



# CO-OP HOUSING LEASE DISCUSSION PAPER

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# 1 Introduction

Since the early 1970s, in response to senior government housing development funding programs and in an effort to ensure housing was provided for residents with low or moderate incomes, the City of Vancouver (the City) began leasing land for affordable housing. This arrangement has made affordable housing projects more viable as City land could be used to leverage senior government investments and the lease payments for the land are more affordable than purchasing freehold land. The City is now facing an even more significant housing crisis which is placing immense pressure on our communities; therefore, the effective allocation of City land is more critical than ever to deliver the affordable housing that Vancouver needs.

Currently, the City deploys over 200 sites which collectively house more than 12,000 homes which are run by non-profit and co-op housing operators. These sites are home to a diversity of Vancouver households, many of whom have lived there a long time. Fifty-seven of these sites are operated by co-operatives (co-ops or co-op housing) and are characterized by a unique co-operative governance model.

Co-op housing is an important part of Vancouver's existing supply of affordable housing. It has helped thousands of families and households stay in the city to live and work, during a period when affordability was a growing challenge. The City has a long history of working with co-ops directly or indirectly through senior levels of government, to create and sustain housing affordability in Vancouver. Many of the land leases that enable co-op housing to be built on City land are now reaching the end of their term, and consideration needs to be given to the future of this land. Given the growing housing affordability crisis, the City is considering all options to both sustain existing non-market housing supply and accelerate the creation of new homes using its land, including extension of existing partnerships, such as with co-ops on City land.

In February 2017, City Council approved the "Sustaining Affordable Co-operative Housing on City Land" Framework ("2017 Framework"<sup>1</sup> or "Framework"), which provided high-level direction and principles for consideration of the renewals of the existing leases to co-op housing operators on City land. The intent was to pilot the framework for a few co-op leases and determine if changes are needed based on the information gathered. Since that approval, City staff have worked to implement the 2017 Framework through proposed lease extension agreements to co-ops whose leases are set to end first. Despite efforts on both sides, the City and co-op members have not been able to reach agreements. In late 2018, City staff began to consider how to best move forward and address some of the feedback received from co-ops, while meeting City policy objectives and public accountability requirements.

## **Next steps in testing & implementing the Framework:**

Through the 2017 Co-op Framework, the City's primary objective is to renew and extend co-op leases in a way that maintains:

- affordability for those co-op members within the [Housing Vancouver policy](#) context

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<sup>1</sup> <https://council.vancouver.ca/20170208/documents/cfsc5.pdf>

- acknowledges co-op self-governance
- ensures public accountability for public housing investment, and
- maintains flexibility to maximize any development potential for creating more non-market housing on City land in the future.

The scenarios proposed for co-op leases in this discussion paper have been developed specifically to work within the 2017 Framework directions and addresses feedback received over the past year and a half from the City's co-op housing partners, including those co-ops who did not accept the first round of lease extension offers.

Through this paper, staff seek to clarify the City's interests in both preserving and enabling co-op housing on City land in accordance with the Housing Vancouver strategy, as well as to present lease scenarios that balance the interests of existing co-op members while addressing the broader needs of Vancouver residents and workers who struggle to access affordable housing in the city.

This paper is divided into specific sections:

- Section 2 provides further background on the City and management of public housing assets, including an introduction to co-ops
- Section 3 describes the 2017 Co-op Framework and the feedback received from co-ops and their representatives over the past year and a half of lease offers
- Section 4 outlines the City's focus on protecting existing co-op members from potential displacement.
- Section 5 details four leasing scenarios.
- Appendices which provide additional detailed information about each of the proposed scenarios.

#### *Anticipated next steps*

City staff will review public feedback on this discussion paper, and adjust the approach where necessary, with the objective of bringing forward for Council's consideration an equitable and transparent leasing methodology, including standardized lease terms and conditions by the end of Q2 2020.

As per Housing Vancouver, the objective of this work is to preserve and grow the number of co-op homes across Vancouver.

## 2 Background

Non-profit and co-op housing programs, along with senior government tax incentives for the construction of purpose-built rental housing, supported the creation of much of Vancouver's affordable housing stock from the 1960s to the 1980s. However, by the early 1990s most of those programs were discontinued. As a result, creation of new social and rental housing, as well as replacement of the existing stock of aging affordable housing has been significantly constrained since the 1990s.

### 2.1 Housing Vancouver: The Ten Year Housing Strategy

Vancouver has, and continues to experience, a housing affordability crisis, which has had a profound impact on both home owners and renters, as thousands of residents experience barriers to stable and affordable housing.

*“Co-ops and social housing are a lifeline for so many people in Vancouver...there has to be a plan for keeping it up.” (Housing Vancouver)<sup>2</sup>*

Affordability is a primary consideration for Vancouverites when it comes to housing. Vancouver residents ranked affordability as the number one priority for housing in the city - but also place high value on diversity, security of tenure, and community connection. In fact, most former Vancouver residents indicated that the primary reason they chose to leave was affordability.

Housing Vancouver - the City's 10 year housing strategy - identifies how aging co-ops and social housing buildings, including buildings on City land, are facing an increasing need for major building upgrades and rehabilitation work to address deferred maintenance, as well as financial uncertainty resulting from the expiration of operating and rent subsidy agreements with the federal government. These units provide some of the most affordable housing within the city due to their age and targeted subsidies. As noted above, much of this housing was developed decades ago under previous affordable housing programs. A key request in the City's input to the National Housing Strategy was the need for the federal government to maintain the current levels of rent subsidy and provide additional grants and low-cost financing to maintain and improve building conditions of existing co-op and non-market housing.

Housing Vancouver outlined the following key values for housing in the city:

1. DIVERSITY: Housing should respond to the diversity of people and households who call Vancouver home.
2. SECURITY: Housing is about 'homes first' and security of tenure, and is an important foundation to a sense of belonging in the city.
3. AFFORDABILITY: All residents should have access to housing options within their means that meet their needs.
4. CONNECTION: The right mix of homes supports resilient communities, with strong connections between people, places, and communities.

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<sup>2</sup> <https://council.vancouver.ca/20171128/documents/rr1appendixa.pdf>

5. EQUITY: Housing should promote equitable access to jobs, education, and other opportunities for economic prosperity for people of all ages, incomes, and backgrounds.

Housing Vancouver also includes targets to meet the needs of low-income residents, with 12,000 social, supportive and non-profit co-op housing units to be created over 10 years.

### *Implementing Housing Vancouver*

An outcome of the Housing Vancouver consultation was the recognition that City/non-profit partnerships exist on a spectrum, ranging from transactional or regulatory relationships to more developmental partnerships. A three-year action plan with opportunities to strengthen and scale partnerships across this continuum was developed, which includes key actions for non-profits, the City, and additional partners involved in delivering, operating, and supporting affordable housing in Vancouver.

The Housing Vancouver strategy acknowledges the central role that the City plays in the ongoing development of a resilient non-profit and co-op housing sector and, as a result, recommends continuing to provide City land in the form of long term leases as a key contribution to affordable housing partnerships with an emphasis on achieving affordability. Further actions include clarifying renewal of lease terms with non-market and co-op housing providers on City sites, with the goal to increase social and co-op homes and clarify key lease terms that will structure partnerships for the delivery of affordable housing on City-owned land.

### *The Housing Vancouver strategy and co-ops*

Currently, co-ops are approximately 23 per cent of the City's non-market housing stock. Given strong public support to increase co-op housing, the City will look to expand this number by setting a new 10-year target of 2,000 co-op units. The Housing Vancouver strategy identifies the need to explore opportunities for new models that encourage security of tenure and community building, including co-op, cohousing, rent-to-own, and other hybrid tenures

*“Promote more co-ops as means of building community and putting agency in the hands of renters and not developers.” (Housing Vancouver)*

The strategy sets out the City's overall plan to retain and renew existing co-op housing, while identifying opportunities to increase co-op housing supply through redevelopment. City staff will work with its partners to deliver that goal. Many of these buildings have the potential for reinvestment or redevelopment for additional affordable housing opportunities, but significant investments will be needed. In addition to looking at City land, the Rental 100 incentive program, which resulted in the approval of over 3,200 units via 40 projects<sup>3</sup>, has been very effective at creating new market rental housing supply. A similar but enhanced approach could be effective at encouraging private/equity co-op housing. Key actions for the City include developing, testing, and implementing a framework for co-op lease renewal which includes provisions for affordability and identification of key sites for redevelopment to increase the number of affordable homes. Any redevelopment processes would comply with

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<sup>3</sup> <https://vancouver.ca/files/cov/rental-incentive-program-review-cityspaces-report-july.pdf>

City policies to ensure existing co-op members are not displaced from their communities. The issue of protection from displacement is addressed in more detail in Section 4.

## **2.2 City land and grants**

### *Utilizing City land*

Whether it is for housing, arts and culture, childcare, or other civic purposes, City property is a significant public asset for both current and future Vancouver residents. Council passed a recommendation in 1981 which states, “when land is being provided for any social purpose, it [should] be done on a leasehold basis only”.<sup>4</sup> This enables the City to manage this public asset over the long-term, using it to meet the needs of Vancouver residents in the current day and also anticipate the needs of future generations.

With limited financial resources and available land, it is critical that the City optimizes the use of public land in a way that maximizes the benefit to Vancouver residents. With the creation of the Vancouver Affordable Housing Endowment Fund (VAHEF), revenues generated from land or property leases will be reinvested to preserve and grow Vancouver’s affordable housing portfolio.

### *Providing City land for co-op housing*

When the City receives less than market value for the use of City-owned land in its portfolio - whether for cultural, social, or housing purposes - the difference between market value and the payment is considered a grant<sup>5</sup>. Under the Vancouver Charter, a grant of this type requires a two thirds majority of all Council members to vote in favour of it, and the recipient must be eligible for a grant under the Vancouver Charter, usually by being either a charitable institution or being deemed by Council to be a welfare organization.

The creation of affordable non-market housing operating and capital grants as well as low-cost financing from senior levels of government and the provision of leased land or buildings by the City. The lower the City’s lease rates are, the less funding there is available to be redeployed for the purchase of additional land for more social housing or as a way of deepening affordability at other locations.

### *Use of any co-op lease revenue*

Co-op sites make up a significant portion of the City’s non-market and supportive housing portfolio. The City wants to both maintain and grow City owned non-market housing units.

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<sup>4</sup> (City of Vancouver, 1981)

<sup>5</sup> This is consistent with sections 153 and 206(1) of the Vancouver Charter. A below-market lease is a choice to forego revenue that could otherwise be reinvested back into affordable housing.

Any ground rent generated from co-op and non-profit housing leases are reinvested back into future non-market housing projects across the City, creating more non-market units for more people. This lease revenue is one of many funding streams the City uses to acquire new sites and build more housing. The National Housing Co-Investment Fund and Federal Lands Initiative under CMHC could possibly provide the City with additional programs with which to increase the number of units if leases are renewed.

