



CITY OF VANCOUVER

ADMINISTRATIVE REPORT

Report Date: September 4, 2007
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Meeting Date: September 20, 2007

TO: Standing Committee on City Services and Budgets

FROM: The Director of the Housing Centre

SUBJECT: Marie Gomez Place (590 Alexander Street): Termination of Lease,
Relocation of Tenants and Demolition of Building

RECOMMENDATIONS

- A. THAT Council approve, in respect to Marie Gomez Place (590 Alexander St., Lots 14-16, Block 42, District Lot 196, Plan 196, PID 013-658-034,042 and 069) the Memorandum of Understanding attached as Appendix A between the City, BC Housing and the DERA Housing Society to terminate the lease, relocate the tenants, and demolish the building;
- B. THAT the Director of Legal Services be authorized to execute the necessary legal agreements on behalf of the City, noting that no legal rights or obligations shall arise or be created until all the necessary documentation is finalized and fully executed on terms and conditions to the satisfaction of the City's Director of Legal Services; and
- C. THAT Council approve a grant of approximately \$48,000 (\$47,548 as of the end of August 2007) to the DERA Housing Society to cover the cost of unpaid property taxes for Marie Gomez Place (590 Alexander St.) with the source of funding to be the Affordable Housing Fund.

GENERAL MANAGER'S COMMENTS

The General Manager of Community Services recommends approval of A, B and C.

COUNCIL POLICY

The City's social housing priorities are low and modest income 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.

The Housing Plan for the Downtown Eastside seeks to:

- maintain a stock of 10,000 units of housing affordable to low-income singles in the area, and to replace any units lost to redevelopment, closures or other reasons on a one for one basis, and
- develop a broader range of housing options than currently exists in the area so that a broader mix of incomes and household types can be accommodated.

The City values a 40 year lease at 50% of freehold market value and a 60 year lease at 75% of freehold market value.

Approval of grant recommendations requires eight affirmative votes.

PURPOSE AND SUMMARY

This report seeks Council approval to terminate the lease for Marie Gomez Place (located at the corner of Alexander and Princess as noted on Figure 1) by consent of DERA, BC Housing and the City, subject to relocation of the tenants and demolition of the building.

Marie Gomez Place is a 76 unit building developed in the early 1980s on a site leased from the City. It was funded under a Federal social housing programme designed for mixed income projects. The project has been difficult to operate because the subsidies provided by the programme have been insufficient for the very low income singles the building serves. It is suffering from extensive damage due to envelope failure and leaking water pipes, aggravated by two recent fires, but did not qualify for Federal funding because it did not generate sufficient revenue to repay a renovation loan.

Early this year, BC Housing took over administration of the building from CMHC. They have determined that the cost to repair the building is well over 25% of the replacement cost and could exceed replacement costs depending on the damage to the structure. BC Housing and DERA Housing Society believe the tenants should be relocated, the building demolished, and the site returned to the City for redevelopment in the future. Redevelopment options will be explored once the review of the Downtown Eastside Oppenheimer District Official Development Plan (DEOD ODP) that is now underway is completed.

Figure 1



BACKGROUND

Marie Gomez Place is a 76-unit project (75 studio units and 1 1-bedroom unit) located at 590 Alexander St. It occupies a 75 ft. x 120 ft. City-owned site. It is in the Downtown Eastside Oppenheimer District (DEOD) and within the DEOD ODP zoning sub-area 4 which allows a maximum 2.5 Floor Space Ratio for residential uses as long as social housing is included.

The project was initiated in 1980, by the Vancouver Residential Alternatives Society (VRAS), a society created specifically for the project. VRAS optioned two lots on either side of a lot the City had previously acquired for street works and which was no longer needed for that purpose. The City acquired the two lots VRAS had optioned, and agreed to lease all 3 lots to VRAS for the development of social housing, but VRAS was unable to proceed with the project and the society no longer exists. BC Housing Foundation, an established provider of social housing for seniors, was asked by the City to take over the project. They set up a separate society, British Columbia (1981) Housing Foundation to operate the project, as their mandate was restricted to seniors and the project was intended to accommodate both younger and older low-income singles with social issues.

