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Date: 3/5/2021 12:56:24 PM
Subject: Memo: Turnkey Social Housing - RTS 014109
Attachments: Memo to Mayor & Council- Making Turnkey Housing Units from Community Amenity Contributions More Affordable.pdf

Dear Mayor and Council,

The attached memo from Gil Kelley is a response to the Council motion passed on September 15th, 2020, called "Making Turnkey Housing Units from Community Amenity Contributions More Affordable." RTS 014109.

- The memo provides information on Community Amenity Contributions (CAC) turnkey social housing units and their affordability levels.
- Overall, deeper levels of affordability are being achieved beyond the City's base social housing definition.
- The memo also provides information on the City's policy on charging lease payments to non-profits who operate these turnkey social housing units.

Should you have any questions, please contact Gil Kelley, General Manager of Planning, Urban Design, and Sustainability at Gil.Kelley@vancouver.ca

Best,
Paul

Paul Mochrie (he/him)
Acting City Manager
City of Vancouver
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The City of Vancouver acknowledges that it is situated on the unceded traditional territories of the xʷməŋəm (Musqueam), ləwú 7mesh (Squamish), and səilwətał (Tsleil-Waututh) Nations.

**Refers to Report RTS 014109
Council meeting of September 15, 2020**

MEMORANDUM

March 5, 2021

TO: Mayor and Council

CC: Paul Mochrie, Acting City Manager
Karen Levitt, Deputy City Manager
Lynda Graves, Administration Services Manager, City Manager's Office
Maria Pontikis, Director of Civic Engagement and Communications
Rosemary Hagiwara, Acting City Clerk
Anita Zaenker, Chief of Staff, Mayor's Office
Neil Monckton, Chief of Staff, Mayor's Office
Alvin Singh, Communications Director, Mayor's Office
Sandra Singh, General Manager, Arts, Culture, and Community Services
Patrice Impey, General Manager, Finance, Risk, and Supply Chain Management

FROM: Gil Kelley
General Manager, Planning, Urban Design and Sustainability

SUBJECT: Response to Council's "Making Turnkey Housing Units From Community Amenity Contributions More Affordable" Motion

On September 15th, 2020, Council made an information request to staff "Making Turnkey Housing Units from Community Amenity Contributions More Affordable". The information requested includes:

- a. An inventory of Community Amenity Contributions (CAC) turnkey social housing units built, in progress, approved, and under review;
- b. An inventory of what the rents in the built units are, and are expected to be in units that are in the pipeline;
- c. An explanation of what the City's policy on charging lease payments to non-profits who operate these turnkey social housing units is;
- d. What would be the impact of charging nominal lease payments on rents;
- e. What would be the impact of charging nominal lease payments on City revenue; and
- f. What the practice of charging nominal lease payments is in other jurisdictions;

FURTHER THAT staff include recommendations for reducing lease payments in CAC turnkey social housing units in order to increase affordability for lower income renters.

This memo seeks to address each of these points to the extent that the data and information is available in a timely way.

Inventory of Community Amenity Contributions (CAC) turnkey social housing units built, in progress, approved, and under review

Turnkey social housing units delivered to the City or to a third party non-profit organization from 2012 to September 30, 2020 are summarized below. The detailed breakdown of these projects are included in Appendix A, with the exception of the projects that are in enquiry or in application, as these may be confidential or are highly subject to change. The majority of these units are delivered turnkey to the City, with the exception of projects within the Downtown Eastside Plan, where the units may be delivered to a non-profit organization. The units shown are net new units.

Figure 1. Inclusionary/CAC Turnkey Social Housing Units (Jan 2012 - Sept 30, 2020)

Development Status	Net New Units
Completed	481
Under Construction	758
Approved	1,307
Under Review (in enquiry or application)	~ 1,000*
Total	~ 3,546