### *Vancouver Affordable Housing Endowment Fund*

In order to streamline the City's stewardship of public assets and investments in affordable housing, Council approved the creation of the Vancouver Affordable Housing Endowment Fund (VAHEF)<sup>6</sup>. By bringing together the City's land, building assets and revenues into VAHEF, the City is better placed to achieve its ambitious Housing Vancouver targets, including new co-op homes.

It is anticipated that co-op and non-profit operated housing sites will be managed under VAHEF, and this portfolio approach will optimize the preservation of existing City non-market homes, as well as meeting the goals for new affordable homes and housing supply. Any lease revenues generated from co-op and non-profit operated housing will be reinvested in VAHEF to both preserve and acquire additional housing assets to address the needs of Vancouver residents over the long term.

## **2.2 Current housing on City land**

Over the past 40 years, the City has provided land for non-profit and co-op rental housing at over 200 sites across the City. Of this leased land, approximately half the land area is allocated to co-op housing.

As many of these land leases were signed in the 1970s and 1980s, the end of their term is approaching, necessitating a process for consideration of their renewal. Figure 1 below provides an overview of approaching lease-term end dates.

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<sup>6</sup> A key action within the Affordable Housing Delivery and Financial Strategy is the creation of VAHEF, which is intended to manage and grow the City's affordable housing assets as a portfolio in a sustainable way. Having a single, consolidated fund will enable the City to realize portfolio optimization, economies of scale, cross-subsidization and other benefits across approximately 200 affordable housing assets including land, buildings, and Air Space Parcels (turnkey social housing units secured through development)



Figure 1. Upcoming co-op lease term end dates and the number of affordable homes on City land.<sup>7</sup>

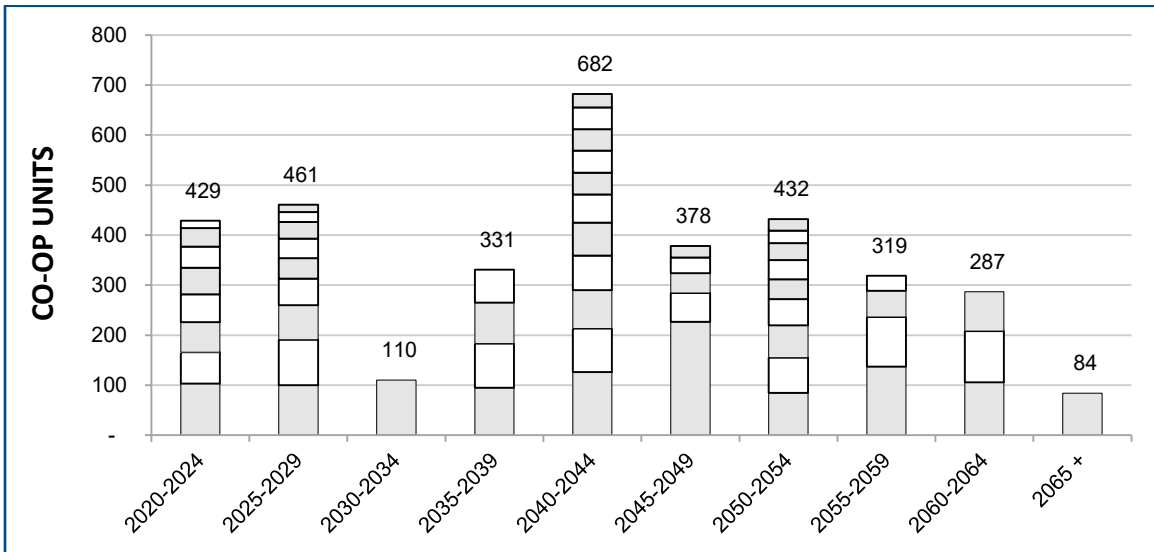
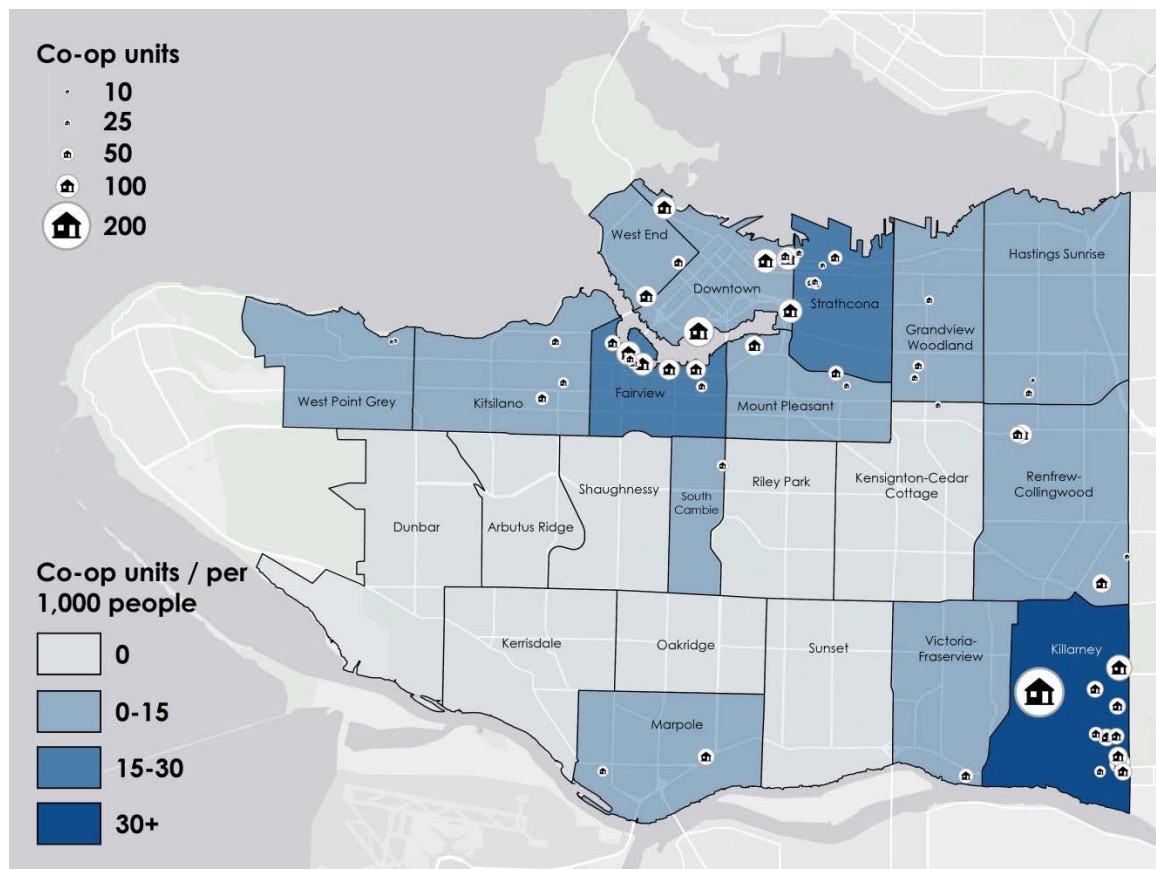


Figure 2. Co-ops on leased City land. Size of icon illustrates number of units in co-op.



<sup>7</sup> Units are represented by the side-by-side bars; each individual block represents one co-op.

## 2.3 Overview of co-ops in Vancouver

A rental (non-equity) co-op is based on the premise that every individual household purchases shares in the co-operative and are therefore considered members of that co-op. During the term of the lease, members hold limited equity in their housing, but do have security of tenure (co-op members have a longer average tenure and lower turnover rates than non-profit and private renters). The value of the shares in a non-equity co-op do not change over time. Co-op members also have an opportunity to work with other members to manage the co-op and vote on decisions about the governance of the housing. In many cases, members in the individual co-ops are also expected to contribute to the community in various ways, including being on the board of the directors or the various committees that are established to support the management of the building and grounds and the creation of a sense of community (e.g., membership, finance, grounds keeping and landscaping, etc). Through the shared governance and operations support and membership model, co-ops provide security of tenure and a special community environment in which members control co-op operations via an elected board of directors and committees.

While co-op members do not pay rent, they do pay a housing charge which the co-op board uses to pay for all the expenses and reinvestments incurred and needed by the co-op. Because co-ops charge their members only enough to cover costs, repairs, and reserves, they can often offer housing at lower monthly cost to their members than average private sector renters would pay. Further, some households pay a reduced monthly housing charge that is geared to their income, with internal subsidies and/or senior government funding covering the difference between this and the full housing charge that other members in the co-op would pay.

With the CMHC programs of the 1970s and 1980s, the City received market (or very close to market) value of the land when it signed ground leases with co-ops. Co-ops paid for the use of the land through discounted CMHC mortgages<sup>8</sup>. The City leased land to co-ops typically with an agreement that at the end of the lease, the right to occupy the land ceased, and any improvements (the buildings) will be surrendered to the City.

The Federal government has historically used operating agreements as a policy tool to provide low-income housing. These agreements provided “funding and a framework that clearly laid out the public policy goal of ensuring low-cost housing.”<sup>9</sup> With no operating agreement, co-ops no longer receive subsidy for lower-income members, and it is up to these individual co-ops to decide whether to pay more each month to cross-subsidize these members. Without operating agreements, co-ops no longer have a mandate to provide affordable housing. When co-ops finish paying off their mortgages, they continue to face rising maintenance and operating costs for their aging buildings.

Opportunities exist for a renewed partnership with senior governments. Under Phase 2 of the Federal Community Housing Initiative (FCHI-2), rental assistance targeted at low-income

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<sup>8</sup> The original mortgages for Section 95 (1978-1985) co-ops were supplied by market lenders at then prevailing rates, CMHC offered direct lending subsequently at Treasury Board lending rates. Co-ops under the ILM program (1986-1992) had their mortgages held by private lenders (primarily insurance companies) at the prevailing rates at IAD.

<sup>9</sup>[https://www.policyalternatives.ca/sites/default/files/uploads/publications/Manitoba%20Office/2018/01/Why\\_Protecting\\_Public\\_Housing\\_Important\\_in\\_MB.pdf](https://www.policyalternatives.ca/sites/default/files/uploads/publications/Manitoba%20Office/2018/01/Why_Protecting_Public_Housing_Important_in_MB.pdf)

households living in federally administered co-ops has been confirmed for the period of April 1, 2020 to March 31, 2028<sup>10</sup>. Should this federal funding in fact conclude in 2028, the City could consider supplementing this loss of federal funding, as reviewed on an annual basis. In addition to FCHI-2 funding, the City is considering discounting the cost of the ground rent by providing a grant to co-ops on leased land, to ensure the affordability of units. As noted previously, when the City signs a lease extension with a co-op, any payment less than market value is considered a grant. As all City grants require accountability, the implementation of below market leases for co-ops would require some reporting of information to the City. This will be a new requirement for co-ops who - until now - had market rate leases with the City. This operational detail is discussed later in the paper.

