



CITY OF VANCOUVER

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ADMINISTRATIVE REPORT

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Report Date: October 14, 2008
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Meeting Date: October 28, 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 and Supportive Housing Site at 3595 W. 17th Avenue

RECOMMENDATION

- A. THAT Council authorize the Director of Legal Services to lease City-owned lands located at 3595 W. 17th Avenue, legally described as PID: 027-488-195, Lot 1, Block 28, DL 139, NWD Group 1, Plan BCP36078 (the "Lands") by way of ground lease to the Coast Foundation Society ("Coast") 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 Coast 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 Legal Services to enter into a sublease between Coast as landlord and the City as tenant of the retail space of approximately 399 m² (4,287 ft.²) in the project to be constructed by Coast 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 9 parking spaces and two loading bays;
- and otherwise will be subject to such other terms and conditions 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 \$3,000,000 plus GST which amount will cover the total construction costs of the retail space, to be disbursed during the construction period in two payments as follows: 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 \$659,000 plus GST for tenant improvements, the amount to be 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 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 3595 West 17th 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, on any residential floor area or ancillary floor areas.

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 authorities required for the non-market housing proposed for the Lands, including for:

- The ground lease to the Coast Foundation Society (Coast);
- The sublease by the City of the retail space in the project;
- An expenditure of up to \$3,000,000 plus GST to cover the estimated construction and soft costs for the retail component; and
- An expenditure of up to \$659,000 plus GST to cover tenant improvement and fit-out costs for the retail component as determined by the tender process.

Council has approved lease terms for 6 sites which are part of the City/Province Social and Supportive Housing Partnership. This report is the 7th brought forward under this agreement.

BACKGROUND

Acquisition: Council approved acquisition of this site for social housing for low-income urban singles in 2005. The source of funding was City-wide DCLs and the PEF. The present assessed value of the site is \$3,398,666 (2008).

In the MOU the site was identified as 3588-96 West 16th Avenue & 3212-28 Dunbar Street. The site has now been consolidated and re-addressed as 3595 West 17th Avenue.

This is a partnership with BC Housing, the City, Vancouver Coastal Health (VCH) and Coast, who will manage the housing and provide tenant services. The MOU provided the following outline of the proposed use:

It is proposed that this site be designed for 50 +/- studio units with 4-5,000 ft.² of ground floor retail. A third to a half of the units would be occupied by persons with mental illness and referred and served by a mental health services provider. All units would be tenanted by core-need singles with a priority for those living in Dunbar, West Point Grey and Kitsilano.

Site and Project Description: Development application 412085 was approved by the Development Permit Board on July 14, 2008. The site has an area of 1 160.97 m² (13,146 ft.²), with a frontage of 38.105 m (125 ft.) and a depth of 30.485 m (100 ft.) and is presently occupied with single storey retail buildings.

The development proposal consists of the following components:

- 51 dwelling units with a total floor area of 2 802.0 m² (30,161 ft.²), including 3.05.0 m² (3,283 ft.²) of amenity space;
- Retail space with a total floor area of 399 m² (4,286.7 ft.²);
- A building height of 5 storeys, at 20.36 m (52.9 ft);
- One level of underground parking for 16 cars, with access from West 16th Avenue;
- Two loading bays; and
- Storage for 40 bicycles.

The total capital cost of the project, including land, is approximately \$21 million. Completion is anticipated in late 2010.

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 Coast for 60 years 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 Coast to the City (Property Endowment Fund) for the term of the ground lease less a day at nominal rent.

Ground Lease to Coast: The site will be leased to Coast 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 2008 assessed value of the site, is \$2,549,000;
4. Lease to be signed within 180 days after Council approval, or such later date as may be approved by the City Manager;
5. Coast will sublease the retail space on the ground floor to the City for a term equal to the ground lease less a day at a nominal rent, in accordance with the sublease terms described below;
6. Coast will not pay property taxes on the residential portion of the property, 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.

Retail Sublease to the City: The retail component of the building is 399 m² (4,287 ft.²) of floor area on the ground level, 9 underground parking stalls and one loading bay. It is proposed that Coast 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:

1. Term will be equal to the term of the ground lease less a day;

2. The rent payable 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 \$3,000,000, including hard and soft construction costs plus contingency costs;
5. The project architects, dysarchitects, 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;
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 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 with Coast for the sub-lessee of the retail space 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 continued commercial activity along this section of Dunbar Street.

FINANCIAL IMPLICATIONS

Purchase of the site in 2006 was funded through City-wide DCLs allocated to replacement housing and the Property Endowment Fund. A 60 year prepaid lease is valued \$2,549,000 which represents 75% of the assessed value of the site and the foregone rent. The lease to Coast at a nominal rent represents a grant and does not involve further City funding.

The estimated cost of the retail space will be \$3,000,000 plus GST for construction and soft costs and up to \$659,000 plus GST for tenant improvements and fit-up costs. The source of funds is the Property Endowment Fund.

Real Estate Services will sub-lease 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 and operating costs plus utilities and maintenance.

CONCLUSION

The project at 3575 W. 17th Avenue is a partnership between BC Housing, the City of Vancouver, Vancouver Coastal Health and Coast Foundation Society. It is part of the City/Province Supportive Housing Partnership to provide housing for individuals with mental illnesses.

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Site Location Plan for 3595 W. 17th Avenue