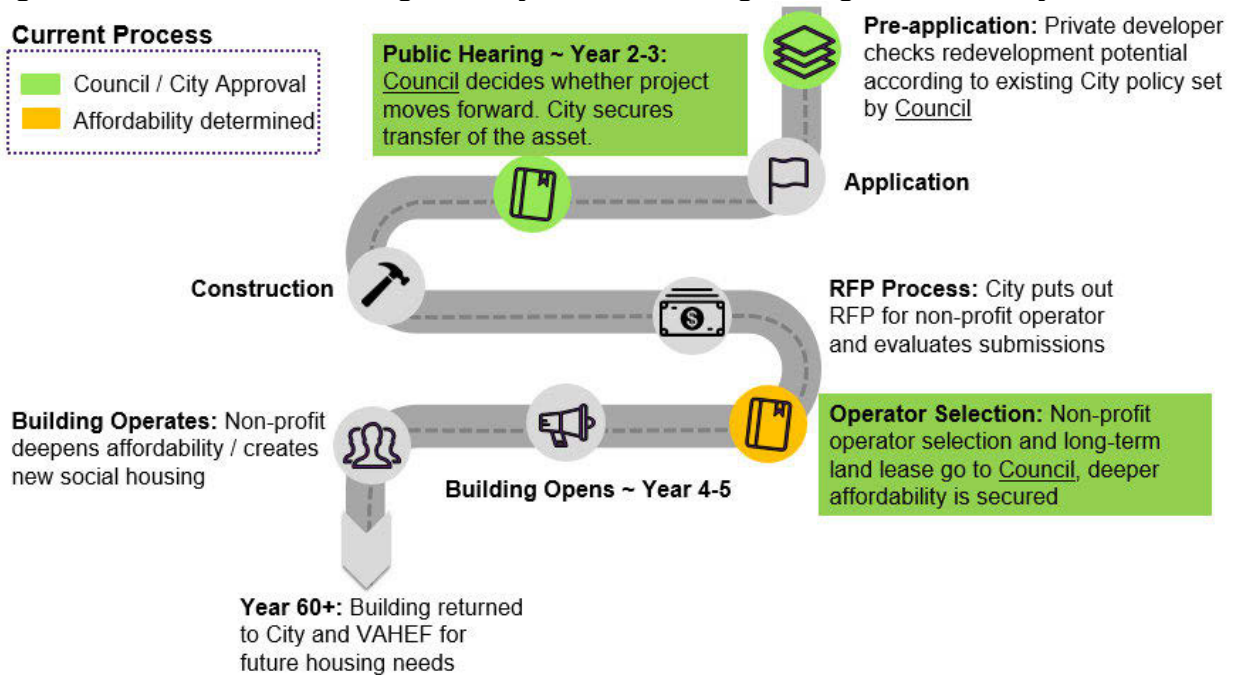
*Under Review projects include some major project sites, where expected units are known, such as the Heather Lands, Oakridge Transit Centre, and Granville Loops.

Affordability of the City’s turnkey social housing - current and pipeline

The starting rents for inclusionary units delivered to the City of Vancouver are determined as a result of a competitive Request for Proposal (RFP) process for operator selection, involving a prequalified list of non-profit organizations. The RFP includes a targeted affordability level, which aligns with citywide and community plan policies. In cases where there is no community plan or other planning documents such as an overarching policy statement, the targeted level of affordability on Inclusionary Zoning sites will generally reflect the Housing Vancouver targets for social housing with a focus on households earning below \$80,000 per year, targeting 20% of units at Shelter Rate, 30% at HILs, and 50% at Low End of Market (LEM). When feasible, the City also considers targeting deeper affordability requirements in cases where a deeply affordable rental building is being redeveloped, in order to ensure tenants may return to the building at rents affordable to them through the Tenant Relocation and Protection Policy. In some RFPs, the City seeks more specific affordability requirements, such as “STEP (Supporting Tenants Enabling Pathways)” pilot program units, which are designed to support tenants to move from supportive housing into more independent housing. In addition, where additional contributions are available from senior governments or community partners, projects may be able to support deeper levels of affordability.

Starting rents are approved by Council and secured at the time of operator selection and lease approval. This occurs after project approval at public hearing and before project completion as shown in the graph below. Projects become significantly more affordable from the time they are secured at public hearing, at the affordability required by the social housing definition, to lease approval, as a result of the competitive RFP process.