### **3 Protection from displacement for existing co-op members**

Renter protection, including rental co-op members, is a key priority in the Housing Vancouver strategy and is important to both co-ops and the City when considering redevelopment. For that reason, protection from displacement is a key priority.

The risk of displacement occurs in two situations: through redevelopment or lease renewal. Regardless of the outcome of negotiations with individual co-ops, the City will prioritize protecting co-op members from displacement, and has committed that low and moderate income households will not be displaced.

On June 11, 2019, City Council passed an updated Tenant Relocation and Protection Policy (TRPP),<sup>11</sup> which sets out the following guidelines for site redevelopments:

- Non-profit co-ops undertaking redevelopment are required to submit a resident relocation plan to the City. The City's policy will provide general guidance to non-profit co-ops for a resident relocation plan based on the draft principles outlined
- Meeting these resident relocation guidelines will not be mandatory for non-profit co-ops; however, non-profit co-ops proposing a different approach from these guidelines will be asked to provide a rationale for their decision
- In areas where there is existing policy or guidance on resident protection and relocation (e.g. the False Creek South Provisional Resident Protection and Retention Plan), the requirements of existing policy supersede these guidelines

While lease renewals are not the same as site redevelopments, the existing principles and commitments in the revised TRPP are instructive and could be used to form the basis of a new policy pertaining to lease renewals.

To mitigate displacement, while enabling co-op redevelopment, all proposals will have:

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<sup>10</sup> <https://www.cmhc-schl.gc.ca/en/nhs/federal-community-housing-initiative>

<sup>11</sup> (City of Vancouver, 2019)

<https://council.vancouver.ca/20190611/documents/rr1complete.pdf>

- An option to stay: All co-op members should be given the option to stay in an appropriately sized unit in their co-op.
- No economic displacement: All members should be expected to pay at most 30% of their gross income on housing charges.

Recognizing that most co-ops pre-paid their leases decades ago and, have not factored lease renewal payments in their mid to long-term budget and operating plans, to protect against the potential for housing insecurity arising from the costs associated with a new lease, the City would consider the provision of an additional transition grant, which will slow the pace of annual housing charge increases following lease renewal. An example of a transition grant is provided in Appendix B.

## 4 2017 Co-op Framework and implementation

As illustrated in the chart in Section 2, 17 co-op lease terms on City land are due to end between 2020 and 2029, with greater numbers set to end in following years. In response to these approaching co-op lease term expirations, Council passed the 2017 Co-op Framework: Sustaining Affordable Co-op Housing on City Land (the “Framework”).<sup>12</sup>

The Framework included the following objectives:

- a) Protecting the affordable housing stock
- b) Providing security of tenure for co-op residents
- c) Addressing physical building challenges
- d) Ensuring that co-ops have stable governance and finances

### 4.1 Key components in the Framework

The Framework includes the following key components to be addressed in all lease negotiations:

- **Income caps on entry:** Co-ops will only admit new households whose monthly income is no more than five times the prevailing market rent for similar units in the surrounding area.
- **Low-income households:** A minimum of 15% of units should be allocated to low-income households; the housing charge paid would be no more than 30% of gross household income, which would be below the co-op’s standard housing charge where co-op finances allow.
- **Occupancy standards:** The co-op will adopt and implement unit occupancy guidelines that align with the National Occupancy Standards<sup>13</sup>, requiring households to move to an appropriately sized unit within the co-op within a reasonable time frame.

<sup>12</sup> <https://council.vancouver.ca/20170208/documents/cfsc5.pdf>

<sup>13</sup> City of Vancouver staff are reviewing the National Occupancy Standards to ensure they remain relevant in situations such as those being experienced in cities such as Vancouver.

Standards are required to prevent the long-term under or over housing of co-op members.

- **Audits and inspections:** The City will have the ability to perform audits or inspection of financial statements, asset management plans and reserve funds, housing charges, and occupancy records, where such information is related to a co-op's obligations under the lease. In Appendix A, the Framework also notes that the City will collect information about the proportion of total income each household in the co-op spend on housing charges.

Other key terms contained within the Framework include moving co-ops towards a coordinated waitlist system, sharing of financial surpluses and lease term.

While the term of co-op leases was not discussed within the Framework, City staff have sought to ensure that future co-op extensions are be consistent with the 2018 Non-Profit Lease Framework, in which the City offers new leases for a standard mortgage cycle (typically 30 years)<sup>14</sup>.

## 4.2 Initial Framework implementation and feedback from co-ops

### *Initial approach*

Guided by the Housing Vancouver strategy and the Framework, over the last year and a half, City staff have sought to secure lease extensions with co-ops whose lease-terms were closest to their end.

To demonstrate the commitment to maintaining affordable housing on City land, a starting point for the lease approaches has been to ensure:

- a) low and moderate income households will not be displaced
- b) no household will pay more than 30% of their gross (pre-tax) income on housing charges<sup>15</sup>

While the 30% is consistent with other affordable housing programs, staff have received feedback from co-op representatives that 30% is unreasonable and the City will review this target both through this process and within the broader context of VAHEF and the Housing Vancouver strategy implementation. The different potential levels of grant funding for 30% and 25% of income are discussed further in appendix B.

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<sup>14</sup> <https://council.vancouver.ca/20180724/documents/a7.pdf>

<sup>15</sup> 30% of pre-tax income is the national standard for affordable housing (Canada Mortgage and Housing Commission, 2019).

<https://www.cmhc-schl.gc.ca/en/Developing-and-Renovating/Develop-New-Affordable-Housing/Programs-and-information/About-Affordable-Housing-in-Canada>



The City has also sought reporting from the co-op boards to ensure City subsidies were being directed to people with demonstrated need based on income levels. This approach would preserve the opportunity create more non-market housing in partnership with the co-op, and to bring non-market housing charges that aren't geared to income into line with other public standards, such as Housing Income Limits and the CMHC benchmark of 30% of income.

### *Results and feedback*

The offers proposed by the City over the past year and a half have not been accepted, with feedback provided by those co-ops and their collective representatives summarized below.

- **City proposals were too expensive for co-ops to manage:** Co-ops paid their original leases at the beginning of the lease term, decades ago; therefore existing housing charges cover operating expenses only. With a new lease agreement and a renewed lease payment, co-ops will have to raise their housing charges to cover the new lease payment is an additional operating expense that they have not had to factor in over recent decades.
- **The City is not providing a grant as the discount to market is unrealistic:** Many co-ops expressed disagreement with the concept that a discount from market lease rates is a grant, and therefore believe that regular reporting to the City should not be required.
- **City expectations for co-op reporting requirements were too onerous:** Feedback from co-ops suggested that the data requested by the City to demonstrate accountability and stewardship of public asset and funding were too onerous for the co-ops, requiring too much effort and too much detail. Some also suggested that the reporting requirements were too invasive and the City should not be seeing income data.
- **Co-ops value their self-governance and want to preserve their autonomy; particularly around setting their own housing charges:** Co-ops want to ensure that, within their operations, they are free to set their own housing charges and are not required to set the charges on a particular schedule described by the lease.
- **City's approach was not seen as being transparent:** Co-ops wanted to better understand the basis of the City's lease offer. There was some disagreement with how to assess land value, which was at the basis of these offers.
- **Co-ops have been subject to senior government oversight and requirements for the last 30 years and are "nearing the end of the term". Many are reluctant to agree to new operating rules:** After years of significant reporting to the federal government for their operating subsidies and following conditions set out in those operating agreements, co-ops were looking forward to reduced reporting and requirements. In many cases, the original leases the City offered decades ago at the beginning of the co-op's term were at market rates so the City required no reporting. Now that the leases are below market rates, and thus constitute a grant as per the Vancouver Charter, the City is requesting some conditions associated with the lease.

- **The City's approach to focusing on revenue and not the costs to the co-op as an organization compromises the co-op model:** Co-ops suggested that the City's approach is too focused on what revenue the co-op can bring in to cover its operations vs the traditional co-op approach, which is to establish their expenses and then set their housing charges to just cover expenses. Co-ops identified this difference as a significant switch in approach that risks affordability for their members and is not in keeping with the co-op model.
- **Basing any housing charges on 30% of income places people on the edge of housing poverty:** Co-op representatives expressed frustration with the notion that housing charges be set at 30% of income as it places members too close to the financial risk of losing their homes, when they have to factor in all other living costs, e.g. home insurance, utilities, etc.
- **For renewals, lease terms need to be set to enable financing to support needed building repairs:** The lease terms of all offers were adjusted mid-process to enable financing but still leave room for the possibility of redevelopment to create more non-market housing when possible.

This feedback is informative for City staff regarding what co-ops value about their structure and how they want to operate.

#### *Next steps*

As these leases continue to approach their end of term, the City remains committed to work with co-ops to identify a path forward to both preserve existing co-ops and explore opportunities to redevelop public lands to grow the City's non-market housing stock.

To address the feedback received from co-ops, City staff have put forward scenarios (Section 5) that balance co-op members' interests and the City's accountability and stewardship for public assets and City investments, as well as delivering on the Housing Vancouver strategy objectives. City staff believe the proposed scenarios present a reasonable approach and are looking forward to feedback from the City's housing partners, Vancouver residents and the public at large.

As noted above, to demonstrate the commitment to maintaining affordable housing on City land, a starting point for any proposed lease approach had been to ensure:

- a) low and moderate income households will not be displaced; and
- b) no household will pay more than 30% of their gross (pre-tax) income on housing charges.<sup>16</sup>

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<sup>16</sup> 30% of pre-tax income is the national standard for affordable housing (Canada Mortgage and Housing Commission, 2019).

The new ideas put forward in this paper maintain these two commitments, but now also include the objective that no household should spend more than 25% of their gross pre-tax income on housing charges.

## **5 Proposed co-op leasing scenarios**

After receiving considerable feedback resulting from initial lease discussions with co-ops over the past year and a half, described above, staff have identified four scenarios for co-ops with expiring leases.

### *Integration of co-op feedback*

Certain aspects of the feedback received have been more challenging for the City to address, as they conflict with several key principles the City applies to this work, including:

- A below-market value lease is a grant, as required under the Vancouver Charter
- The City does have an obligation to require information that demonstrates that public subsidies/grants are administered based on demonstrated need
- The approach to City investment in these leases needs to be consistent with the principles and approaches put forward in other housing related policies and programs such as the Housing Vancouver strategy and the Moderate Income Rental Housing Pilot Program
- The City needs a transparent and equitable methodology to calculate lease amounts to ensure there is fairness across all non-market housing operators.
- Further, the City must consider how national standards such as CMHC housing cost standards apply. The scenarios below all remain modeled on CMHC standard of 30% pre-tax income spent on housing as an approach.