Funding was provided through Canada Mortgage and Housing Corporation (CMHC) under Section 95 of the National Housing Act which provides a write down of the interest rate to 2%. The City leased the project for 40 years and the lease terminates on October 31, 2021, leaving 14 years on the lease term. The City received a prepaid rent of \$423,000 which was 75% of the freehold market value of the consolidated site. Note: the City's current policy that the value of a 40-year lease equates to 50% of freehold market value was adopted in 1988.

The project was completed and occupied in 1983. As the clientele consisted of very low income singles, many of whom faced a range of social and personal issues and most of whom weren't seniors, BC Housing Foundation found it an anomaly in their portfolio. In 1989 DERA was invited to take over the board of British Columbia (1981) Foundation and the name of the society was changed to DERA Housing Society. DERA Housing Society has developed three other social housing projects for low income singles which they currently operate (Tellier Tower, Pendera and Solheim Place), and sponsored the development of the DERA and Four Sisters Housing Co-operatives.

CURRENT STATUS OF PROJECT

Physical problems with the building were first identified in the late 1990s when envelope failure and leaky water pipes were recognized as a common problem with wood frame buildings dating from the early 1980s. DERA retained consultants to evaluate the building, and in 2000 approached CMHC with a request for funding to cover the cost of repairs. However, as the Federal Government had withdrawn from providing new funding for social housing, they could only lend funds to cover the cost of repairs where project rents could support repayment of the loan. In the case of Marie Gomez Place, where most of the tenants were on welfare, the rents could not generate sufficient income to pay off the repair loan and consequently CMHC was unable to fund the repairs.

In the summer of 2002, DERA vacated the building because of concerns over the condition of the building and increasing maintenance costs. However, due to the increase in homelessness at the time, DERA retenanted the building a year later. Most of the new tenants had previously been homeless and many were suffering from concurrent disorders (mental illness, HIV/AIDs and/or substance abuse), and many female tenants were involved in the sex trade.

Since then, the rents generated by the building have gone to support and maintain the building so that it could continue operating. DERA has not been able to make mortgage payments or pay the City's property taxes since 2004. Over \$2.2 million is owed on the mortgage and approximately \$47,500 is owed to the City in property taxes.

The condition of the building led to charges being laid against DERA Housing Society under the Fire By-law for failure to maintain the building's life safety systems. Because the City owns the site on which the building is located, an independent prosecutor has been retained to deal with the charges under the Fire By-law. In late April 2007 there were two small fires that resulted in extensive smoke and water damage. BC Housing retained a private security firm to provide 24-hour security for the building to ensure that the tenants are safe.

DEMOLITION OPTION

BC Housing has evaluated the building and concluded that repairing the building is not justifiable. Too much time has passed since the problems were first identified. The damage to the building is extensive and may extend to the structure itself. BC Housing recommends that the building be demolished. Renovations could extend the life span of the building but would exceed 25% of the replacement cost of the building and could potentially exceed the replacement cost depending on the degree of damage to the structure. If renovated, the building would still not have the life span of a new building and would require a higher level of maintenance than would a new building. DERA agrees with this assessment and confirms that the building has become increasingly difficult to maintain and manage. Once the tenants have been relocated, the lease will be terminated by consent of the City, BC Housing and DERA, the building demolished, and the site returned to the City. The Director of the Housing Centre concurs with BC Housing's assessment and recommendation.

If the proposal to terminate the lease and demolish the building is approved by Council, DERA with the assistance of BC Housing will relocate the tenants. The tenants are aware of the demolition proposal and some have already moved out. At the end of August, 54 tenants remained (35 men and 19 women with an average age of 47), and 27 units were vacant. The tenants will be relocated to other SROs, including those recently acquired by BC Housing, and to apartments in DERA's and BC Housing's portfolios, as appropriate. Some tenants will choose to find their own accommodation and will have their relocation expenses covered by BC Housing. Relocation of the tenants should be completed by the end of October.