Figure 2. Process for Securing Turnkey Social Housing through Inclusionary Policies



As a result of the above process, only projects that have completed or are near completion have had their starting rents secured. The City has secured a total of 2,546 units through inclusionary housing policies. Of these, 1,842 have not yet completed and do not have operators selected, and so starting rents have not yet been determined. There are 704 units that have starting rents confirmed. These projects are summarized in the table below. Appendix A includes a list of all projects in which turnkey social housing has been secured.

Figure 3. Inclusionary/CAC Turnkey Social Housing Units with Starting Affordability Secured (January 2012 – September 30, 2020)

Starting Affordability	Shelter Rate of Income Assistance	BC Housing HILs	Low-end of Market (LEM)	Total
Completed	144 (30%)	168 (35%)	169 (35%)	481 (68%)
Under Construction (with operator selection completed)	50 (22%)	95 (43%)	78 (35%)	223 (32%)
Total	194 (28%)	263 (37%)	247 (35%)	704 (100%)

Council and members of the community have expressed concern with the affordability requirement for these units being set at the base definition of Social Housing, which requires that at least 30% of units rent to households with incomes below the Housing Income Limits (HILs). The affordability outcomes for the first 704 units of inclusionary housing completed or under construction with operators selected, demonstrates that significantly deeper affordability levels are being achieved. Across the portfolio, to date, the City has secured the starting

affordability of 65% of inclusionary units below HILs, including 28% of all units in turnkey social housing targeting households on Income Assistance.

It is important to note that these rents represent starting rents secured by the City. The BC Housing Income Limits (HILs) and Low-end of Market (LEM) rents change every year, and so a LEM unit in a project completed in 2017 would likely have a lower starting rent than in a project completed in 2020. HILs units are typically rent geared to income, and therefore are set and fluctuate with tenants' incomes; the City often sets a target for HILs units to average 70% of the HILs maximum rent within a building. LEM units are based on the average market rents in the area of the City the project is in, but cannot exceed the BC Housing Low and Moderate Income Limits. Maximum starting rents for 2020 are included in the table below.

Figure 4. Rental Rates and Incomes Served by Shelter, HILs and LEM units (2020)

2020 Maximum Starting Rents	Shelter Rate of Income Assistance	BC Housing HILs (rent geared to income)	BC Housing HILs Corresponding Maximum Household Incomes	Low-end of Market (LEM) / BC Housing Low and Moderate Income Limits	Low-end of Market (LEM) Corresponding Maximum Household Incomes
Studio	\$375.00	Less than \$1,287.50	<i>Less than \$51,500</i>	Less than \$1,843.75	<i>Less than \$74,150</i>
1-bed	\$375.00	Less than \$1,287.50	<i>Less than \$51,500</i>	Less than \$1,843.75	<i>Less than \$74,150</i>
2-bed	\$570.00	Less than \$1,575.00	<i>Less than \$63,000</i>	Less than \$2,826.00	<i>Less than \$113,040</i>
3-bed	\$660.00	Less than \$1,837.50	<i>Less than \$73,500</i>	Less than \$2,826.00	<i>Less than \$113,040</i>

It is also important to note that these are the minimum levels of affordability the non-profit operator is required to have as per the lease agreement with the City, but most non-profit organizations seek to increase the number of deeply affordable units over time, as mortgages are paid off or surpluses are received, as per their organizational mandate.

The City's policy on charging lease payments to non-profits who operate the City's turnkey social housing units

As noted above, once the City has secured turnkey social housing units to be delivered to the City by the developer applicant, the City begins a public procurement process to select the non-profit operator. Typically, the selected non-profit organization will then manage and operate the building under terms and conditions that are set out in a long-term lease and operating agreement. The terms of this lease, including required starting levels of affordability, are approved by Council prior to building occupancy.

The public procurement process involves the City sending a Request for Proposals (RFP) document to a list of prequalified non-profit housing organizations. This RFP includes site

details, the City’s objectives and requirements, as well as how the submission will be evaluated. Evaluation criteria for the RFP is typically broken down as shown in the below table.

