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To: **"Direct to Mayor and Council - DL"**

Date: 7/2/2021 4:54:55 PM

Subject: Update: Co-op Lease Renewal Methodology Report

Attachments: image001.png

ACCS - Key Information (Council) - Co-op Lease Renewals (2021-06-30).pdf

Dear Mayor and Council,

The public report for Co-ops will be posted to the website shortly.

Over recent days, staff have been in discussions with CHF BC and would like to update you on two changes arising from those discussions:

- CHF BC has indicated that they are fine with the 5yr income reporting for non-RGI households earning above HILs.
- Staff have altered the income testing on the Transition Grant so that income testing is only done once at the beginning of the lease to determine transition grant eligibility. There is no annual income testing for the Transition Grant after this initial test.

Attached are some suggested key messages and responses to Q&As.

Staff are also preparing an internal memo for Friday with some further analysis and responses to some questions received over the weekend.

If you have any further questions, please send them to Sandra Singh directly - sandra.singh@vancouver.ca - and she and the team will work to have responses for next week.

Best,

Paul

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The City of Vancouver acknowledges that it is situated on the unceded traditional territories of the xʷməθkʷəy̓əm (Musqueam), Skwxwú7mesh (Squamish), and səliłwətał (Tsleil-Waututh) Nations.

Co-op lease renewal messaging and FAQs

Key messages

- The housing crisis in our city continues to be a critical challenge - Vancouver's vacancy rate continues to sit below one per cent and thousands of residents are on BC Housing's waiting list. More than 2,000 residents are experiencing homelessness. Approximately 15,000 Vancouver residents paying over 50 per cent of their income on rent. It is vital that City-owned land is used effectively.
- Maximizing publicly owned land, for both the protection of existing affordable housing and the creation of new affordable housing, is crucial if we are to provide stable, high quality and affordable homes for people in need.
- The City's affordable housing investments have been focused on supporting residents with a demonstrated need for government support due to low income.
- There are more than 200 co-op communities across Vancouver. Fifty-seven of these co-ops sites are on City land, providing more than 3,700 affordable homes.

Co-ops make up 22 per cent of the land of all of the City's non-market assets and that land represents more than \$720 million in land value (based on BC Assessment methodology; market assessments are expected to result in significant increases to this value).

- While co-ops have done an excellent job of providing deep affordability for residents with low incomes and also housing for households with middle incomes, there are also residents living in co-ops on City land who earn significantly more than the standard threshold for affordable housing – for example, some high-earning residents are earning above \$130,000 but paying as little as 10 per cent of their income to live in a two bedroom home on City land.
- The proposed methodology presented in the staff report assumes that rents in co-ops on City-owned land should be geared to the income of the occupants, to ensure that people are paying a fair amount for the property they live in. As well as ensuring that people are not spending more than 30 per cent of their income on housing, rents that are geared to income would help subsidize additional affordable housing options.

Lease negotiations

- Many of the land leases for the co-ops are set to expire over the next decade and the City has been working with the co-ops and the community on next steps for renewing these leases.
- Since 2017, the City has been working diligently to identify a land lease options that work for all parties and ensures affordable housing for generations to come. The City put forward a proposal in 2020 but this was rejected by the Co-op Housing Federation of BC (CHFBC) and co-ops. In November 2020, the City and

CHFBC started discussions about a different approach to the lease renewals but despite many areas of agreement, unfortunately CHFBC and the co-ops do not support the pricing aspect of the proposal.