With the exceptions noted above, City staff have attempted to address other aspects of the feedback in the four scenarios laid out below.

## The four scenarios

The four proposed scenarios are based on either growing or preserving the housing stock and are offered here for public feedback. Each scenario is described in greater detail below this summary.

### Lease renewal scenarios

1. **Basic renewal:** A co-op pays the City a slightly discounted ground rent on an annual basis with limited reporting requirements.
2. **Renewal with additional grant:** A co-op pays the City a slightly discounted ground rent on an annual basis (i.e. Basic renewal), and receive an additional grant to provide deeper affordability based on incomes of the co-op's members. This scenario requires greater reporting requirements to ensure City subsidies target low to moderate income households.
3. **End of lease:** As a last resort and the City's least preferred scenario, a co-op may opt not to renew its lease. Should this be the scenario pursued by the co-op, the City will work with that co-op to protect its members and work to identify a new building operator as quickly as possible.

### Redevelopment scenario

4. **Redevelopment:** The City is interested in working with co-op housing partners to increase the number of co-op homes on City-land. Should the City decide that a particular site meets certain criteria, including poor building conditions and/or unused development potential, the City may opt to work with an individual co-op to explore the potential redevelopment of the site to increase the number of affordable co-op homes. The City and the co-op agree on a new lease for the new building.

An overarching principle is that no household will pay more than 30% of their gross (pre-tax) income on their housing charge.<sup>17</sup>

In all cases, any lease revenue the City collects would be reinvested into non-market housing as per the Housing Vancouver strategy.

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<sup>17</sup> 30% of pre-tax income is the national standard for affordable housing (Canada Mortgage and Housing Commission, 2019).

<https://www.cmhc-schl.gc.ca/en/Developing-and-Renovating/Develop-New-Affordable-Housing/Programs-and-information/About-Affordable-Housing-in-Canada>

## **5.1 Scenario 1 - Basic renewal**

*The City is proposing a basic scenario for renewal that seeks to balance the desire of some co-ops to have limited reporting and program requirements with the City's need to ensure accountability and stewardship for City assets and investments.*

In this scenario, the co-op would pay the City a slightly discounted ground rent and would only be required to meet basic reporting requirements. A grant (or discount) would be built into the ground rent to allow a co-op to offer 15% of their units to low-income members as per the 2017 Framework. The ground rent would be valued using Vancouver median incomes, rather than market land values.

Co-ops would pay annual ground rent to occupy their site for the term of the lease, utilizing the method set out in Appendix A. Capital repairs and maintenance would continue to be the responsibility of the co-op.

With a basic grant built into the lease, the City would require annual monitoring and lease reporting from the co-op, such as a list of member charges, audited financial statements, and anonymized income statements from those members living in Member Charges Geared to Income (MCGI) units<sup>18</sup>. These requirements would be in-line with other City leases and the City would aim to coordinate and streamline reporting standards to ease the administrative burden on co-ops.

Ground rent would be set in year one and would increase by 2% per annum. This provides a link to the general inflation that is experienced by all Vancouver residents.

This scenario enables a co-op to renew its lease and maintain autonomy, with limited annual reporting requirements from the City. Co-ops would be required to operate 15% of their units at housing charges which are geared to tenant income. This approach would also “take the land out of the market” as ground rent is linked to Vancouver incomes not market land values.

## **5.2 Scenario 2 - Additional grant**

*The City is proposing an additional grant scenario that enables further reduction of lease payments based on delivering deeper affordability to more members, using an income geared approach. As a result of this increased grant, the City will require enhanced reporting.*

There is a concern among co-op members that increased ground rent payments to the City will force co-op members out of their homes. To address concerns regarding potential displacement, under this scenario, the City would provide an additional grant to target subsidies towards existing members with lower incomes. With the City's additional grant, these members would pay at most 30% of their income towards housing charges. The

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<sup>18</sup> <https://vancouver.ca/files/cov/2019-housing-income-limits.pdf>



additional grant effectively reduces the lease payment (i.e. Basic Annual Rent minus Additional Grant).

As with the Basic Renewal scenario, co-ops would pay a base annual ground rent to the City for the value of the land. However, with the Additional Grant scenario, the co-op would receive additional grants based on the actual incomes of the households within the co-op.

With this scenario, the co-op would submit a table containing anonymized income information for each co-op member on an annual basis in advance of the ground rent calculation for the previous year, with members placed in \$5,000 income bands or tiers. The City would provide each co-op an annual grant proportional to the guaranteed level of affordability (30% of household income for MCGI members, with a demonstrated need supported by income testing).

An example of annual grants to co-ops by income band is as follows:<sup>19</sup>

**Example Annual Unit-Based Grants to a Co-op A by Income Band**

Income band	1-bed	2-bed	3-bed
\$0 to \$15,000	\$19,980	\$20,700	\$22,680
\$15,000 to \$20,000	\$19,980	\$20,700	\$22,680
\$20,000 to \$25,000	\$18,480	\$20,700	\$22,680
\$25,000 to \$30,000	\$16,980	\$20,040	\$22,680
\$30,000 to \$35,000	\$15,480	\$18,540	\$21,600
\$35,000 to \$40,000	\$13,980	\$17,040	\$20,100
\$40,000 to \$45,000	\$12,480	\$15,540	\$18,600
\$45,000 to \$50,000	\$10,980	\$14,040	\$17,100
\$50,000 to \$55,000	\$9,480	\$12,540	\$15,600
\$55,000 to \$60,000	\$7,980	\$11,040	\$14,100
\$60,000 to \$65,000	\$6,480	\$9,540	\$12,600
\$65,000 to \$70,000	\$4,980	\$8,040	\$11,100
\$70,000 to \$75,000	\$3,480	\$6,540	\$9,600
\$75,000 to \$80,000	\$1,980	\$5,040	\$8,100
\$80,000 to \$85,000	\$480	\$3,540	\$6,600
\$85,000 to \$90,000	\$0	\$2,040	\$5,100
\$90,000 to \$95,000	\$0	\$540	\$3,600
\$95,000 to \$100,000	\$0	\$0	\$2,100
\$100,000 to \$105,000	\$0	\$0	\$600
\$105,000+	\$0	\$0	\$0
Unit share of basic annual ground rent	\$9467	\$10248	\$15387

<sup>19</sup> Note that this table is based on a number of assumptions about the assumed housing charge discussed in scenario 2. The actual grant amounts for unit affordability would change based on the level of overall grant provided to the co-op, the operating costs and affordability assumptions (all discussed above). If the co-op is in receipt of senior government funding, this would be factored in when calculating grants so as to achieve a desired affordability outcome (e.g. 30% of household income).

As 30% of pre-tax income is the national standard for housing costs, the City would adjust the grant to allow the co-op to charge members at 30% of income. This grant would be deducted from the ground rent paid to the City. In some cases the unit grant would exceed the related ground rent, however, across the whole co-op the total grants would be capped at the annual ground rent - i.e. the net rent for the entire co-op could not drop below zero.

The City is exploring several options for administering grants, including allocation per unit type (i.e. number of bedrooms, as demonstrated in the table above), as well as grants provided based on household composition.

The annual grant under an Additional Grant Scenario:

- Ensures that all co-op members with a demonstrated need pay no more than 30% of their income on housing charges and
- Allows the co-op to update their income mix from year-year - i.e., the grant changes each year according to the tested incomes of members.

Co-op members will report their anonymized incomes at year end using a pre-established income table with set tiers. The City will use this anonymized information to calculate their discounted annual ground rent payment for the preceding year. Any other operating grants received such as CMHC grants would also be factored into the calculations to ensure the target level of affordability.

In terms of the Co-ops annual lease payment, as an example, a hypothetical co-op's base annual ground rent is \$900,000 in 2020. After submitting an anonymized table of member incomes, the City grants the co-op \$500,000 for the year, and the co-op pays \$400,000 (\$900,000 less \$500,000). A discussion of this approach is in Appendix B.

This scenario provides annual grants to target subsidies toward low to moderate income households and enables co-ops to adjust their income mix while remaining financially viable. This scenario comes with more structured ongoing reporting requirements such as a list of member charges, audited financial statements and anonymized income statements as the City requires assurance that subsidized units are being occupied by members with demonstrated need.

### **5.3 Scenario 3 - End of lease**

*While this is the City's least preferred scenario, there may be some cases where co-ops decide they do not want to renew their lease with the City.*

In the event that neither the Basic Renewal or Additional Grant scenario is acceptable for a particular co-op, and there is no current need for redevelopment, an end of lease scenario may be the only option.

There are a number of factors why a co-op may opt to dissolve or join with another co-op at the end of their lease term. For example, a co-op may be facing significant capital repairs or operating costs that exceed its financial capacity. While an end of lease scenario is the least favourable option, the City understands that some co-ops may seek this scenario and will commit to working with that co-op to protect the co-op members from displacement and deliver the best outcome for its members. Should the decision be made to end the lease, the City will initiate a request for proposals in order to identify a new operator to administer the building(s) and provide stability for existing residents. While the preference for a new operator will be to maintain co-operative housing, the process would be open to any qualified non-profit operator able to ensure the sustainable ongoing provision of required affordable housing.

#### **5.4 Scenario 4 - Redevelopment**

As co-op buildings age, they can face a growing need for major system and seismic upgrades, renovations and repairs. These improvements are important for ensuring a healthy, sustainable co-op building stock with adequate supply to meet the needs of Vancouver's current and future residents. In certain cases, where the capital repairs are significant, the City may determine it preferable to consider the redevelopment of the existing building.

Should the City make the determination that a site is a candidate for redevelopment, staff will work in partnership with that co-op, in an effort to increase the number of affordable co-op homes, and to minimize displacement and disruption to co-op members.

The decision to explore the redevelopment potential of a particular site will be driven by the City considering factors that include:

- If the existing building is reaching the end of its economic life and would require a significant upgrade and investment; and/or
- Whether the existing co-op members can be appropriately re-housed as part of the redevelopment.
- Whether the site has higher redevelopment potential (these are likely to be those where significant density increases have been identified through an approved Community Plan)

In these cases, the City would work with the co-op to determine the best approach to both redeveloping the site and protecting co-op members during and after the redevelopment.

## **6 Conclusion**

With a number of co-op housing lease terms coming to an end, the City recognizes the growing uncertainty for co-op members and is committed to working with co-ops to come to an agreement to either preserve the housing through a lease renewal or agree to redevelop the land to create more co-op homes in the city. Finalizing a reasonable implementation

methodology for the 2017 Co-op Lease Framework with the co-op housing sector is a high priority for the City.