Figure 5. Evaluation Criteria for an Inclusionary Operator Selection RFP

Evaluation Criteria	Evaluation Weighting
Rental Housing Program	30%
Staffing, Capacity and Property Management	25%
Affordability and Financial Information	35%
Strategic Fit and Innovation	10%

Non-profit organizations submit a proposal to lease the building, based on the information provided in the RFP. The lease payment is then calculated by the City. The City seeks to select an operator partner that will meet the affordability requirements outlined in the RFP and where possible, seek to exceed these requirements by offering deepened affordability across a maximum number of units. Currently, the lease payment is prepaid and equivalent to the amount of mortgage that the non-profit operator can secure against their leasehold interest as a result of the rental income of the property, which is based on affordability levels. Note that different non-profit organizations have housing programs serving different clientele, and submit their proposal accordingly. Some may not seek to deepen the affordability detailed in the RFP due to financial reasons, or because their housing programs are designed to serve a specific tenant client group, or because of the social benefits of diverse and mixed-income communities, or some combination of the above.

Impact on rents from nominal lease payments

The impact of charging a nominal lease payment on rents would vary on a project by project basis. In general, a nominal lease payment would allow for more affordable rents for an increased number of units, though the scale of this change would vary by project and by non-profit organization. This is because the impact depends on a number of factors such as building size, unit types (i.e. studio, 1-bed, etc.), low-end of market rental rates which vary by geography, operating costs, etc.

The below table shows historic publically available prepaid lease amounts with detailed project affordability levels. As you can see, greater affordability was achieved in projects with a lower prepaid lease. In general, the impact of charging a nominal lease would be greater in projects with a higher prepaid lease that were not as deeply affordable, than in projects with a lower prepaid lease that are already achieving deep affordability.

Figure 6. Historical Projects with Affordability Levels and Prepaid Lease Amounts

Address	Year	Total Units	Shelter Rate of Income Assistance	BC Housing HILs	Low-end of Market	Prepaid Lease
947 E Hastings St	2017	70	24 (34%)	23 (33)%	23 (33)%	\$3.8 M
95 E 1 st Ave (1)	2017	135	10 (7%)	54 (40%)	71 (53%)	\$20.5 M
1847 Main St (1)	2017	30	0 (0%)	30 (100%)	0 (0%)	\$0.0 M
1315 Davie St (2)	2018	27	33 (35%)	31 (32.5%)	31 (32.5%)	\$1.85 M
1395 Davie St (2)	2018	68				\$4.95 M

- (1) These buildings were part of one RFP process and one lease and operator selection report to Council.
- (2) The affordability requirements for these buildings are split over the two properties. The operating agreement requires 33 units at Shelter Rate and 62 units ranging from HILs to LEM across both buildings, but also states that best efforts will be made to ensure that not less than 64 units will rent at Shelter Rate and HILs, and no more than 31 at LEM.

The potential impacts of nominal lease payments to City resources is discussed below.

Impact of nominal lease payments on City resources

The City of Vancouver, as a local government in British Columbia, has historically been an important but junior partner in the delivery of non-market housing. The City has limited financial capacity to address the housing needs of our communities, compared with the financial resources available to the Provincial and Federal Governments and their agencies, such as BC Housing and CMHC. As a result, the City has set up housing programs to work with and leverage third party funding, particularly from other levels of government. The delivery of turnkey social housing has proved challenging to build into this partnership approach, since the delivery of the assets are the result of a regulatory relationship between the developer as applicant and the City as regulator. In this relationship, the City secures 100% of the cost of delivery of the social housing through the increased value of the land generated through density bonusing. Since it is difficult to bring partner equity into this process, the prepaid lease payment has been seen as a way to bring partner resources into the projects, usually in the form of a low-cost mortgage from BC Housing or CMHC.

For example, the 135-unit inclusionary housing project at 95 E 1st Avenue cost the City \$36 million in CACs and DCLs to secure. The project was built and delivered to the City by Concert Properties. The City then leased the property to the Community Land Trust (CLT) which formed the Creekside Housing Co-operative to operate and maintain the building. A 60-year prepaid lease payment of \$20.5 million was paid to the City by the CLT; allowing the City to bring in some of the expected future rent revenues from the project. The \$20.5 million lease payment was then available to support the delivery of additional non-market housing across the City portfolio.

