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ADMINISTRATIVE REPORT

Report Date: January 5, 2011
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Meeting Date: January 18, 2011

TO: Vancouver City Council

FROM: Managing Director of Social Development and the Director of Real Estate Services

SUBJECT: Lease Terms and Other Arrangements for Social and Supportive Housing at 606 Powell Street (one of 14 sites)

RECOMMENDATION

- A. THAT subject to the satisfactory conclusion of rezoning conditions and the enactment of the CD-1 By-law for this site, Council authorize the Director of Real Estate Services to lease City-owned lands located at 606 Powell Street, legally described as PID 015-370-089(lot 1), PID 015-370-101(lot 2), PID 015-370-135(lot 3), PID 015-370-160(lot 4), PID 015-370-194(lot 5), PID 015-587-126 (lot 6) and PID 015-587-134(lot 7), Block 52, DL 196, Plan 196 (the "Lands") by way of ground lease to RainCity Housing and Support Society ("RainCity") to enable the development of a non-market housing project, which ground lease will provide for:
- i) a term of 60 years;
 - ii) a nominal prepaid rent; and
 - iii) a waiver of rent-in-lieu of property taxes for the term of the lease for the site(excluding ground floor retail space), including the construction period, as long as it continues to provide supportive housing for the homeless and as long as BC Housing continues to provide operating subsidies;

and otherwise will be in accordance with the terms and conditions outlined in this report and to the satisfaction of the Managing Director of Social Development, the Director of Real Estate Services and the Director of Legal Services.

The lease at a nominal rent and a waiver of rent-in-lieu of taxes for this City-owned site constitutes a grant and requires 8 affirmative votes.

- B. THAT Council authorize the Director of Real Estate to enter into a sublease between RainCity as sub-landlord and the City as sub-tenant of the retail space, totalling approximately 593.8 m² (6,391 ft²), on the main floor of the project to be constructed by RainCity on the Lands, which sublease will provide for:
- i) a term which is the term of the ground lease less a day;
 - ii) a nominal prepaid rent; and
 - iii) the right to exclusively use 5 parking spaces and non-exclusively use the loading bay;
- and otherwise will be subject to such other terms and conditions as determined by the General Manager of Business Planning and Services, Community Services and the Director of Legal Services.
- C. THAT Council approve payment to BC Housing of up to \$3,200,000 plus HST equal to the total construction costs of the retail space, disbursed during the construction period in two payments, 50% prior to start of construction and 50% upon completion and subject to the approval of the Director of Real Estate Services; source of funds is the Property Endowment Fund.
- D. THAT Council approve a budget of up to \$250,000 plus HST for required tenant improvements undertaken by the City or negotiated by the Director of Real Estate Services as part of the retail lease negotiations with prospective tenants; source of funds is the Property Endowment Fund.
- E. THAT the Director of Legal Services be authorized to execute all necessary agreements, plans and other documents on behalf of the City and that no legal rights or obligations are hereby created and none shall arise hereafter except upon execution of all legal documents required to complete these transactions to the satisfaction of the Director of Legal Services.

GENERAL MANAGER'S COMMENTS

The General Managers of Business Planning and Services and Community Services recommend APPROVAL of the foregoing recommendations. The 14 site partnership between BC Housing and the City of Vancouver is key to the City achieving its goal to end street homelessness by 2015 as well as the City's broader housing goals. The March 2010 Homeless Count undertaken by the City has allowed us to identify the specific locations in the City of our street and sheltered homeless. This partnership with BC Housing where the City has provided the sites across various communities will allow us to work with BC Housing and non-profits to house individuals as close to their social networks as possible.

COUNCIL POLICY

It is Council policy to purchase privately-owned sites for non-market housing projects and lease them to non-profit societies or co-operative associations for 60 years. A 60 year lease is valued at 75% of freehold market value.

Council's priorities for social housing are to maintain and expand housing opportunities in Vancouver for low and modest income households with priority being given to families with children, seniors on fixed incomes or in need of support; SRO residents; and the mentally ill, physically disabled and others at risk of homelessness.

In March 2007 Council approved in principle, making 12 or more City-owned sites available at no cost for the development of 1500 or more supportive housing units for low income singles, including those with mental health and addiction issues, by leasing the City-owned sites to non-profit sponsors of supportive housing for the development and operation of supportive housing for 60-year terms and nominal prepaid rents.

Council approved the Supportive Housing Strategy in June 2007.

Council approved a Memorandum of Understanding ("MOU") between the City and BC Housing on December 19, 2007, regarding the City/Province Social and Supportive Housing Partnership. Twelve (12) sites are included in this partnership, including the site at 606 Powell Street.

A lease at nominal rent and waiver of rent-in-lieu of property taxes for the Project constitute a grant, requiring the approval of 8 members of Council.