- Throughout lease negotiations, City staff has strived to be mindful of the needs and interests of existing co-op residents, as well as the long-term interests of all Vancouver residents, including future generations.
 - Throughout this process, the City has been committed to protecting co-op members and ensuring residents have the ability to continue to live in their homes and not pay more than 30 per cent of their household income.
- Leases haven't changed since they were agreed upon forty years ago – at that time, they were based on market rates. Almost all of the leases that were originally signed state that extensions should be aligned to market rates.
- However, staff are proposing to Council that the City offer below market leases, with deeper subsidies for those with demonstrated need.
- Given the unprecedented growth in the housing market, housing charges that have not kept pace with member income growth are now approximately 50 per cent lower than market rates for members who earn about HILs. While the City does want more affordable housing for everyone, it is a significant consideration for the City when deep subsidies are requested to support households who do not qualify for affordable housing programs because they earn more than HILs. The City has limited resources and needs to consider where subsidy is provided.
- Staff's proposal is to offer a below-market lease rate, with further discounts based on demonstrated need for low and moderate-income households. A transition grant would be available to slow the pace of housing charge increases for higher income members, therefore meaning any increase would be spread out over seven years to support people adapting to new housing charges.
- The proposed methodology is based on the assumption that residents should be income-tested to ensure that best use is made of public land and those with demonstrated need benefit. It is also vital that any discounted rents abide by the Vancouver Charter because once the City provides a discount from market, it becomes a public subsidy. This means the City needs to consider the need for transparency and accountability.
- Senior government investment and investment from the co-ops themselves alongside the City will sustain this housing form.

High level FAQs

Q: Why are co-op lease renewals happening now?

The City of Vancouver began leasing land for co-ops in the 1970s when the federal government was providing funding to enable the construction of affordable housing. More than fifty co-ops across Vancouver are leased on land which is owned by the City

and, as many of these land leases were signed in the 1970s and 1980s, some of these leases are about to expire.

This means that new leases need to be negotiated and this presents an opportunity for us to ensure that City-owned land is being put to best use and helping to meet the need for more affordable housing. We want to be mindful of the interests of existing co-op residents, while also being aware of the long-term interests of all Vancouver residents, including future generations.

Q: Why can't leases just roll over?

Most current leases were pre-paid decades ago by the co-ops to the City at market rates. Many of these leases have an option to renew at current market rates. Several co-op have not planned or prepared for lease expiry in spite of knowing these terms and the expiry date for decades and/or the capital requirement of aging buildings.

The significant housing crisis Vancouver is experiencing means that that the allocation of City land to provide affordable housing to those that need it most has become more critical.

Currently, the City uses over 200 sites for non-market housing purposes. Of these sites, 57 are operated by co-ops, providing more than 3,700 units of housing. These co-ops are home to a diversity of Vancouver households, many of whom have stayed for a long time, entering the housing as an individual, raising a family there and are now seniors, and many of the people who live in them would no longer meet the threshold for needing affordable housing

Staff's proposed methodology puts forward a significant change to address the above challenges and aims to optimise the delivery of affordable housing on public land, while providing stability to existing residents. The proposed methodology includes delinking of land rents from market, providing deep subsidy with households with demonstrated need based on income testing, and offering transitions grants to slow the pace of increase of housing charges to households with higher income.

Q: How did the City work with co-ops to negotiate leases initially?

In consultation with co-op groups, the City developed a discussion paper which proposed four different scenarios for co-op lease renewals. We met with a variety of co-op residents, board members, and operators to talk about the options.

An online survey was also available in addition to the in person meetings where residents could read the discussion paper and provide feedback via the survey. The recommendations proposed in the discussion paper were not agreed upon with CHFBC so were not presented to Council.

Staff also entered into an interested immersive interest-based discussion with CHFBC from July 2020 to June 2021. These did not result in complete agreement. However, Staff and CHFBC compromised and agreed upon several key component of a lease except lease amount/affordability and reporting requirement. The approach and recommendations will be presented to Council on July 7, 2021.

Q: What is the City's position?

Staff's proposal is that the focus for new land leases should be to help co-op members with a demonstrated need and that rents in co-ops on City-owned land should be geared to the income of the occupants, to ensure that people are paying a fair amount for the property they live in. As well as ensuring that people are not spending more than 30 per cent of their income on housing, rents that are geared to income would help subsidize additional affordable housing options.