Through the 2017 Co-op Framework, the City's primary objective is to renew and extend co-op leases in a way that maintains affordability for those co-op members within the Housing Vancouver policy context, acknowledges co-op self-governance, ensures public accountability for public housing investment, and maintains flexibility to maximize any development potential for creating more non-market housing on City land in the future.

Feedback received from this discussion paper will provide the City with information from which to finalize a lease implementation plan for Council consideration. Once a revised plan, including standardized terms and conditions, is approved, staff will be able to recommend lease renewals to Council who will make the final renewal decisions.

## Appendix A: Ground rent-setting methodology

In response to the Co-op feedback, the City is proposing to not use the standard market based appraisal of the land to set the base land rent (used in both the basic renewal and additional grant scenarios). Instead, the base land rent payable will be determined against income benchmarks for moderate and low income households in Vancouver.

The process of setting the base land rent follows a similar process to a market appraisal based on rental use, however different assumptions are made.

It is important to note that this is not an approach that values the land under an assumption of its highest economic use. Land may be significantly more valuable than being used at its current density and for rental versus condos. The land rent calculations discussed below are likely to be significantly below the market value of the land if offered for sale.

This approach represents a significant departure for the City and represents an attempt to recognize the growing disconnect between market land value and City incomes.

For our purposes there are three basic steps in determining the land rent.

### *Step 1: Valuing the land and building together*

First, the total value of the land and buildings together is determined. This is the economic value if the land and buildings were a fee simple interest, rather than a land lease.

In order to do this, typically the appraiser will undertake a three step process:

1. First, the appraiser calculates the potential annual revenue of the rental building at comparable market rents/housing charges.
2. Next, they calculate the site's potential net operating income (NOI) by subtracting operating expenses and vacancy from the previously calculated annual revenue.
3. Net operating income is divided by the capitalization rate to calculate the current value of the land and buildings together.

As way of example:

1. A 60 unit rental building (with typical market rents) would generate \$1.26 million per/year in revenue.
2. Assuming a 1% vacancy and \$425 per/unit/month in operating expenses, the NOI of the same 60 unit co-op would be \$941,400.



3. Assuming a capitalization rate of 3.50%, the land and building together is worth \$26.9 million.

Unit	# Units	Assumed <sup>20</sup> market rents
Studio	15	\$1,198
1-bed	15	\$1,411
2-bed	15	\$1,964
3-bed	15	\$2,427
Annual Revenue		\$1,260,000
Less 1% vacancy and \$425 per/unit/month in operating expenses		\$318,600
Net Operating Income (NOI)		\$941,400
Capitalisation rate		3.5%
Value (Land + Buildings)		\$26,897,143

However, in order to decouple the land rent from market rents, the City is proposing to instead use assumed revenues that are linked incomes in Vancouver and that 15% of units had revenues for low income households. This is consistent with the requirements of the 2018 Non-Market Housing Framework.

Instead, the new valuation approach would assume that the building is a 100% rental building with the following rental mix:

- 85% of units with hypothetical revenues set as 25% (or 30%) of the median income in Vancouver<sup>21</sup> for the related household compositions<sup>22</sup>.
- 15% of units with hypothetical revenues set at a further 50% discount<sup>23</sup> (i.e. 50% of 25% of the median income). This further reduction in hypothetical revenue reflects the requirement for the co-op to provide 15% of units to RGI units.

<sup>20</sup> For the purposes of this example CMHC median rents are being used. However, in a market appraisal actual market rents would be assumed.

<sup>21</sup> For example, in 2015 the median income in Vancouver was \$65,327. At 30% of income this translates to \$1,633 per/month.

<sup>22</sup> There are different median incomes for various unit types. For example: a 1-bed unit is assumed to be a family with no children; a 2-bed is a family with one child; and a 3-bed is a family with two children.

<sup>23</sup> This 50% reduction from the median is consistent with Statistics Canada Low Income Measure (LIM)

Unit	# Units	Reference Income	Example <sup>24</sup> monthly revenue
Studio	12	\$34,890	\$727
	3	\$17,445	\$363
1-bed	12	\$77,410	\$1,613
	3	\$38,705	\$806
2-bed	12	\$81,960	\$1,708
	3	\$40,980	\$854
3-bed	12	\$111,890	\$2,331
	3	\$55,945	\$1,166
Annual Revenue			\$1,033,380
Less 1% vacancy and \$425 per/unit/month in operating expenses			\$316,334 <sup>25</sup>
Net Operating Income (NOI)			\$717,046
Capitalisation rate			3.5%
Value (Land + Buildings)			\$20,487,034

This adjusted income mix builds a discount into the appraisal. Instead of setting ground rent according to comparable rents, this method links ground rent to adjusted median incomes in Vancouver. This method assumes that 85% of residents earn adjusted median incomes and assumes 15% of units are low-income.

As the example shows, changing the assumed revenues lowers the total value of the land and buildings. In the example case the value of the land and buildings drops from \$27m to \$20.5m.

In the case of a fee-simple rental building, the task would be complete. However, the purpose of these calculations is to determine the land rent that is payable by the co-op.

### ***Step 2: Land and building separately***

Having determined the value of the land and building together in step 1, the next task is to determine what share of the total value should be considered the land owner versus the building owner as in the case of land leases these are two different parties.

<sup>24</sup> The actual assumed revenues to be used are discussed in a question below. For the purposes of this example 25% of monthly median incomes for 85% of units and 25% of 50% of monthly median incomes are assumed.

<sup>25</sup> Note that this is slightly less than the previous example as the revenue on which the 1% vacancy rate is applied is lower in this example.

Typically, the proportion of net revenue that is attributed to the building is based on the depreciated value of the improvements. That is, as the building ages, the building owner (the lessee) receives a diminishing share of the revenue – the value of the building owner’s investment (the improvements) decreases over time. Counteracting this is that the as-new value of the improvements is estimated based on the current building costs.

At the end of the lease period, there is still value remaining in the building. The actual value will depend on the building type (e.g. there are different depreciation rates for concrete versus wooden buildings). Using indicative assumptions, the split between improvement owner and land owner is about 33% to the co-op and 66% to the City.

However, as discussed above, the existing lease agreements are based on the agreement that at the end of the lease the land returns to the building along with any improvements made by the lessee. This means that the reversionary interest of the landowner (the public) is based on the expectation of the residual value of the improvements becoming a public asset – rather than remaining with the co-op. This would suggest a significantly higher share of the revenue should be attributed to the landowner in the case of a renewal.

If the City takes ownership of the building, it would also be responsible for ongoing capital maintenance. An additional factor would need to be accounted for to allow for the future maintenance of the building: using an assumed capital repair cost of \$1,000 per unit per year, this would result in a 7% split for the co-op and a 93% share for the land owner.

Balancing these two approaches, the City is proposing a 25%/75% share of revenue – of the total land and building value, 25% belongs to the existing co-op and 75% to the City. This reflects both the equity invested by the co-op over past decades and the future capital needs to be borne by the City when considering the value of the revisionary interest.

Value (Land + Buildings)	\$20,487,034
Share of total attributable to the land	75%
Value (Land)	\$15,365,276

However, this has yet to answer the question of the land rent payable for the use of the land.

By way of comparison, if the land was valued based on its “highest and best use,” the value would likely be significantly higher. For example, if this co-op was assumed to have an average of 800 square feet attributed to each unit (average unit sizes would

be smaller to accommodate common space) then the total built size would be 48,000 square feet. Using a rough market value of \$600 per buildable square foot (a typical Westside of Vancouver benchmark) then the value of the land at its current built form would be \$28.8m.

The land value of \$15.3m calculated above using the revised proposed assumptions and methodology is 53% lower than this amount.

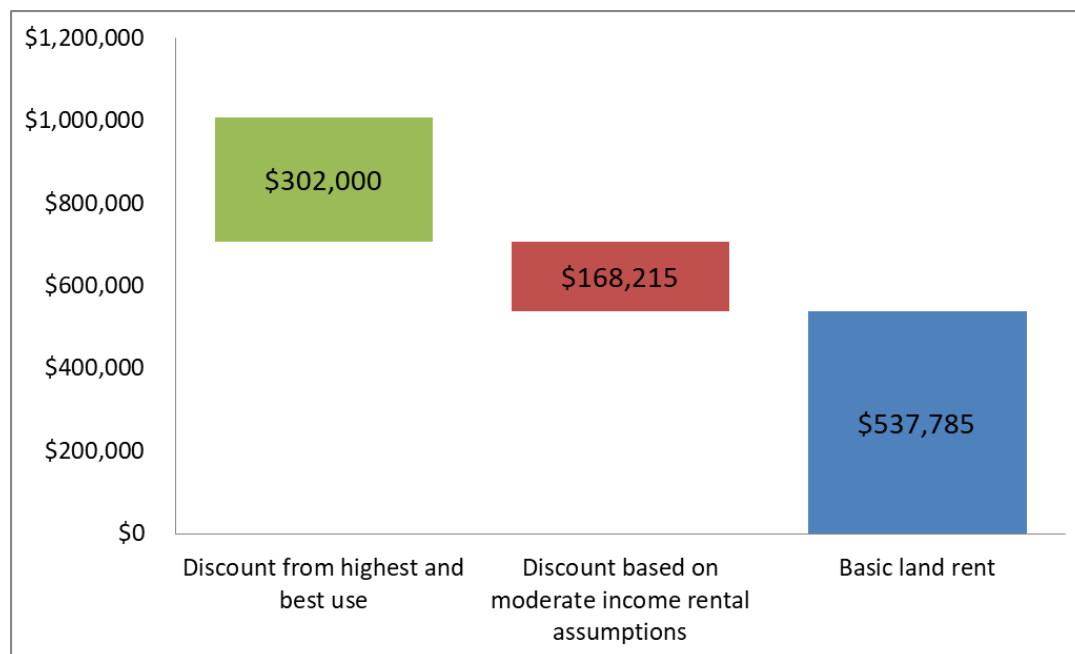
In addition, if additional density was zoned on the site the land value would be proportionately higher. For the purpose of determining the land rent payable this potential additional density is not being considered.

### ***Step 3: Turning a land value into an annual rent***

Once value of the land under the above assumptions has been calculated, the annual land rent is then calculated by multiplying the land value by the capitalisation rate. In this example, a capitalisation rate of 3.5% has been used.

Value (Land)	\$15,365,276
Capitalisation rate	3.5%
<b>Annual ground rent</b>	<b>\$537,785</b>

By way of comparison, using the “assumed market rents” in step one, the annual ground rent would be \$706,000 - therefore, the approach above results in a ground rent reduction of 23.8%. If we used the highest and best land value discussed in Step 2, the annual ground rent would have been \$1,008,000.



