorize the Director of Real Estate to negotiate and execute all such further amendments to the Lease, the Existing Lease and further ancillary legal documents as are consistent with the terms and conditions set out in this Report.

As the rent for the Lease and the overhold rent for the Existing Lease are below market, Recommendations A and B each constitute a grant and require at least 8 affirmative votes of Council, per Section 206(1) of the *Vancouver Charter*.

Purpose and Executive Summary

This report seeks Council authority to enter into a long-term renewal lease with the Co-op for a term of up to January 30, 2065, including an option to renew for a renewal term of 20 years, based on the Co-op Lease Methodology, which will include a 10-year transition grant.

Council Authority/Previous Decisions

On July 7, 2021, Council approved the Co-op Lease Methodology ([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 1019 Pacific Street in the West End area. The City entered into a 41 year lease with the Co-op on January 31, 1984 pursuant to the Existing Lease, which lease expired on January 30, 2025 and has been in overhold since January 31, 2025.

The Co-op Lease Methodology provides a framework that establishes land 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.

Discussion

Following the Co-op Lease Methodology, the term for the Lease will be for an initial period of up to January 30, 2025 (the "Initial Term"). The duration of the Initial Term, 40 years commencing with the expiry of the prior lease, reflects the standard renewal term contemplated in the Co-op Lease Methodology. At the expiry of the Initial Term, the Co-op will have an option to renew its lease for one additional 20 year term (the "Renewal Term") if certain conditions specified in the Lease are met. The Co-op will have no further right of renewal or extension after the Renewal Term. See Appendix A for key terms of the Lease.

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, may be provided to ease the impact of land rent on the Co-op's budget.

Membership Profile - RGI and Non-RGI Units

In accordance with the Co-op Lease Methodology, the 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 pursuant to Schedule A of Appendix A.

The Co-op Lease Methodology requires a minimum of 15% of the Co-op's units to be at RGI affordability. For the 91 units in the Co-op, 37 units (41%) are occupied by households that meet the RGI criteria and land rent will be set based on household income for these units. For the

remaining 54 units (59%), land rent will be set 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	12	10	83%	2	17%
2 BR	56	25	45%	31	55%
3 BR	23	2	9%	21	91%
Overall	91	37	41%	54	59%

Membership Profile – Income Profile

Summarized below is the current income profile for the Co-op, with the average annual income by bedroom type for RGI and non-RGI households.

Figure 2: Average Incomes of RGI and Non-RGI Units

Unit type	Unit count	RGI units		Non-RGI units	
		Count	Average income	Count	Average income
1 BR	12	10	\$28,774	2	\$71,604
2 BR	56	25	\$42,122	31	\$135,882
3 BR	23	2	\$80,682	21	\$182,271
Overall	91	37	\$40,599	54	\$151,541

Estimated Land Rent and Transition Grant

After operating, capital and vacancy deductions described in the ground rent formula in Appendix A, the indicative Annual Rent for Year 1 amounts to an unadjusted land rent total of \$788,727 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 3: Estimated Year 1 Annual Rent

	Total \$	\$ per unit per month
Rent revenue	1,789,130	1,638
Senior Gov't Subsidy	200,000	183
Vacancy deduction	(17,891)	(16)
Opex deduction	(520,209)	(476)
Capex deduction	(662,303)	(607)
Unadjusted Land Lease Rent	\$788,727	\$722

The calculation of land rent for the Co-op's Lease will incorporate a transition grant for the first 10 years following the end of the Existing Lease. The estimated transition grant of \$4M over 10 years is summarized as follows:

Figure 4: Estimated Transition Grant over 10 Years

Year	Est. land rent, before grant (\$)	Est. Transition grant		Est. land rent, after grant	
		%	\$	\$ Total	\$ per unit per month
1	788,727	95%	749,291	39,437	36
2	803,445	90%	723,101	80,344	74
3	818,531	80%	654,825	163,706	150
4	650,661*	70%	455,463	195,198	179
5	649,844	60%	389,906	259,940	238
6	666,090	50%	333,045	333,045	305
7	682,742	40%	273,097	409,645	375
8	699,811	30%	209,943	489,868	449
9	717,306	20%	143,461	573,845	525
10	735,239	10%	73,524	661,715	606
Total	7,212,399		4,005,656	3,206,743	

**In Year 4, the Co-op's operating subsidy agreement with CMHC reaches term. If this agreement is not extended, more of the City's land rent will go towards subsidizing RGI member households.*

Recommendation B, as proposed, will amend the ground lease rent under the Existing Lease during the overholding period (from January 31, 2025 to when the Lease renewal commences) based on Co-op Lease Methodology, which includes the transition grant.

