CITY OF VANCOUVER

REPORT

Report Date:	June 14, 2021
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Meeting Date:	July 7, 2021

TO: Standing Committee on Policy and Strategic Priorities

FROM: General Manager of Arts, Culture and Community Services

SUBJECT: Methodology for Co-operative Housing Lease Renewals

RECOMMENDATION

A. THAT, pursuant to *Vancouver Charter* section 206(1)(j), Council approve that housing co-operatives operating on City land may be deemed organizations contributing to the welfare of the City.

B. THAT Council approve the following policies that will guide or provide a framework for the negotiation of co-op lease renewals:

i) That any land rent subsidies made to co-ops for households earning above HILs as part of a lease renewal (a) be based on a rental rate benchmark that is the lesser of 15% below average area rents or 25% of median Vancouver household income and (b) will require regular income reporting, as more specifically described in the report.

ii) That any land rent subsidies made to co-op for households earning HILs or less as part of the lease renewal (a) be based on a rental rate benchmark that is equivalent to 30% of the average household income of those units and (b) will require annual income testing, as more specifically described in the report;

iii) That any additional land rent subsidies to support a time-limited transition from a co-op's existing housing charges will require income testing at the commencement of the future lease to support the additional subsidy as part of a lease renewal, as more specifically described in the report.

(collectively “the Methodology”).

C. THAT Council approve the proposed Co-op Lease Renewal Methodology as a framework to guide future lease renewal negotiations as described in this report, including as set out in Appendices A and B.

D. THAT subject to approval of Recommendations A, B, and C, Council authorize staff to negotiate future lease renewal(s) with existing Housing Co-operatives on City land which agreements shall be brought back to Council for its consideration and approval.

E. THAT Council support the Co-operative Housing Federation of British Columbia (CHF BC) to advocate for Property Transfer Tax offset or waiver opportunities with the Province of British Columbia.

F. THAT Recommendations A, B, C, D, and E be adopted on the following conditions:

i) THAT the passage of the above resolutions creates no legal rights for a lessee or any other person, or obligation on the part of the City and any expenditure of funds or incurring of costs in relation thereto is at the risk of the person making the expenditure or incurring the cost; and

ii) THAT the City and all its officials shall not in any way be limited or restricted in the exercise of their authority or discretion, regardless of when they are called upon to exercise such authority or discretion.

All of the above is subject to reaching binding agreements with each co-op on individual lease renewals to Council satisfaction.

REPORT SUMMARY

This report outlines recommendations for a methodology for renewing co-operative housing leases, including the valuation of annual land rent for these leases, further to the Council-approved *2017 Options for Sustaining Affordable Co-op Housing and Key Terms and Conditions for ground lease extension or modification agreements for Sustaining Affordable Co-op Housing on City Land* (the “2017 Framework”)[1]. The proposed methodology outlined in this report seeks to progress the City’s housing preservation and growth objectives through renewal of leases of City land to co-operative (“Co-ops”) housing providers.

The proposed methodology:

- Focuses on preserving and growing affordable housing, supporting mixed-income communities, ensuring long-term security of tenure, avoiding displacement of existing members, and ensuring Co-op operations are sustainable and buildings are well maintained.
- Ensures that all Co-op households pay no more than 30% of their income in housing charges, and;
- Prioritizes and targets rent subsidies to households in need which is supported by income testing and/or reporting to ensure equity and accountability.

[1] https://council.vancouver.ca/20170208/documents/cfsc5.pdf

COUNCIL AUTHORITY/PREVIOUS DECISIONS

In 2005, Council authorized the Director of Legal Services, on request from the Directors of the Housing Centre and Real Estate Services, to extend the leases for non-market housing buildings with 40 or 41 year terms by 20 years (RTS 4872).

In 2011, Council approved the *Housing & Homelessness Strategy* which includes, as one of 3 overarching strategic directions, a commitment by the City to provide strong leadership and support partners to enhance housing stability. The 2011 Strategy identified the different kinds of housing necessary to meet the needs of Vancouver residents, as well as ways to improve and better preserve existing housing.

In February 2017, Council approved the *Options for Sustaining Affordable Co-op Housing and Key Terms and Conditions for ground lease extension or modification agreements for Sustaining Affordable Co-op Housing on City Land* (RTS 11294). This report also known as the "2017 Framework" builds upon the co-op lease strategy, providing guidance on the length of lease term and the methodology for valuation of a prepaid land rent.