To be clear, this process is only being used to set the annual base ground rent. This would be the amount payable under the Basic Renewal scenario. It would also be the base amount under the Additional Grant scenario. Should a co-op have a membership income mix significantly different than that assumed in this process (e.g. higher proportion of households below median incomes or the average income of low income households below 50% of median incomes e.g. on shelter), then it is likely that the Additional Grant scenario would need to be used to cover the difference (by way of grant) between assumed and actual revenue.

## Questions arising in the assumptions used

The land rent setting process outlined above rests on a number of key assumptions. Some of the most important assumptions are discussed below.

***Q: How should expected revenue be determined? Using market rents, 30% of median income, 25% of median income, or some other standard?***

To set the value of the land, an appraiser calculates potential revenue using expected housing charges per unit. In a standard appraisal, this would be the housing charge that the unit could be charged on the open market.

However, the City is proposing to use expected housing charges that are not connected to the market value of the units. Instead, the City is proposing assuming housing charges that are connected to incomes in Vancouver. This has the effect of reducing the ground rent (therefore is a grant) but ensuring that the units are affordable to moderate income households as defined in Housing Vancouver.

Median incomes in Vancouver by household size are:

Household size	Median before-tax income	Median before-tax income (monthly)
1 person	\$34,890	\$2,908
2 persons	\$77,410	\$6,451
3 persons	\$81,960	\$6,830
4 persons	\$111,890	\$9,324
5 persons	\$110,330	\$9,194

Annual income can then be converted into monthly housing charges by dividing by 12 and then multiplying by a proportion of income. The two proportions of income considered are no more than 30% of income, which is the national standard for housing affordability, and 25% of income which would enhance affordability, recognizing that housing costs also include utilities, insurance, and other housing related expenses.



Unit size	Median before-tax income (monthly)	Monthly at @ 25% of median income	Monthly at @ 30% of median income
Bachelor	\$2,908	\$727	\$872
1 bedroom	\$6,451	\$1,613	\$1,935
2 bedroom	\$6,830	\$1,708	\$2,049
3 bedroom	\$9,324	\$2,331	\$2,797
4 bedroom <sup>26</sup>	\$9,324	\$2,331	\$2,797

At 30% of median income, the assumed housing charge revenue for the unit is closer to market. Actual market value will depend on the actual unit.

In both the 25% and 30% of median income scenarios, these housing charges would only be for those households which were above the median income (based on unit size). Grants for deeper affordability above these levels are discussed in the next section. Since half of the population is above the median, there would be a large number of households who were paying less than this assumed measure.

City staff are recommending that a measure using median incomes rather than market rents is justified. This reflects the objective of the Housing Vancouver Strategy to focus on low and moderate income households.

***Q: Considering the information above, should the appraiser assume that 15% of units are reserved for low-income members, recognizing the 2017 Framework's requirement for a minimum of 15% of units to be RGI/MCGI?***

Another key assumption for assessing the revenue is the mix of units between standard and deeply affordable homes.

A market appraisal would assume that all the units in the building would be operating as market units. However, the intention of the City is that as this is City land, affordability should be maintained and ideally improved, in line with the need identified in Housing Vancouver.

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<sup>26</sup> Applying median incomes to unit sizes has the result of 4 bedroom charges being below those of 3 bedroom units - a situation that does not occur in the market. In this scenario, the charge is set to reference the greater of either: a) 3 bedroom unit charges or b) the median income of a family with three children.

The 2017 Framework provided that a minimum of 15% of units should be for lower income households and have rent geared to income (RGI), now referred to as member charge geared to income (MCGI).

It is therefore proposed that 15% of each type of unit in the building is assumed to be generating less revenue than the standard units. This results in an additional reduction in the ground rent and thereby a larger grant to the co-op. The size of the grant will be determined by the assumption of the rent for those units.

Should a co-op have more than 15% of units who require deeper subsidies, this would be addressed by the Additional Grant scenario described in Section 5.2.

***Q: What standard should be used to determine expected revenue from low-income units? 30% of low-income measure, 25% of low-income measure, or some other standard?***

As with the assumption for the standard rents for the ground rent model, the housing charges for the deeply affordable units (Housing Charge Geared to Income or HCGI) can also be set. In this proposed approach, rather than assessing actual incomes in the co-op these would be set against a low income measure.

The City is proposing to use an approach adopted from Statistics Canada's Low Income Measure before tax. This is described as 50% of the median income.

Consistent with the above approach, 15% of the units would be assumed to generate the following revenues (on average).

Unit size	50% of Median before-tax income	Monthly @ 25% of income	Monthly @ 30% of income
Bachelor	\$17,445	\$363	\$436
1 bedroom	\$38,705	\$806	\$968
2 bedroom	\$40,980	\$854	\$1,025
3 bedroom	\$55,945	\$1,166	\$1,399
4 bedroom	\$55,945	\$1,166	\$1,399

***Q: What allowance should be reserved for operating cost***

After revenues have been assumed, the process assumes an allowance for operating costs.

The City is proposing a standard assumption of \$425 per unit per month for operating costs. This is higher than equivalent condo buildings as it recognises the operating costs

associated with operating internal spaces as well as common spaces. It is, however, lower than many non-profit operators who also provide on-site support services to residents.

A higher assumed cost would result in a larger grant from the City. A lower assumed operating cost results in a smaller grant.

Given the structure of this scenario, should a co-op have actual operating expenses that were below this benchmark, the savings could be passed onto members in the form of lower housing charges. Similarly, if actual costs were higher, the co-op would need to raise housing charges to above the assumed benchmarks. This approach also preserves the co-ops autonomy and provides direct recognition to co-ops who are able to reduce their operating costs through “sweat equity”.

***Q: How should the revenue share between the City and co-op be set?***

The final assumption in setting the lease costs is the share of the revenue after expenses of the building that is attributable to the building owner and the share attributable to the land owner (i.e. the ground rent).

## Appendix B: Additional grant package

The City is proposing to further support co-ops with additional grants by way of discounts to the annual ground lease payments where a higher proportion of co-op members have lower household incomes than the prescribed minimum (15%).

These annual grants would be calculated using independently audited income information from the lower income households in the co-op. The proposal is that this process would be repeated annually. Feedback regarding this process is sought as part of this consultation.

The first step in the process is that the co-op members who have household incomes lower than moderate incomes would be able to provide income information (in the form of a Canada Revenue Agency Notice of Assessment to the co-op's independent auditor. The auditor would verify the income(s) of each household and populate a matrix of incomes to unit types.

For example, if the hypothetical co-op had 30% of its members in the lower part of the income distribution the table produced may look like the below.

Income band	Studio	1-bed	2-bed	3-bed
\$0 to \$15,000				
\$15,000 to \$20,000	1		1	
\$20,000 to \$25,000		1		
\$25,000 to \$30,000			1	1
\$30,000 to \$35,000	2		1	1
\$35,000 to \$40,000				
\$40,000 to \$45,000		1		
\$45,000 to \$50,000	1		1	2
\$50,000 to \$55,000				
\$55,000 to \$60,000		1		
\$60,000 to \$65,000	1		1	
\$65,000 to \$70,000				
\$70,000 to \$75,000		1		
\$75,000 to \$80,000				
\$80,000 to \$85,000				
\$85,000 to \$90,000				
\$90,000 to \$95,000				
\$95,000 to \$100,000				
\$100,000 to \$105,000				

\$105,000+ / no information provided	10	11	10	11
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In summary:

	Studio	1-bed	2-bed	3-bed	Total
Subsidized units	5	4	5	4	18
Non-subsidised units	10	11	10	11	42
Total	15	15	15	15	60
Proportion subsidized	33%	27%	33%	27%	30%

These tables would be provided to the City. However, the underlying information about particular household's income would not be provided. This would ensure the confidentiality of the identities of individuals and their incomes. Instead the City would rely on a special procedure of the independent auditor to verify the tables.

As part of the long term agreement between the City and the co-op, a table would be produced by the City which would indicate the eligible grants available to the co-op for that year.<sup>27</sup> In this hypothetical example the table would look like this:

Income band	Studio	1-bed	2-bed	3-bed
\$0 to \$15,000	\$18,420	\$19,980	\$20,700	\$22,680
\$15,000 to \$20,000	\$18,420	\$19,980	\$20,700	\$22,680
\$20,000 to \$25,000	\$16,420	\$18,480	\$20,700	\$22,680
\$25,000 to \$30,000	\$14,200	\$16,980	\$20,040	\$22,680
\$30,000 to \$35,000	\$12,420	\$15,480	\$18,540	\$21,600
\$35,000 to \$40,000	\$10,920	\$13,980	\$17,040	\$20,100
\$40,000 to \$45,000	\$9,420	\$12,480	\$15,540	\$18,600
\$45,000 to \$50,000	\$7,920	\$10,980	\$14,040	\$17,100
\$50,000 to \$55,000	\$6,420	\$9,480	\$12,540	\$15,600
\$55,000 to \$60,000	\$4,920	\$7,980	\$11,040	\$14,100
\$60,000 to \$65,000	\$3,420	\$6,480	\$9,540	\$12,600

<sup>27</sup> The City is exploring an alternative grant distribution method, which is based on household composition. In this approach, the co-op would provide audited information about household composition to the City, and grants would consequently be administered based on the number of occupants in a particular unit. This would have some advantages with respect to achievement of policy aims but may come at additional administrative cost.