Once the tenants are relocated, the building will be demolished. BC Housing has agreed to pay the cost of demolishing the building. BC Housing will oversee the demolition and deliver the site to the City vacant and clear of debris. In addition, BC Housing will write off the outstanding balance owed on the mortgage, and the mortgage will be discharged from title to the property.

FUTURE USE OF THE SITE

A recommendation of the Housing Plan for the Downtown Eastside approved in October 2005 was to undertake a review of the Downtown Eastside Oppenheimer District Official Development Plan (DTES ODP). This review has commenced and should be completed in late 2008 or early 2009. The focus of the review is on achieving the Housing Plan objectives of maintaining the supply of low income housing and at the same time accommodating a broader mix of incomes. The review will look at density and built form, along with housing tenure and affordability, as higher densities and taller buildings may be required to achieve both objectives.

The Marie Gomez Place site is located on a corner and is likely to be a candidate for a higher density and a taller building should higher densities and taller built forms be approved. Consequently, it is recommended that the City retain the site and not pursue redevelopment until the review of the DEOD ODP concludes and is reported to Council. Whether the site should be redeveloped for low income singles, for market rental, for ownership or for a mix of tenures will be evaluated in the context of the DEOD ODP review.

If the recommendations in this report are approved by Council, the site will be returned to the City's Property Endowment Fund (PEF) 14 years before the end of the lease term. This

may or may not be a potential financial benefit depending whether the site is redeveloped for low income singles, in which case a long term nominal lease will likely be the City's contribution, or whether it is redeveloped for market rental or ownership housing, in which case the site should generate a return to the PEF. If redeveloped for affordable housing on the basis of a long term nominal lease, e.g. a 60 year nominal lease as per the proposed Vancouver Homelessness Funding Model, funding from the City's Affordable Housing Fund or Development Cost Levies (DCLs) for replacement housing would compensate the PEF for 75% of the freehold market value at the time. While the site is vacant, the PEF will be responsible for maintaining the property, e.g. fencing, scavenging, etc.

The property is in arrears of property taxes in the amount of \$47, 548 as of the end of August, 2007. It is recommended that a grant from the Affordable Housing Fund be approved to pay these arrears which are owed to the City, the Vancouver School Board and other taxing authorities. The grant would be to DERA Housing Society but the funds would be transferred internally to the property tax account.

SOCIAL IMPLICATIONS

It is with great regret that the demolition of 76 units of housing for low income singles is recommended. The 76 units in Marie Gomez Place represent 1.76% of the non-market housing serving singles and 0.82% of the combined non-market and SRO stock in the DTES. With vacancy rates at less than 1% across the city and less than 2% in the downtown SROs, this is not a good time to loose 76 units of low income housing. The SROs recently acquired by BC Housing can accommodate some Marie Gomez Place residents, and DERA and BC Housing believe that all the tenants can be relocated, either into their portfolios or into private market housing, however, this does still mean fewer units for others in need.

There are lessons to be learned from Marie Gomez Place. The first is that projects need to be adequately funded to respond to the needs of the tenants. In the case of Marie Gomez Place, a program designed for mixed income housing was used to fund a project for very low income singles and the subsidies proved inadequate. The second is that supports must be provided for tenants with mental illness and addiction issues. Many Marie Gomez Place tenants needed support services in addition to affordable housing but services were not funded or provided. Third, the tenant profile in social housing will evolve over time, and funding needs to be available through some program to respond to a changing tenant profile as happened with Marie Gomez Place.