Historically, proceeds from prepaid rent would be used for investments such as strategic land acquisitions, expansion or preservation of the City's non-market housing stock and enhancing affordability within other projects. A nominal lease payment would decrease the City's resources

for reinvestment in social housing and enhancing affordability elsewhere in the City's portfolio of non-market housing assets. As a result, the lease payment related to new turnkey inclusionary units must consider both on site affordability needs and off site acquisition and preservation needs.

The practice of charging lease payments in other jurisdictions

Staff have undertaken a brief jurisdictional scan of inclusionary policies in other Canadian municipalities and found that several municipalities are currently exploring or have recently approved inclusionary housing policies. The operational or governance models of these policies vary widely, which makes it challenging to conclude any standard for lease payments. Some general findings are noted below.

The cities of Calgary and Winnipeg do not have inclusionary zoning policies at this time, though they are both interested in exploring the application of these types of policies. The Province of Ontario introduced inclusionary zoning regulations in April 2018, allowing the City of Toronto to begin exploring policy options. The City of Toronto is still in the study and consultation phase for its proposed inclusionary zoning program, with a full policy package expected to be brought before City Council in late Spring 2021. City of Toronto staff have not brought forward the governance model for how the City would accept and allocate the inclusionary units, and whether any lease payment would be made.

Closer to home, the City of Victoria has a newly adopted Inclusionary Housing and Community Amenity Policy as of June, 2019. Though no units have completed under the policy, the City does not expect to own the inclusionary units through the program. The developer has the option to retain the units and contract their operation to non-profit housing providers, or non-profits may purchase these units from the developer. The City of Victoria does lease land to non-profits for affordable housing purposes, though not as part of the inclusionary housing policy. The City of New Westminster approved an Inclusionary Housing Policy in December, 2019. Under this policy, there are three options plus a cash-in-lieu option an applicant may pursue. These options have varying percentages of inclusionary units, rent levels, and ownership /management of the units. Under Option 1, the units are sold to a non-profit or BC Housing at below-market value; under Option 2 the units are transferred ownership at no cost to a non-profit or BC Housing; and under Option 3, the units may be owned by the developer with occupancy management by a non-profit or BC Housing, or sold to a non-profit or BC Housing at below-market value. The City of Richmond has had an inclusionary housing program since 2007. The City of Richmond does not own or manage the inclusionary units, this falls to the developer or designated property management firm. In this case, developers are strongly encouraged to partner with a non-profit organization to manage or own the units; any arrangement regarding ownership or management is between the developer and non-profit organization.

This brief jurisdictional scan found no other jurisdictions where inclusionary housing policies result in assets being transferred into city ownership. Therefore, there are no direct comparisons for leasing policies related to turnkey assets. The City of Vancouver's turnkey inclusionary model is a result of strong condominium market conditions and the city's ability to recapture that

high value through a turnkey housing asset returned to the City. However, as a result of recent market and policy changes, there is less demand for high-end condo units. In response, the City has recently introduced an alternative model that includes securing below-market units within 100% secured market rental buildings (approved by Council through the West End Issues Report on November 24, 2020). This approach looks more similarly to approaches in other jurisdictions with more moderate condominium values, which Vancouver experienced prior to 2018. Staff are monitoring this program and expect to report back in two years, along with any implications it may have for the inclusionary housing program.

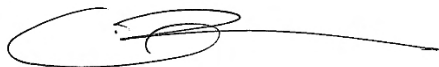
Staff recommendations for CAC turnkey social housing units to increase affordability for lower income renters

A nominal lease payment would decrease the City's resources for reinvestment in social housing and enhancing affordability elsewhere in the City's portfolio of non-market housing assets, though it would generally increase on-site affordability. Therefore, the lease payment related to new turnkey inclusionary social housing units must consider both on-site and off-site needs. The leasing policy for turnkey housing assets should be flexible to these needs as they change and the economics of a turnkey project.

Staff are evaluating alternative lease models that eliminate the need for the lease payment to be prepaid and the loan often associated with the prepayment, allowing affordability to be enhanced on-site while creating a revenue stream to be reinvested elsewhere in the City's non-market housing portfolio. This model would create a steady income stream, increasing the financial sustainability and resiliency of the VAHEF portfolio while mitigating the impacts of any future changes to Provincial or Federal funding programs or levels of developer contributions towards affordable housing. This work will be presented to Council as part of the portfolio strategy for the City's Vancouver Affordable Housing Endowment Fund. Lease payment options and recommendations will be brought to Council as decisions related to the affordability and operator selection for new turnkey assets are proposed to Council in 2021 onwards.