\$65,000 to \$70,000	\$1,920	\$4,980	\$8,040	\$11,100
\$70,000 to \$75,000	\$420	\$3,480	\$6,540	\$9,600
\$75,000 to \$80,000	\$0	\$1,980	\$5,040	\$8,100
\$80,000 to \$85,000	\$0	\$480	\$3,540	\$6,600
\$85,000 to \$90,000	\$0	\$0	\$2,040	\$5,100
\$90,000 to \$95,000	\$0	\$0	\$540	\$3,600
\$95,000 to \$100,000	\$0	\$0	\$0	\$2,100
\$100,000 to \$105,000	\$0	\$0	\$0	\$600

The total grant to be applied would be the sum of the grant amounts for each eligible unit. In this case the grants would be:

Studio	1-bed	2-bed	3-bed
1 @ \$18,420	1 @ \$18,480	1 @ \$20,700	1 @ \$22,680
2 @ \$12,420	1 @ \$12,480	1 @ \$20,040	1 @ \$21,600
1 @ \$7,920	1 @ \$7,980	1 @ \$18,,540	2 @ \$17,100
1 @ \$3,420	1 @ \$3,480	1 @ \$14040	
		1 @ \$9,540	

The total applicable grant would be the sum off all of these grants

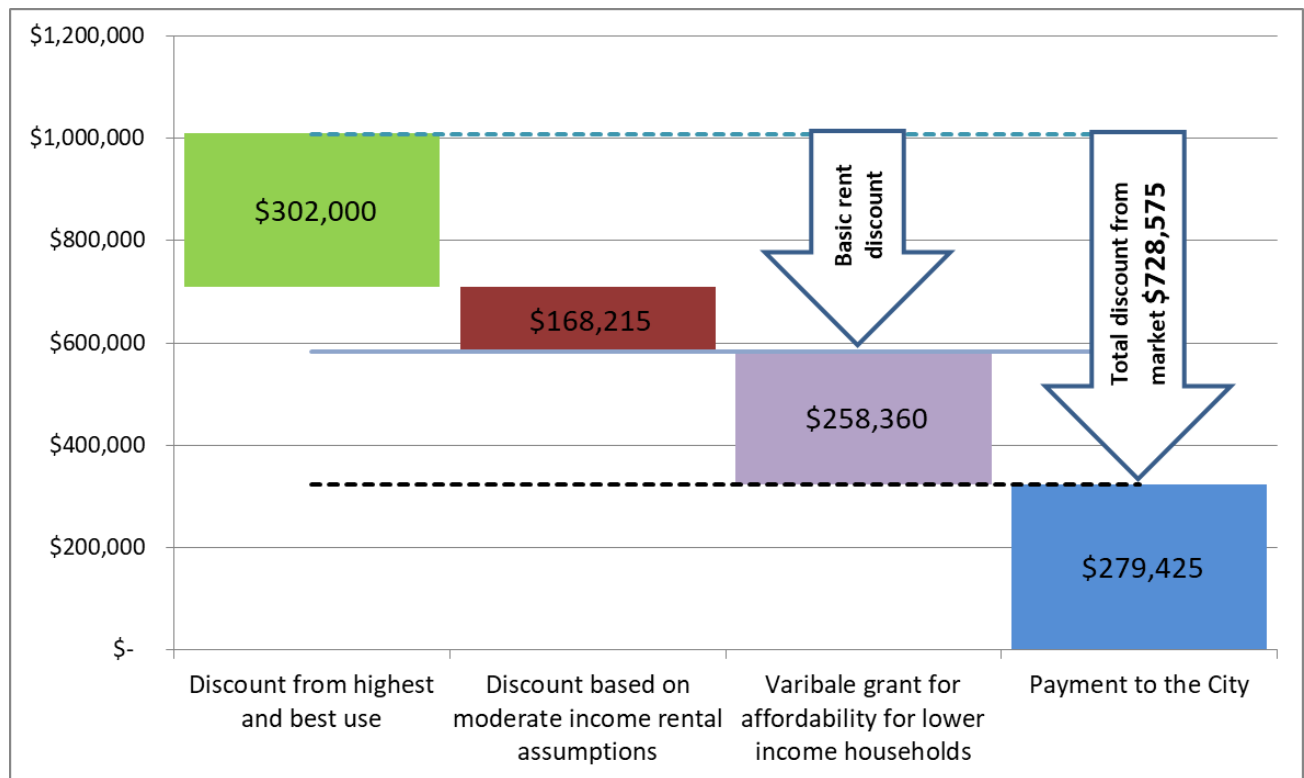
Studio	1-bed	2-bed	3-bed
\$ 54,600	\$ 42,420	\$ 82,860	\$ 78,480
<b>Total</b>			<b>\$ 258,360</b>

In the basic renewal approach, the basic ground rent for this co-op was calculated as \$582,424. In this case, with this profile of incomes, the net payment to the City would be:

\$537,785 (Basic rent)  
 Minus \$258,360 (Affordability grant)  
**\$279,425** (Payment to the City after grant for affordability)

In the following year, if the income distribution of the co-op members changed, then the grant amount would also change - up to a maximum grant to the value of the basic rent.

The total discounts and grants in this example (from appendix A and the affordability grant in appendix B) can be seen the chart below.



## Transition Grant

In addition to this affordability grant the City is also proposing an additional “transition” grant that would fund some of the shortfall between the new breakeven housing charges for members and the current housing charges. The concept is that this transition grant would taper off over time as members accommodated the higher breakeven housing charges. This transition grant would slow the annual increase of housing charges over a defined period.

The transition grant would be negotiated separately based on the co-ops actual needs and the total grant would be capped at the annual basic rent. The transition grant would specifically apply to those units who were not otherwise subsidized.

As an example, if the transition grant to 42 subsidized units were to taper off within seven years, the grant package might look like:

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Per unit	\$ 10,500	\$ 9,000	\$ 7,500	\$ 6,000	\$ 4,500	\$ 3,000	\$ 1,500
Co-op total	\$ 441,000	\$ 378,000	\$ 315,000	\$ 252,000	\$ 189,000	\$ 126,000	\$ 63,000

However, as the total grants (affordability and transition) are capped at the basic rent the actual grants would be limited. To expand on the example above, if the basic rent in year 1

was \$537,785 and the affordability grant was \$258,360, then the maximum transition grant would be \$279,425- rather than \$441,000.

This would allow the co-op and its members time to adjust and plan for future land rent costs.

In table form, over the first eight years, the grants and basic rent could look something like:

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
Basic ground rent 2% annual inflation	\$537,785	\$548,541	\$559,512	\$570,702	\$582,116	\$593,758	\$605,633	\$617,746
Affordability grant	\$258,360	\$283,420	\$243,940	\$282,360	\$299,440	\$283,780	\$278,680	\$253,600
Max Transition Grant	\$441,000	\$378,000	\$315,000	\$252,000	\$189,000	\$126,000	\$63,000	\$0
Actual Total Grant	\$537,785	\$548,541	\$558,940	\$534,360	\$488,440	\$409,780	\$341,680	\$253,600
Net payment to the City	\$0	\$0	\$572	\$36,342	\$93,676	\$183,978	\$263,953	\$364,146

This table shows the basic rent increasing with inflation (2%) over the period, and the affordability grant fluctuating based on the actual reported incomes in the co-op. It then shows the maximum transition grant tapering off. The actual total grants are capped and do not exceed the basic ground rents. Finally, the table shows that in the first two years of the agreement the net payment to the City is zero, and that this amount ramps up by year 8.

This example shows a total grant of \$3.7m made up of \$2.2m grant for affordability to those with demonstrated need and \$1.5m of grants provided to the co-op to support household with higher incomes (above median incomes) as part of a transition package.

Note that all of the numbers used in these appendices are hypothetical and do not represent actual amounts, grants or payments in any co-op. Grants are subject to Council approval and may vary based on the support provided by senior levels of government.



## Appendix C: Draft template offer to lease

BETWEEN: CITY OF VANCOUVER  
(the "Landlord")

AND: [CO-OP NAME]  
(the "Lessee")

The Lessee offers to lease the Lands situate in the City of Vancouver, in the Province of British Columbia, having a civic address of [CO-OP ADDRESS], Vancouver, British Columbia, and legally described as:

Parcel Identifiers: [PIDS] Lots  
[LOTS]  
Block [BLOCK]  
District Lot [DISTRICT LOT #] Plan  
[PLAN #]  
(the "Lands")

upon the terms and conditions set out in this Offer to Lease and the Landlord's standard form of lease (the "Standard Lease"). The lease resulting from this Offer to Lease (the "Lease") shall be in the form of the Standard Lease completed in accordance with the terms of this Offer to Lease, and informed by the additional lease terms attached as Schedule "A".

### **BASIC TERMS**

The following basic terms are part of and are in certain instances referred to in subsequent provisions of this Offer to Lease and shall be incorporated in the Lease as applicable:

#### 1. Lessee Information

Lessee Name: [CO-OP NAME]  
Address: [CO-OP ADDRESS]  
Individual to Contact: [CONTACT NAME]

#### 2. Term

The term of the Lease (the "Term") will be [TERM] years from the date of execution of the Lease by both the Landlord and the Lessee (the "Lease Commencement Date"),

#### 3. Rent

The basic rent will be **[RENT]**. This amount will increase by 2% per annum.

This basic rent will be reduced based upon the application of certain grants to a minimum of \$0 per annum. Attached as Appendix “C” to this Offer to Lease is a sample Annual Rent Schedule.

#### City of Vancouver Unit Affordability Grant

These annual grants would be calculated using independently audited income information from the lower income households in the co-op. The proposal is that this process would be repeated annually.

The co-op will provide a reference breakeven housing charge and details of other available funding (e.g. FCHI-2). The City will then provide a matrix of grant amounts by income bracket and unit size.

#### City of Vancouver Transition Grant

An additional grant shall be provided to the co-op for the first seven (7) years of the agreement for the purpose of assisting members in transitioning to the new breakeven Standard Housing Charges at Lease Commencement Date. This shall be applicable for households exceeding median incomes (based on household composition) or without declared income information or in the case where the transition grant would exceed the size of the unit affordability grant.

#### 4. Affordability Levels/Occupant Mix

- (a) **A minimum of 15%** of the units will be allocated to low income members where the minimum Standard Housing Charge would have been greater than 30% of their monthly household income; these will be referred to as the “subsidized units.” Monthly housing charges for the subsidized units will be set at no more than 30% of their monthly household income;
- (b) each new household will provide a verified statement of income prior to acceptance by the Lessee. The annual household income will be no more than the greater of five times the CMHC Average Rental Market Rent for the area, or the low and moderate income limits as determined by BC Housing from time to time based on data provided by Statistics Canada.

#### 5. Taxes

The Lessee shall pay all real property taxes (including local improvement rates) levied against the demised premises by any municipal parliamentary, legislative, regional, school or other authority during the term of the lease or an amount in lieu of such real property taxes so long as the Landlord is exempt therefrom.

6. Comprehensive General Liability Insurance

The Commercial general liability insurance limit shall not be less than \$5,000,000.00.

7. Definitions

Capitalized terms used in this Offer to Lease but not specifically defined herein have the meanings ascribed thereto in the Standard Lease.

8. Conditions Precedent

This Offer to Lease is conditional upon:

- (a) Vancouver City Council approving the terms of this Offer to Lease and the Lease;
- (b) the Lessee has provided a letter indicating the membership of the Lessee has approved entry into this Offer to Lease;
- (c) the Lessee has provided all of the documents listed in Schedule A under “7. Annual Reporting Requirements” and “8. Five Year Reporting Requirements”, and the information contained herein has been approved by the Landlord; and
- (d) the Lessee and the Landlord will jointly complete an evaluation against the Evaluation Criteria set out in Appendix A of the “Sustaining Affordable Co-op Housing on City Land” Report dated January 30, 2017;

The conditions precedent set out above are for the mutual benefit of the Landlord and the Lessee and none of them may be waived. If the aforementioned conditions precedent are not satisfied on or before the dates applicable to each condition, then this Offer to Lease will have no force and effect.

the Lessee will have reviewed and approved the Landlord’s standard form of Lease. This condition precedent is for the sole benefit of the Lessee and may be waived by the Lessee is its sole discretion. If this condition precedent is not waived or satisfied on or before the date specified herein, then this Offer to Lease will have no force and effect.