The rent paid by co-ops to the City subsidizes the creation of new affordable housing. When the City receives an amount that is less than market value for the use of City-owned land, the difference between market value and the payment is considered a grant, which requires increased reporting.

Staff suggest that public grants should be administered based on demonstrated need, while protecting co-op members and ensuring residents can continue to live in their homes without paying more than 30 per cent of their household income.

Q: Why does the City not support CHFBC's proposal?

Staff do not recommend support for CHFBC's approach because of the following reasons:

- Given that there are 4,700 people with demonstrated need in Vancouver on BC Housing waitlist, 2,000 of them homeless, this would be a very deep subsidy for non-RGI households who have greater means to access housing in the market at the expense of helping these households with low income.
- The nominal annual 2.5 per cent increase to current housing charges which are already significantly below market is reflection on the current market.
- It would be inequitable compared with other City non-market housing and below market rental projects
- There would be a lack of transparency with no income reporting for members – who earn more than the threshold for affordable housing – despite significant public subsidy

Q: It's not fair there are so many people on the housing waiting list while high-income residents are paying below-market rent for townhouses. How will this be addressed?




The proposed methodology recommends that publicly funded affordability grants are provided to those with a demonstrated need. There will be an income cap for new members, to ensure units are allocated to those in need. Revenues collected from annual ground rent payments will be used by the City to increase the number of affordable housing units, in alignment with the targets set out in the Housing Vancouver strategy.

Q: If you knew people were taking advantage of affordable housing in this way, why didn't you put a stop to it sooner?

Leases were signed for a forty-year term which means that prior to this point, they couldn't be negotiated at all. These lease renewals provide an opportunity to ensure the new leases are fair for co-op residents while ensuring that public land is used for those who need it.

Scenarios for co-op residents if Staff recommendations are approved

- The scenario is based on the family or individual renting a two-bed home
- The co-op, not the City, would be setting the housing charge (the rent) – scenarios are based on the co-op adopting the City’s recommendations
- “RGI” means rent geared-to-income

	Annual income	Current housing charge	Housing charge in 2027	Estimated discount to market (\$2,295 in 2027)	Details
 Low-income senior	\$40,000	RGI - \$1,000	RGI - \$1,000	56per cent below market	<p>A low-income senior would pay the same geared-to-income monthly housing charge as they currently do and a portion of it would be covered by a senior government or subsidy provided by the co-op.</p> <p>Staff is recommending focusing subsidies to low-income households, meaning deeper discounts would be given to households with a demonstrated need. The recommendations would reduce the ground rent owed, so that 90 per cent of the housing charge (the amount the resident pays to live in the co-op every month) would be applied to the operation and maintenance of the co-op.</p> <p>The co-op could continue providing affordable housing to this low-income senior.</p>
 Middle-income family with young children	\$67,500	\$1,335	\$1,687	26per cent below market	<p>A family with young children would end up paying a maximum of 30 per cent of their income in housing charges in seven years time, or around \$1,687 per month.</p> <p>Under Staff’s recommendations, residents would be paying 30 per cent or less of their income once the rent increases take effect. A transition grant would help slow these rent increases, meaning that in seven years time the family would be paying approx. \$1,687 by 2027 for a two-bed household (approx. annual increase of \$50/month). This is still 26 per cent below the expected market equivalent.</p>
 High-income couple	\$130,000	\$1,335	\$1,879	18per cent below market	<p>A couple with high household income would end up paying approximately 16 per cent of their income for rent in seven years time, this is still far below the average proportion of income that renters pay in Vancouver.</p>

					<p>As with the example above, the transition grant would slow the rent increase. In this example their monthly housing charge would increase by \$78 each year.</p> <p>While their housing charge would increase, they would be able to remain in their apartment and continue paying considerably less than market rates.</p>
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