PURPOSE AND SUMMARY

The purpose of this report is to obtain authorities required for the ground lease of this site to RainCity Housing and Support Society ("RainCity") for the development and operation of supportive housing, and a sublease back to the City for the commercial/retail space to be constructed on the ground floor.

BACKGROUND

Acquisition: Council approved the acquisition of this site in 2007 for delivery of non-market housing in the short-term and redevelopment as social housing in the longer term. The source of funding for 606 Powell was the Property Endowment Fund. The current estimate of market value of this site is \$3,500,000.

This is a partnership with BC Housing, the City, and RainCity, who will manage the housing and provide tenant services.

RainCity Housing is a non-profit organization founded in 1982, and offers a broad range of housing and support solutions for people living with mental illness, substance abuse issues and other challenges. RainCity Housing's support programs are grounded in strengths based approaches to recovery and community re-integration, providing supports that build on a person's strengths and help them acquire the resources and opportunities they need to move forward in their lives.

The MOU provided the following outline of the proposed use:

It is proposed that a design for a project on this site be developed at a higher density and greater height than currently permitted by the DEOD zoning for review by the City as regulator, BC Housing and the community, and recognizing that a rezoning would be required. The form may be a tower and podium that may yield a height and floor space similar to the height and density achievable along Main and Hastings Sts. The project

would include 100+/- studio units and market housing, and possible commercial uses on the ground floor. A third to half of the units will be occupied by tenants who are referred and supported by providers of services for persons with mental health or addiction problems. All units will be tenanted by core-need singles with a priority for those living in the shelters and SRO hotels in the Downtown Eastside.

Site and Project Description: Council approved in principle the rezoning of the site from DEOD to CD-1 following a Public Hearing held on June 22, 2010.

The site has an area of 1 982.7 m² (21,341.6 ft.²), with a frontage of 53.5 m (175 ft.) and a depth of 35 m (115 ft.). Two of the lots are currently occupied by the Drake Hotel, and the remaining lots are surface parking.

The development proposal consists of the following components:

- 146 dwelling units with a total residential floor area of 9 602.5 m² (103,361 ft²), including 522.2 m² (5,621 ft.²) of amenity space;
- A building height of 10 storeys, at 35.3 m (115.8 ft);
- 33 underground parking spaces;
- One loading bay; and
- Storage for 135 bicycles

The estimated project capital cost is \$34.6 million, excluding land. The approximate cost per unit is \$237,000; or \$261,000/unit including (estimated) cost of land.

Appendix A shows the location of the site. Appendix B outlines the timeline for sites currently under construction and proposed timeline for those sites under development.

DISCUSSION

Ground Lease to RainCity: The site will be leased to RainCity in accordance with the standard terms and conditions agreed to between the City and BC Housing for social housing:

1. Term of 60 years;
2. Rent will be prepaid nominal rent;
3. The value of the foregone rent, based on a calculation of 75% of the 2010 market value of the site, is \$ 2,625,000;
4. Lease to be signed within 180 days after Council approval, or such later date as may be approved by the City Manager;
5. RainCity will sublease the retail space on the ground floor to the City for a term equal to the ground lease less a day for a nominal rent, in accordance with the sublease terms described below;
6. RainCity will not pay property taxes on the residential component, including its office space, of this property (in the form of rent-in-lieu of taxes), in accordance with the MOU approved by Council on December 19, 2007; and
7. Such further and other terms as are acceptable to the Managing Director of Social Development, the Directors of Real Estate Services and Legal Services. No legal obligation shall arise or be created until execution of the lease to the satisfaction of the Director of Legal Services.

The MOU notes that the City as owner of the supportive housing sites will, as a term of the lease, "exempt each Project (excluding retail space) from property taxes (in the form of rent-

in-lieu of taxes) for the term of the lease as long as the Project continues to provide supportive housing for the homeless and those at risk of homelessness and as long as BC Housing continues to provide operating subsidies to the Project." (This assumes a key emphasis on those who are currently street homeless in the vicinity of the site.)

Construction on this site is expected to start in the first quarter of 2012. Occupancy is anticipated in the third quarter of 2013. Once operational, it is BC Housing's expectation that the residential component including RainCity's office space will be designated by the Province as Class 3 - Supportive Housing which will be subject to special valuation rules that reduce the assessed value of the property to a nominal amount and therefore effectively exempt the site from property taxes.