9. Acceptance

This Offer to Lease is open for acceptance by the Landlord until 3:00 p.m. Vancouver Local Time on [DATE] after which date, if not accepted, it shall become null and void.

Offered by the Lessee on \_\_\_\_\_, 2020.

[CO-OP LEGAL NAME]

Per:

\_\_\_\_\_

Authorized Signatory

SIGNED, SEALED AND DELIVERED in

the presence of:

\_\_\_\_\_

Witness

\_\_\_\_\_

Address

\_\_\_\_\_

Occupation

The Landlord has accepted this Offer to Lease at Vancouver on \_\_\_\_\_ 2020.

**CITY OF VANCOUVER**

Per: \_\_\_\_\_

\_\_\_\_\_  
Authorized Signatory

## SCHEDULE A - TERMS FOR LEASE AGREEMENT

The following terms will form the basis for a lease agreement (the "Lease") between the City of Vancouver hereinafter referred to as the Landlord and [CO-OP NAME] hereinafter referred to as the Lessee. It is intended that the Lease replace Lease No. [LEASE #] which will be surrendered by the Lessee and released from title concurrently with the registration of the Lease.

### Form of Lease

The Co-op will enter into the standard City of Vancouver Co-op Lease for the Lands and the buildings that are on or are to be constructed thereon (the "Buildings") with the following terms, as may be revised, included within the Lease.

#### 1. Replacement and Operating Reserves

- (a) Replacement Reserve. The Lessee will create a reserve (the "Replacement Reserve") out of the operating income for capital replacements to the Lands and the Buildings and their systems, equipment and surfaces, based on the items and life in years as set out in the Capital Asset Plan (the "Capital Asset Plan"), and subject to the Replacement Reserve Study, the following will apply:
  - (i) every five years the Lessee will provide a Capital Asset Plan including a funding plan to the Landlord for its approval. The funding plan will specify the amounts required by the Co-op and other funding sources. The Lessee shall deposit funds into its replacement reserve in line with the approved replacement reserve funding plan;
  - (ii) the Lessee must use the Replacement Reserve for capital replacements to the Lands and the Buildings and their systems, equipment and surfaces in accordance with the Capital Asset Plan; and
  - (iii) if the option to renew is not exercised, or if the lease is not renewed any balances remaining in the Replacement Reserve will be invested in affordable housing as the Landlord and the Lessee mutually agree.
- (b) Operating Reserve. The Lessee may use any surplus funds created in a fiscal year to fund an operating reserve (the "Operating Reserve"). The Operating Reserve may be funded to a maximum amount equivalent to the annual operating budget for that year.

## 2. Financial Surpluses

If after allocating current year revenues to operating costs, financing costs and contributions to reserves in accordance with the annual operating budget there are excess funds at the fiscal year end, the Lessee will use those funds to:

- (a) supplement the Replacement Reserve or make capital replacements in accordance with this Lease, provided that requirements under paragraph 5. “Applications for Senior Government Funding” below have been satisfied; and
- (b) fund an Operating Reserve, to a maximum amount equivalent to the annual operating budget for that year.

## 3. Over-housing Policy

The Lessee will maintain and enforce a policy to ensure that:

- (a) households are in a residential unit appropriate to the household’s size. Appropriate size is no fewer than one person per bedroom and no more than two people per bedroom;
- (b) multi-bedroom units are be prioritized for families with dependents; and
- (c) households will relocate to an appropriately sized unit within the Buildings within 90 days of availability of that unit.

## 4. Co-ordinated Access System

The Lessee will make reasonable efforts together with other housing co- operatives and sector organizations to work towards a coordinated access system for applicants recognizing individual housing needs.

## 5. Applications for Senior Government Funding

The Lessee recognizes that the capital repairs and maintenance of the Buildings are an obligation of the Lessee under the Lease and not that of the Landlord.

For any major capital repair and maintenance work the Lessee will demonstrate to the Landlord that it has made all reasonable efforts to apply to the Provincial and Federal governments for all applicable programs and funding.

## 6. Income Testing for Subsidized Units.

The Lessee will provide independent verification that all Subsidized Units were appropriately allocated and that related housing charges were accurately applied ensuring that the household is paying no more than 30% of their gross income on their housing charge. The independent verification will be completed as part of the annual financial statement audit.

7. Annual Reporting Requirements

The following documentation will be required by the Landlord on an annual basis commencing on the first anniversary of the Lease Commencement Date:

- (d) *Rent Report*. A report for all subsidized units, but without any names, unit numbers or any other personal information (the “Rent Report”), that sets out:
  - (i) the Housing Charges (the “Housing Charges”);
  - (ii) the Household Incomes (the “Household Incomes”) for subsidized units, supported with documentation which is then independently verified; and
  - (iii) any other information the Landlord may reasonably require from the Lessee to determine the Lessee’s compliance with the terms of the lease.
- (e) *Over-housing Policy Report*. A report for all units that sets out for the most recent year (the “Over-housing Policy Report”):
  - (i) the number and types of units which contain more fewer than one person per bedroom (“over-housed” units);
  - (ii) the number and types of units which contain more than two persons per bedroom (“under-housed” units); and
  - (iii) the unit turnover and how those units were allocated.
- (f) *Financial Statements*. The Financial Statements for the Co-op with:
  - (i) an independent auditor’s report and opinion which confirm the Financial Statements were prepared in accordance with the Canadian Generally Accepted Accounting Principles.

8. Five Year Reporting Requirements

The following documentation will be required by the Landlord prior to the Lease Commencement Date and updated every five (5) years subsequently:

- (g) *Building Condition Assessment*. A building condition assessment, prepared by a professional engineer, architect or similarly qualified professional with (the “Building Condition Assessment”):
  - (i) photographic documentation;
  - (ii) providing estimated costs; and
  - (iii) scheduling times connected with renewal, repair and code compliance issues for the Lands and Buildings.
- (h) *Capital Asset Plan*. A capital asset plan that sets out the maintenance, repair, and replacement standards and practices required to preserve the capital components of the Lands and Buildings over a five (5) year period, including, without limitation, in respect of the following:
  - (i) major maintenance or replacement of the structure, including the roof, roof membrane, bearing walls, foundations and floors of the Building, and seismic upgrades;
  - (ii) major repair or replacement of the exterior of the Building;
  - (iii) life cycle replacement of the fire alarm and safety systems;
  - (iv) life cycle replacement of the heating, hot water, plumbing, mechanical, electrical, sanitary and storm drainage systems (building systems);
  - (v) life cycle replacement of elevators; and
  - (vi) all equipment, materials and supplies required to perform any of the foregoing.

The Capital Asset Plan shall additionally address any material items described in the most recent Building Condition Assessment and any additional issues identified by the Lessee or its advisors regarding the condition of the Buildings. The Lessee shall implement the recapitalization/life cycle replacement of building systems, including equipment, structures, surfaces or fixtures installed in the Lands and Buildings, in accordance with the Capital Asset Plan



approved by the Landlord.

The Capital Asset Plan will also include a Replacement Reserve Study.

## SCHEDULE B - EVALUATION CRITERIA

The following Evaluation Criteria was included in Appendix A of the “Sustaining Affordable Co-op Housing on City Land” Council Report dated January 30, 2017

Goal	Evaluation criteria	Description
<b>Protecting the Affordable Housing Stock</b>	Level of affordability	<ul style="list-style-type: none"> <li>• How do Co-op housing charges compare to median incomes and market rents in the area?</li> <li>• What are the incomes of existing residents?</li> <li>• What percentage of their income is each household spending on housing charges?</li> </ul>
	Unit occupancy	<ul style="list-style-type: none"> <li>• Do any residents need to move out of the building because they need support?</li> <li>• Do any residents need to move within the building: to a smaller unit with fewer bedrooms, because they need accessible housing, or to have their unit adapted?</li> <li>• What is the rate of under-occupancy/over-housing?</li> </ul>
<b>Physical Building Conditions</b>	Building condition assessment	<ul style="list-style-type: none"> <li>• What is the condition of the building?</li> <li>• What is the expected cost and schedule for recommended maintenance and repairs?</li> <li>• How will maintenance and repairs make the building more livable and environmentally friendly?</li> </ul>
<b>Stable Governance Structure</b>	Financial sustainability * and ability to maintain/improve Affordability	<ul style="list-style-type: none"> <li>• What is the project’s financial position today?</li> <li>• How will it change after the operating agreement ends?</li> <li>• Does the Co-op have adequate borrowing capacity and funds in reserve to ensure its sustainability?</li> </ul>
	Financial considerations for the City	<ul style="list-style-type: none"> <li>• What is the ground rent available for the land after it meets its affordability goals?</li> </ul>

\*A project is considered financially sustainable if the income, including any secured long-term rent subsidies from senior government, can cover mortgage payments, operating costs and contributions to applicable reserves (capital replacement, operating contingency, etc.) without any additional subsidy.

# APPENDIX “C” - Sample Annual Rent Schedule

**Note: the amounts set out are for discussion purposes only**

The grant calculations are indicative only and make several important assumptions about the income mix of households, the allocation of units to those households, the operating and capital costs of the co-op and the levels of senior government support. The actual amounts of these grants are subject to calculation once these assumptions have been refined by the co-op.

	Base Ground Rent (BGR)	COV Affordability Grant (AG)	COV Transition Grant (TG)	Annual Net Ground Rent (BGR –AG – TG = Net Ground Rent)
Year 1				
Year 2				
Year 3				
Year 4				
Year 5				
Year 6				
Year 7				
Year 8				
Year 9				
Year 10				
Year 11				
Year 12				
Year 13				
Year 14				
Year 15				
Year 16				
Year 17				
Year 18				
Year 19				
Year 20				
Year 21				
Year 22				
Year 23				
Year 24				
Year 25				
Year 26				
Year 27				
Year 28				
Year 29				
Year 30				

#### Appendix 4 - Income matrix

<b>Income matrix</b>		<b>Studio</b>	<b>1-bed</b>	<b>2-bed</b>	<b>3-bed</b>
Below \$15,000					
\$ 15,000	\$ 20,000				
\$ 20,000	\$ 25,000				
\$ 25,000	\$ 30,000				
\$ 30,000	\$ 35,000				
\$ 35,000	\$ 40,000				
\$ 40,000	\$ 45,000				
\$ 45,000	\$ 50,000				
\$ 50,000	\$ 55,000				
\$ 55,000	\$ 60,000				
\$ 60,000	\$ 65,000				
\$ 65,000	\$ 70,000				
\$ 70,000	\$ 75,000				
\$ 75,000	\$ 80,000				
\$ 80,000	\$ 85,000				
\$ 85,000	\$ 90,000				
\$ 90,000	\$ 95,000				
\$ 95,000	\$ 100,000				
\$ 100,000	\$ 105,000				
Above \$105,000 or not declared					