



CITY OF VANCOUVER

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### ADMINISTRATIVE REPORT

# A15

Report Date: August 27, 2008  
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Meeting Date: September 16, 2008

TO: Vancouver City Council

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

SUBJECT: Lease Terms and Other Arrangements for City-owned Social Housing Site at 1005 Station Street

#### RECOMMENDATION

- A. THAT Council approve the ground lease for 1005 Station Street, legally described as Parcel A, Block 24, D.L. 196, Plan LMP 48728 to the Portland Hotel Society (PHS) for 60 years for a nominal rent, in accordance with 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 to Portland Hotel Society represents a grant and requires 8 affirmative votes.

- B. THAT Council approve the leasing of the retail space on the main floor of the building, totalling approximately 382 m<sup>2</sup> (4,112 ft.<sup>2</sup>), plus 6 parking spaces and one loading bay, from the Portland Hotel Society to the City of Vancouver for the term of the ground lease less a day, at a nominal rent, and subject to other terms as determined by the General Managers of Business Planning and Services and Community Services, and the Director of Legal Services.
- C. THAT Council approve payment to BC Housing of up to \$2,600,000 plus GST 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. BC Housing will advise the City in advance of the date of construction commencement; source of funds is the PEF.

D. THAT Council approve a budget of up to \$320,000 plus GST 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 PEF.

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.

### 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 the assessed value of the site.

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.

Grants require the approval of 8 members of Council.

### PURPOSE

The purpose of this report is to obtain Council approval of:

- The terms of the ground lease of the City-owned site at 1005 Station Street to the Portland Hotel Society (PHS);
- The lease of the retail space to the City;
- An expenditure of \$2,600,000 plus GST to cover the estimated construction and soft costs for the retail component; and
- An expenditure of up to \$320,000 plus GST to cover tenant improvement and fit-out costs for the retail component as determined by the tender process and retail lease negotiations.

## BACKGROUND

**Acquisition:** Council approved acquisition of this site for social housing for low-income urban singles in 2001. The present assessed value of the site is \$3,125,000 (2008).

The Province of BC announced funding for the project in April 2007. Funding commitment is being made through the Provincial Homelessness Initiative (PHI), arising from the work of the Premier's Task Force on Homelessness, Mental Illness and Addictions, of which the Mayor is a member. The project is possible because the City had purchased the land and is able to provide the site for a nominal rent.

The project is a response to Council-approved policies laid out in *the Homeless Action Plan* (June 2005) and the *Housing Plan for the Downtown Eastside* (October 2005). The project is part of the implementation of the one-for-one replacement of SRO policy, which provides for the gradual replacement of SROs with superior quality housing. The project is specifically part of the gradual replacement of older SROs in the Main Street/Thornton Park sub-area of the Downtown Eastside.

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

**Site and Project Description:** Development application 411912 was approved by the Director of Planning on May 8, 2008. The site has an area of 1 160.97 m<sup>2</sup> (12,497 ft.<sup>2</sup>), with a frontage of 38.105 m (125 ft.) and a depth of 30.485 m (100 ft.) and is presently vacant.

The development proposal consists of the following components:

- 80 dwelling units with a total floor area of 3 421 m<sup>2</sup> (36,825 ft.<sup>2</sup>), including 242.7 m<sup>2</sup> (2,612.5 ft.<sup>2</sup>) of amenity space;
- Retail space with a total floor area of 382 m<sup>2</sup> (4,112 ft.<sup>2</sup>);
- One level of underground parking for 15 cars, with access from Station Street;
- One loading bay; and
- A building height of 6 storeys, at 20.36 m (66.80 ft).

It is expected that the building will be ready for occupancy in 2010. The total capital cost of the project, including land, is \$25 million. Estimated construction time will be 18-24 months.

Appendix A shows the location of the site.

## DISCUSSION

**Lease Terms:** There are two leases involved in this project. The first is a ground lease from the City to the PHS for 60 years at a nominal value. The second is a lease of the ground floor retail space from PHS to the City (PEF) for the term of the ground lease less a day.

**Ground Lease to PHS:** The site will be leased to PHS in accordance with the standard terms and conditions agreed to between the City and BC Housing for social housing. One additional term has been added which deals with the proposed retail space:

1. Term of 60 years at a nominal rent;
2. Based on the 2008 assessed value of the site, the prepaid lease will be equal to 75% of that value, or \$2,343,750;
3. Lease to be signed within 180 days after Council approval, or such later date as may be approved by the City Manager;
4. Property taxes will be paid by PHS for the residential portion of the site;
5. PHS will lease the retail space on the ground floor to the City for a term of equal to the ground lease day less a day for a nominal rent, in accordance with the retail lease terms described below;
6. Such further and other terms as are acceptable to the Managing Director of Social Development, the Director of Real Estate Services and the Director of Legal Services. No legal obligation shall arise or be created until execution of the lease to the satisfaction of the Director of Legal Services.

**Retail lease to the City:** The retail component of the building is 382 m<sup>2</sup> (4,112 ft.<sup>2</sup>) of floor area on the ground level, one loading bay and 6 underground parking stalls. It is proposed that PHS lease 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 lease and the agreement with BC Housing related to the construction of this space are as follows:

- Term will be equal to the ground lease less a day;
- The rent to the City will be nominal;
- The total construction costs of the retail space is estimated at \$2.6 million, including hard and soft construction costs plus contingency costs;
- Building Permit issuance will be subject to prior review and approval by the Director of Real Estate Services of the construction working drawings as they relate to the retail space and common areas;
- 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;
- 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;
- Arrangements will be made with PHS to fairly attribute and pay, over the term of the sublease, common building expenses attributable to the retail component; and
- As is the normal practise, PHS will pay property taxes on the residential portion of the property.

## FINANCIAL IMPLICATIONS

Purchase of the site in 2001 was funded through DCL funds allocated for replacement housing, and the PEF. A 60 year prepaid lease is valued at \$2,343,750, which represents 75% of the assessed value of the site and the foregone rent. The lease to PHS at a nominal rent represents a grant and does not involve further City funding.

The estimated cost of the retail space will be \$2.6 million plus GST for construction and soft costs and up to \$320,000 plus GST for tenant improvements and fit-up costs. There is currently only limited demand for retail space in this area of Main Street and it is anticipated that the retail units could have higher than average vacancy rates and provide a modest rate of return for the foreseeable future. However, the development of quality retail space will assist in the revitalization of Main Street and it is hoped that eventually the City will realize a reasonable return from these retail units.

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

## CONCLUSION

The project at 1005 Station Street is a partnership between BC Housing, the City of Vancouver and PHS, made possible by the Premier's Task Force on Homelessness, Mental Illness and Addictions. It is a critical component in the replacement of existing SROs in the Main Street corridor, and it is consistent with the City's Homeless Action Plan and Housing Plan for the Downtown Eastside.

The provision of retail space owned by the City and available for lease at market rates to businesses and agencies, will provide for added activity along this section of Main Street.

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