CONCLUSION

This report recommends the termination of the lease, relocation of the tenants living in Marie Gomez Place (590 Alexander), and demolition of the 76 unit building. If approved, DERA will manage the tenant relocation with the assistance of BC Housing, and BC Housing will pay the cost of demolishing the building and will deliver the vacant site to the City. BC Housing will write-off the outstanding balance on the mortgage and the City will pay the arrears of approximately \$47,000 in unpaid property taxes. The vacant site will be held pending completion of the DEOD zoning review, at which time options for redevelopment would be considered.

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Memorandum of Understanding
Between
DERA Housing Society (DERA),
British Columbia Housing Management Commission (BC Housing), and
the City of Vancouver (the City)
regarding Marie Gomez Place and
dated for reference May 7, 2007

Marie Gomez Place

Marie Gomez Place (MGP) is a 76 unit (75x studio units and 1x 1 bedroom unit) social housing project at 590 Alexander Street, Vancouver, BC located on the following lands of which the City is the fee simple owner:

PID 013-658-034
Lot 14 Block 42 District Lot 196 Plan 196

PID 013-658-042
Lot 15 Block 42 District Lot 196 Plan 196

PID 013-658-069
Lot 16 Block 42 District Lot 196 Plan 196

and leased to British Columbia (1981) Housing Foundation in 1981. Construction and development of MGP on the lands commenced in 1981 and the building was first operated by British Columbia (1981) Housing Foundation in 1983. British Columbia (1981) Housing Foundation changed its name to DERA Housing Society on March 17, 1989.

The occupants of MGP have primarily been low income single persons.

CMHC Mortgage

Funding for the project was provided by Canada Mortgage and Housing Corporation (CMHC) under Section 95 (Rental) of the National Housing Act. CMHC holds a mortgage and assignment of rents over MGP and the lands with an outstanding balance of \$2,224,669.14 as of December 1, 2006. Interest on the outstanding balance continues to accrue at 5.35% per annum. CMHC's funding sought to provide annual subsidies to DERA to fund MGP including payment of the CMHC mortgage so as to allow MGP to be operated on a non-profit basis. However, DERA has not been able to make payments on the mortgage since December, 2004, due to the cost of operating MGP, and the CMHC mortgage is in default.

Building Condition

MGP suffers from envelope failure and leaking water pipes. In 2000, DERA retained RDH Building Engineering Ltd. (RDH) to assess the building's condition and RDH

reported that MGP was in need of major repairs. CMHC estimated the repair costs to MGP at \$2,500,000 in 2002. DERA sought financial assistance to repair MGP from CMHC. CMHC did not approve financial assistance.

Tenants

In the summer of 2002, DERA relocated the tenants of MGP because of the building's condition. However, due to the increased numbers of homeless in the city of Vancouver, DERA re-tenanted MGP in late 2003. Many of the new tenants were living on the streets or camping in parks prior to moving into MGP.

As of May 7, 2007 there are approximately 70 tenants in the building, 40 men and 30 women. There are other unregistered tenants living in MGP also. The tenant profile of MGP has changed from the older former resource workers for which MGP was built to younger persons many of whom are mentally ill, are involved in street drugs and the sex trade. The average age of current tenants is 47 years. The operating budget of MGP only supports one staff person and this is not sufficient to properly manage the current tenant profile.

Lease

MGP was leased to British Columbia (1981) Housing Foundation (known as DERA Housing Society since 1989) by the City under a lease dated November 1, 1981 for a 40 year term commencing November 1, 1981 and expiring on October 31, 2021. The lease was registered in the Land Title Office on April 29, 1982, under number K26450 and modified by a modification of lease dated August 12, 1982 registered in the Land Title Office on November 30, 1982, under number K80170. The lease requires DERA to maintain the building and lands but DERA has not done so. The lease with the City also requires DERA to pay property taxes to the City, but DERA has not paid the property taxes for MGP since 2004, and the taxes outstanding for MGP as of May 7, 2007 total \$46,248.

