



CITY OF VANCOUVER

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ADMINISTRATIVE REPORT

Report Date: September 18, 2008
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Meeting Date: September 30, 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 188 E. 1st Avenue

RECOMMENDATION

- A. THAT Council authorize the Director of Real Estate Services to lease lands located at 188 E. 1st Avenue, legally described as PID: 007-224-516, Lot 7 and PID: 007-224-648, Lot 8, both of Block 7, District Lot 200A, Plan 197 (the "Lands") by way of ground lease to Lookout Emergency Aid Society ("Lookout") 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 property taxes for the term of the lease on the residential portion of the project, 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 ground lease to Lookout at a nominal rent and providing for a waiver of property taxes for the term for the residential portion of the project constitutes a grant and requires 8 affirmative votes.

- B. THAT Council authorize the Director of Real Estate Services to enter into a sublease between Lookout as landlord and the City as tenant of a retail space of approximately 222 m² (2,390 ft.²) in the project to be constructed by Lookout 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 use 6 parking spaces and the loading bay;

and otherwise will be subject to such other terms and conditions as determined by the General Managers of Business Planning and Services, Community Services and the Director of Legal Services

- C. THAT Council approve payment to BC Housing of up to \$2,100,000 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; source of funds is the Property Endowment Fund.
- D. THAT Council approve a budget of up to \$353,000 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 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.

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.

Council approved the Supportive Housing Initiative in June 2007.

Council approved a Memorandum of Understanding 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 188 E. 1st Avenue. Included in Council's approval is a specific recommendation that the City provide the sites at no cost, and to relieve all 12 sites of the obligation to pay property taxes for the duration of their leases.

A lease at nominal rent and waiver of property taxes for the residential portion of the project constitute a grant, requiring the approval of 8 members of Council.

SUMMARY AND PURPOSE

The purpose of this report is to obtain the authorities required for the non-market housing proposed for the Lands, including for:

- The ground lease to the Lookout Emergency Aid Society (Lookout);
- The sublease by the City of the retail space in the project;
- An expenditure of up to \$2,100,000 plus GST to cover construction and soft costs for the retail component; and
- An expenditure of up to \$353,000 plus GST to cover tenant improvement and fit-out costs for the retail component as determined by the tender process and retail sublease negotiations.

BACKGROUND

Acquisition: Council approved acquisition of this site in 2006 for social housing as part of the S.E. False Creek development plan. The site will assist in meeting objectives for inclusion of affordable housing within the private lands sub-area of SEFC. The present assessed value of the site is \$4,523,000 (2008).

City/Province Partnership: This project is proceeding under the City/Province Social and Supportive Housing Partnership, approved by Council in December 2007. The MOU outlined the following proposed use of the site, as follows:

It is proposed that the site be designed for 80 +/- studio units. Thirty of the 80 units would be occupied by persons with a mental illness or substance abuse problem. All units will be tenanted by core-need singles with a priority for those living in the shelters and SRO hotels in Mt. Pleasant and the Downtown Eastside.

Lookout was announced as the housing sponsor for the site at 188 East 1st Avenue at the end of January 2008, following a request for submission of proposals by BC Housing. Respondents were evaluated by staff from BC Housing and the City's Housing Centre. Lookout is a non-profit charitable organization established in 1971, which provides housing and support services to low income individuals who have few, if any, housing options. Lookout currently provides 493 units of supported housing and operates 162 shelter beds in Vancouver, New Westminister and North Vancouver.

This is a partnership with BC Housing, the City, Vancouver Coastal Health and Lookout, who will manage the housing and provide tenant services.

Site and Project Description: Council approved in principle the rezoning of the site from M-2 to CD-1, following a Public Hearing held on July 8, 2008. The prior-to conditions for enactment of the rezoning by-law are presently being satisfied.

The site has an area of 1 123 m² (12,087 ft.²), with a frontage of 30.2 m (99 ft.) and a depth of 37.2 m (122 ft.) and is presently occupied with single storey light industrial buildings.

The development proposal consists of the following components:

- 129 dwelling units;
- Total floor area of 6 067.5 m² (65,310 ft.²), including amenity space;
- Retail space with a total floor area of 222 m² (2,390 ft.²);
- A building height of 11 ½ storeys, at 38 m (125 ft)
- One level of underground parking for 13 cars, with access from the lane way between 1st and 2nd Avenues;
- One loading bay; and
- Storage for 79 bicycles.

It is expected that the building will be ready for occupancy in late 2010. The total capital cost of the project, including land, is \$28.5 million.

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 Lookout for 60 years for at a nominal value, as established by the MOU endorsed by Council on December 19, 2007. The second is a sublease of the ground floor retail space from Lookout to the City (Property Endowment Fund) for the term of the ground lease less a day at a nominal rent.

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

1. Term of 60 years;
2. Rent will be a prepaid nominal rent;
3. The value of the foregone rent, based on a calculation of 75% of the 2008 assessed value of the site, is \$3,392,250;
4. Lease to be signed within 180 days after Council approval, or such later date as may be approved by the City Manager;
5. Lookout 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 retail sublease 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 Sublease to the City: The retail component of the building is 222 m² (2,390 ft.²) of floor area on the ground level, one loading bay and 6 underground parking stalls. It is proposed that Lookout 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 retail sublease and the agreement with BC Housing related to the construction of this space are as follows:

- Term will be the term of the ground lease less a day;
- The rent paid by the City will be nominal;
- The total construction costs of the retail space is estimated at \$2,100,000, including hard and soft construction costs plus contingency costs;
- The project architects, GBL Architects Group, will submit 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 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 for the retail space, 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 Lookout for the lessee of the retail space to pay, over the term of the retail sublease, common building expenses attributable to the retail component; and
- In accordance with the MOU approved by Council on December 19, 2007, Lookout will not pay property taxes on the residential portion of the property.

The provision of retail space, available for lease at market rates to businesses and agencies, will provide for commercial activity along this section of Quebec Street and will serve the new community of S. E. False Creek when construction of the project is completed, with the tentative completion date being late 2010.

FINANCIAL IMPLICATIONS

Purchase of the site in 2006 was funded through SEFC Community Amenity Contribution funds for Southeast False Creek allocated to the development of social housing, and the Property Endowment Fund. A 60 year prepaid lease is valued at \$3,392,250, which represents 75% of the assessed value of the site and the foregone rent. The lease to Lookout at a nominal rent represents a grant and does not involve further City funding. Council approved the property tax exemption for the 12 City/Province partnership sites on December 19, 2007.

The estimated cost of the retail space will be \$2,100,000 plus GST for construction and soft costs and up to \$353,000 plus GST 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

CONCLUSION

The project at 188 E. 1st Avenue is a partnership between BC Housing, the City of Vancouver, Vancouver Coastal Health and Lookout. It is an important component of the implementation of the City's Homeless Action Plan and the Supportive Housing Initiative, as well as meeting the social housing objectives for S.E. False Creek.

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Site Location Plan for 188 E. 1st Avenue