If you have any questions, please contact me or Dan Garrison, Assistant Director for Housing Policy and Regulation, at 604-673-8435 or dan.garrison@vancouver.ca.

Sincerely,



Gil Kelley, FAICP
General Manager, Planning, Urban Design and Sustainability
604.873.7456 | gil.kelley@vancouver.ca

Appendix A: Inclusionary / CAC Turnkey Social Housing units (2012 - September 30, 2020)

Project Address	Development Status	Net New Non-market Units	Starting Affordability Levels		
			Shelter Rate of Income Assistance	BC Housing Income Limits (HILs)	Low-end of Market (LEM)
728 West 8th Ave	Completed	5	0	0	5
557 East Cordova	Completed	5	5	0	0
626 Alexander St	Completed	5	5	0	0
138 East Hastings	Completed	18	9	9	0
601 Main St	Completed	22	11	11	0
1105 Seymour St	Completed	81	27	27	27
95 E 1st Ave	Completed	135	10	54	71
947 E Hastings St	Completed	70	24	23	23
288/292 E Hastings St	Completed	104	35	35	34
1315 Davie St (1)	Completed	27	9	9	9
179 Main St	Completed	9	9	0	0
4255 Arbutus St (Arbutus Centre)	Under Construction	125	26	43	56
1847 Main St	Under Construction	30	0	30	0
1395 Davie St (1)	Under Construction	68	24	22	22
1810 Alberni St	<i>*Under Construction</i>	24	TBD	TBD	TBD
1400 Robson Street	<i>*Under Construction</i>	83	TBD	TBD	TBD
7433 Cambie St (Pearson Phase 1)	<i>*Under Construction</i>	138	TBD	TBD	TBD
650 W 41st (Oakridge Centre)	<i>*Under Construction</i>	290	TBD	TBD	TBD
7329 Cambie St (Pearson Phase 2)	<i>*Approved</i>	223	TBD	TBD	TBD
500-650 West 57th Ave (Pearson – dirt sites)	<i>*Approved</i>	179	TBD	TBD	TBD
155 E 37th Ave (Little Mountain)	<i>*Approved</i>	58	TBD	TBD	TBD
2165-2195 and 2205-2291 W 45 th Ave	<i>*Approved</i>	32	TBD	TBD	TBD
750 - 772 Pacific Boulevard (Plaza of Nations)	<i>*Approved</i>	380	TBD	TBD	TBD
1055 Harwood	<i>*Approved</i>	43	TBD	TBD	TBD
1068 - 1080 Burnaby St. & 1318 Thurlow (2)	<i>*Approved</i>	39	TBD	TBD	TBD
1485 Davie	<i>*Approved</i>	51	TBD	TBD	TBD
1102 - 1138 E Georgia St	<i>*Approved</i>	10	TBD	TBD	TBD
436 E Hastings	<i>*Approved</i>	14	TBD	TBD	TBD
1555 Robson St	<i>*Approved</i>	24	TBD	TBD	TBD
1059-1075 Nelson St	<i>*Approved</i>	102	TBD	TBD	TBD
601 Beach Crescent	<i>*Approved</i>	152	TBD	TBD	TBD
TOTAL		2,546			

Notes:

**Non-profit operator has not been selected and minimum starting affordability has not been determined*

- (1) The operating agreement requires 33 units at Shelter Rate and 62 units ranging from HILs to LEM across both buildings, but also states that best efforts will be made to ensure that not less than 64 units will rent at Shelter Rate and HILs, and no more than 31 at LEM.
- (2) Note that some projects may shift in tenure from strata and inclusionary social housing to 100% secured rental and below-market housing with the recently approved Criteria for 100% Secured Rental and Below-Market Housing as an Alternative to Inclusionary Social Housing in the Burrard Corridor of the West End Community Plan (November 24, 2020).
- (3) Note that the vast majority of these projects are City-owned, though a few are owned by non-profit organizations or BC Housing.