As land rent for the RGI units are set based on household income, the entire \$4M of transition grant is allocated to non-RGI units, which is equivalent to \$74,000 for each non-RGI household over the 10-year period.

Land Rent Payment Structure

The Co-op Lease Methodology contemplates two payment options for co-ops:

- Annual rent – which is set annually based on Non-RGI Benchmark Rent for Non-RGI Units and incomes of RGI Units, offset with operating, capital and vacancy deductions to account for the Co-op's responsibilities to maintain the Property during the Lease ("Annual Rent"); or
- Prepaid rent (40 years) – which is set by escalating the first year Annual Rent derived from (a) for the Initial Term and discounting back to establish a present value ("Prepaid Rent").

The Co-op has opted to pay Annual Rent.

Financial Implications

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.

The estimated fair market rental value for this property is approximately \$792,510 annually. As such, the below-market renewal rent for the Lease and the overhold rent for the Existing Lease each constitute a grant and approval requires eight affirmative votes of Council, per Section 206(1) of the Vancouver Charter.

Legal Implications

No legal rights or obligations shall arise or be created by Council's adoption of Recommendations A, B and C unless and until all legal documentation has been executed and delivered by the respective parties.

Recommendations A and B each constitute 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	Pacific Heights Housing Co-operative
Term	The Initial Term will commence on XX, 2025 (the “Commencement Date”) and expire on XX, XX (the “Initial Term”). [The expiry date is to be finalized prior to execution of the Lease and will be no later than January 30, 2065]
Option to Renew	One, 20 year option to renew effective at the expiry of the Initial Term
Basic Rent	<p>Basic Rent will be determined annually each year throughout the Initial Term in accordance with Schedule A.</p> <p>Basic Rent for the Initial 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 initial 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, unless otherwise approved by the Landlord in its sole discretion.
Assignment and Subleasing:	<p>The Tenant may not assign its interest in the Lease without the Landlord’s consent, which may be arbitrarily withheld.</p> <p>The Tenant will not sublease, license, set over or otherwise part with possession of the Premises or let any other person into possession of the Premises, save and except to its members pursuant to occupancy agreements (on the terms and conditions set out in the Lease), without the prior written consent of the Landlord, which consent the Landlord may arbitrarily withhold.</p>
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,</p>

	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.
Affordability	Requires a minimum of 15% of the Tenant's units to be at Rent Geared to Income (RGI) affordability
Recording Keeping and Financial Management:	<p>Annual income testing and reporting for all members occupying RGI Units (as defined in Schedule A) throughout the Initial 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 and thereafter 90 days prior to each fifth anniversary of the Commencement Date.</p> <p>Within 12 months of the Commencement Date and upon replacement from time to time during the Initial 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 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.</p>
Insurance Requirements:	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.
Tenant Default for RGI Unit Count or Reporting Deficiencies:	In addition to standard events of default to be listed in the Lease, 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.

Redevelopment	During the Initial Term, the City may elect to terminate the Lease in order to redevelop the Premises on the terms outlined in Appendix B of the Co-op Lease Methodology.
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SCHEDULE A - GROUND LEASE BASIC RENT TERMS AND CONDITIONS

RGI/Non-RGI Household Target
<ul style="list-style-type: none"> 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 Premises. The Minimum RGI Units can be adjusted at the beginning of each year.

Basic Rent Calculation and Payment
<ul style="list-style-type: none"> At the beginning of each year of the Initial 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 Initial 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:
<div style="text-align: right;"> Non-RGI Revenue + RGI Revenue + Sr. Government Subsidies - Vacancy Allowance - OPEX Deduction - CAPEX Deduction <hr/> = Rent before Grant - Transition Grant <hr/> = Annual Net Rent </div>

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 Initial 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 Non-RGI rent rate, whichever is lower
 - 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 Initial Term and be income tested (and adjusted) annually

OPEX Deduction

OPEX deduction of \$476 PUPM in year 1 of the Initial Term, escalated annually by rate of escalation of Non-RGI and RGI Revenue from the previous year

CAPEX Deduction

CAPEX deduction of \$607 PUPM in year 1 of the Initial Term, 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 will be available for a maximum of 10 years following the expiry of the Existing Lease.

The Transition Grant is not available to new co-op members of the Tenant after the commencement of the Initial 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 Initial Term
- Member must report income at beginning of Initial 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