The lease allows DERA to terminate the lease if MGP is damaged or destroyed and the cost to repair the building exceeds 25% of its full replacement cost.

Transfer to BC Housing

Pursuant to the Social Housing Agreement dated June 19, 2006, management and administration of CMHC's social housing portfolio and the CMHC mortgages registered against title to the same in the Province of British Columbia, including MGP, were turned over to BC Housing. BC Housing now manages and administers the CMHC operating subsidies for MGP as well as the CMHC mortgage registered against MGP.

Damage and Destruction

MGP suffered 2 recent fires on April 23, 2007 and April 25, 2007. Along with water damage, the building was significantly damaged by the fires.

Repair Option

BC Housing and DERA have reviewed the current condition of MGP. MGP has deteriorated since the RDH building assessment report in 2000 and has been significantly damaged by the 2 recent fires and water damage. BC Housing and DERA have reviewed the cost to repair MGP and have determined that repairing the building and reopening it is not financially viable, as the cost to repair the damage and destruction to MGP exceeds 25% of its full replacement cost. The City acknowledges that this Memorandum of Understanding constitutes notice from DERA that DERA is terminating the lease in this regard.

Demolition Option and Relocation of Tenants

The City, DERA and BC Housing have agreed that the building will be demolished and the lands returned to the City. DERA will be responsible for relocating the tenants, most of whom will be able to find their own accommodation with some financial assistance, and some of whom will need DERA to assist them in moving to a new home. BC Housing will provide DERA with the necessary funding and will facilitate, support and assist DERA with relocation of the tenants, it being agreed between the City, DERA and BC Housing that BC Housing may, in consultation with DERA, have DERA enter into settlement agreements with one or more tenants of MGP in lieu of relocation. DERA will surrender the lease to the City. BC Housing will payout the CMHC mortgage and assignment of rents over MGP. The City and BC Housing will make arrangements for demolition of the building. The City will write off the outstanding property taxes for MGP.

Future of Site

MGP is located in the Downtown Eastside Oppenheimer Official Development Plan District(DEOD). The Housing Plan for the Downtown Eastside approved by City Council in September 2005 recommended that the DEOD, which was adopted in 1982, be reviewed to ensure that the low income community can be sustained while a broader range of incomes is introduced. It is proposed that any redevelopment of the site be delayed until the DEOD review which is currently scheduled to be completed in 2009. The site may be required to achieve the supportive housing targets set out in the Dobell/Fairbairn report, the Vancouver Homelessness Funding Model, but is not needed immediately as the City has other sites available for supportive housing. The City agrees that DERA will be included in all community consultations dealing with the future of the MGP site.

Release

Upon satisfaction of the obligations of DERA under this Memorandum of Understanding and the legal agreements relating to it, the City will release DERA from its liabilities and obligations to the City, including but not limited to, outstanding property taxes for MGP, maintenance of MGP, fire and water damage to MGP and demolition of MGP and restoration of the lands. Upon satisfaction of the obligations of DERA under this Memorandum of Understanding and the legal agreements relating to it, BC Housing will

release DERA from its liabilities and obligations to BC Housing, including but not limited to, the CMHC mortgage and assignment of rents.

Schedule

Execution of Memorandum of Understanding	August 15, 2007
Report to Committee of Council	September 20, 2007
Relocation of Tenants Completed	November 1, 2007
Demolition of Building	Fall of 2007
Surrender of Lease to the City	End of 2007

Upon execution of this Memorandum of Understanding, it will be presented to DERA's Board of Directors, City Council, and BC Housing's Executive Committee for ratification.

This Memorandum of Understanding will be replaced by necessary legal agreements. No legal rights or obligations shall arise or be created by the execution of this Memorandum of Understanding until it has been ratified by all parties and until all legal documentation has been prepared and fully executed on terms and conditions to the satisfaction of the solicitors for DERA, BC Housing and the City.

For DERA Housing Society

For British Columbia Housing Management Commission

For the City of Vancouver