Retail sublease to the City: The commercial retail component of the building is 593.8 m² (6,391 ft²) of floor area on the ground level, with 1 shared loading bay, and 5 parking stalls. It is proposed that RainCity sublease the ground floor retail component to the City for a term equal to the ground lease less a day at a nominal rent. Details of the commercial retail sublease and the agreement with BC Housing related to the construction of this space are as follows:

1. Term will be equal to the term of the ground lease less a day;
2. The rent paid by the City will be nominal;
3. The City will have the right to sub-lease the retail area on commercial terms as it chooses;
4. The total construction costs of the retail space is estimated at \$3.2 million plus HST, including hard and soft construction costs plus contingency costs;
5. The project architects, NSDA Architects, will submit the complete drawings for review and approval by the Director of Real Estate Services prior to application for building permit and prior to issuance of construction contract drawings and detailed specifications, as may relate to the retail space and related common area;
6. The City will make disbursements for construction costs of the retail space during the construction period in two staged payments. The first payment, equivalent to 50% of the construction costs, will be paid in advance at the date of construction commencement as advised by BC Housing following Building Permit issuance; the second payment to be paid on final completion of construction and issuance of occupancy permit, all to the satisfaction of the Director of Real Estate Services;
7. Any subsequent changes or amendments to the working construction drawings as they relate to the retail space or common areas will require the prior approval of the Director of Real Estate Services; and
8. Arrangements will be made by the City to sub-sublease the retail space to third party commercial users to pay, over the term of the retail sublease, common building expenses attributable to the retail component.

The provision of retail space, available for lease at market rates to businesses and agencies, will provide for commercial activity along this section of Powell and Princess Streets.

FINANCIAL IMPLICATIONS

Retail Space - The estimated cost of the retail space will be \$3.2 million plus HST for construction and soft costs and up to \$250,000 plus HST for tenant improvements and fit-up costs. The source of funds is the Property Endowment Fund.

Real Estate Services will sublease the retail space to commercial tenants on a net basis whereby the tenants would be required to pay, in addition to market rent, additional rent in lieu of property taxes and operating costs plus utilities and maintenance.

Nominal Rent - The foregone rent on the 60 year lease to RainCity at a nominal rate is valued at \$2,625,000 which represents 75% of the market value of the site. This represents a grant and does not involve further City funding.

Rent-in-lieu of Taxes - Based on the 2010 assessed value of \$522,000(land component) and BC Housing's estimated capital cost for the building (\$34.6 million):

- during construction and until the property receives its Class 3 - Supportive Housing designation, the amount of forgone rent-in-lieu of taxes for the entire property is estimated at \$9,700 during the construction phase, and \$148,000 after completion of the building, per year (2010\$); and
- once the property is designated as Class 3 - Supportive Housing, the amount of forgone municipal general purpose tax levy for the entire property is estimated at \$75,500 per year (2010\$).

CONCLUSION

The project at 606 Powell Street is a partnership between BC Housing, the City of Vancouver and RainCity Housing and Support Society. The new supportive housing units for singles will further the goal of 1-for-1 replacement of SROs with better quality social housing as outlined in the Housing Plan for the Downtown Eastside. The lease terms and waiver of rent-in-lieu of taxes is consistent with the partnership objectives as set out in the Memorandum of Understanding between BC Housing and the City of Vancouver.

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Site Location Plan for 606 Powell Street



City of Vancouver and BC Housing New Supportive/Social Housing Projects

14 Sites Status Report (as of December 15, 2010)

Projects Under Construction:

	Address	Service Provider	# Units	Construction Start	Estimated Occupancy Date
1	1005 Station	PHS	80	Construction started November 09	January 11, 2011
2	1338 Seymour	More Than a Roof	106	Construction started November 09	2 nd Quarter 2011
3	188 East 1 st	Lookout Emergency Aid Society	129	Construction started December 09	3 rd Quarter 2011
4	337 West Pender	Coast	96	Construction started December 09	2 nd Quarter 2011
5	525 Abbott	Atira	108	Construction started December 09	3 rd Quarter 2011
6	3595 West 17 th	Coast	51	Construction started May 2010	3 rd Quarter 2011

Total Number of Units: Buildings 1-6: 570

Projects under Development:

	Address	Service Provider	# Units	Construction Start	Estimated Occupancy Date
7	1227 Howe	McLaren House	110	Construction starts January 2011	2 nd Quarter 2012
8	1601 West 7th St at Fir	Katherine Sanford/MPA	62	Construction starts December 2010	2 nd Quarter 2012
9	215 West 2nd	RainCity	147	Construction start February 2011	2 nd Quarter 2012
10	1050 Expo Blvd	127/St James Society	89	TBD - discussions ongoing	unknown
11	111 Princess	Portland Hotel Society	139	3 rd Quarter 2011	1 st Quarter 2013
12	1134 Burrard	Kettle Friendship Society	141	2 nd Quarter 2011	2 nd Quarter 2013
13	675-691 East Broadway	Van Native Housing Society	103	1 st Quarter 2012	2 nd Quarter 2013
14	606 Powell	RainCity	146	1 st Quarter 2012	3 rd Quarter 2013

Total Number of Units Buildings 7-14: 937

Complete Total (buildings 1-14): Approximately 1,500