In November 2017, Council approved the *Housing Vancouver Strategy* and *Housing Vancouver Action Plan* which aim to deliver 12,000 units of social and co-op housing over the next 10 years through partnerships with senior levels of government and nonprofit and private sector partners (RTS 12153). Key actions include developing and implementing the co-op and non-profit renewal frameworks, and clarifying renewal of lease terms with non-market housing providers on City sites with redevelopment potential. *The Action Plan* also directs the City to continue to offer City land to affordable housing partners with an emphasis on achieving affordability.

In June 2018, Council approved the *Affordable Housing Delivery and Financial Strategy* to deliver on the revised targets contained in *Housing Vancouver* over the next 10 years (RTS 12562). The *Financial Strategy* focuses on achieving enhanced social and supportive housing targets to meet the needs of low-income residents. The Vancouver Affordable Housing Endowment Fund (VAHEF) has been created to consolidate all non-market housing assets, enabling a coordinated and portfolio-based approach to preserving and growing non-market housing on City land.

In July 2018, Council approved the Site and Lease Options, Key Terms and Guidelines for ground lease extension or redevelopment, and the Methodology for Valuation of a Pre-paid Ground Rent within the *Non-Profit Lease Framework for Sustaining Affordable Non-Profit Housing on City Land* (RTS 11904) and authorized staff to negotiate future ground lease(s) with non-profit operators in accordance with approved the Options, Key Terms, and Ground Rent Valuation; and report back to Council on each individual non-profit housing lease for approval.

CITY MANAGER'S/GENERAL MANAGER'S COMMENTS

The Co-operative Housing Federation of BC (CHF BC) has been an important partner with the City for several years. Over the last several months, CHF BC has worked intensely with City staff to advance the mutual goal of renewal of Co-op housing leases on City land. We appreciate CHF BC's time commitment and continued collaboration in strengthening this partnership.

To facilitate the continuation of Co-op housing on City land, City staff have worked to develop a reasonable, equitable, and transparent approach to renew expiring leases, including land rent valuation. The proposed methodology outlined in this report reflects the aim of balancing Council's stated objective of expanding affordable housing delivery during a housing crisis, the interests of existing Co-ops and their members and the City's accountability for stewardship of public assets.

The City Manager recommends approval of the foregoing.

REPORT

Background/Context

About Co-op Housing on City Land

Housing Co-ops are legal associations with shareholding members. While there are several types of co-op housing models, households in co-op housing on City land buy into the co-operative association by purchasing shares that do not increase in value over time. Households are therefore considered members in the Co-op and have security of tenure and an opportunity to work with other members to manage the Co-op and vote on decisions about the governance of the housing (e.g. electing a board of directors, running for the board, viewing audited financial statements and participating through committees). Among other principles, Co-ops value autonomy and democratic member control.

Co-ops act in the best interest of their members and provide affordable housing for individuals and families, including seniors and people with disabilities, in a community setting. Currently, housing charges for Co-ops on City land are below median rents for 1980s-1990s dwellings[2], with both income tested and non-income tested members paying significantly below-market rates.

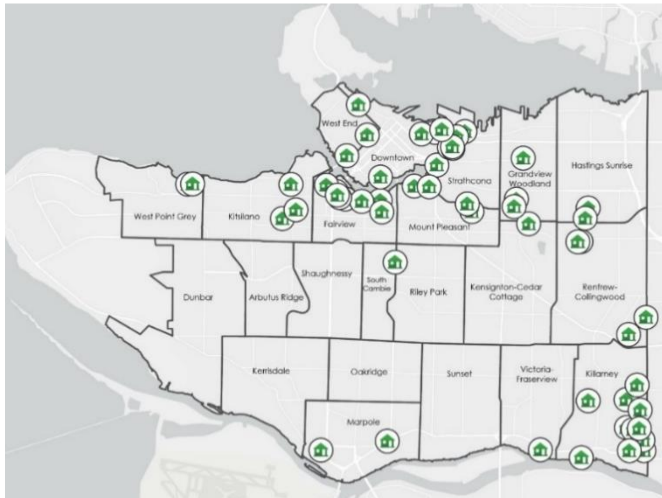
As Co-ops aim for their costs to equal revenues, their housing charges are set only to fund their expenses (i.e., land rent, repairs and reserves). Some households pay a reduced monthly housing charge geared to their income, with senior governments funding the difference between a portion of the household's gross income (usually 30%) and the Co-op's break-even housing charge. Some Co-ops maintain internal subsidy pools, which enable cross-subsidization of lower-income households through surcharges for higher-income households. Co-ops also exercise control over their membership by maintaining waiting lists[3].

The 57 Co-op sites on City land (see Figure 1) represent approximately:

- 23% of the City's non-market assets by land area
- 27% of all non-market housing units on City land
- 3,738 units of mixed-income housing

[2] Data based on a sample of 13 co-ops from various areas of the City.
[3] An August 2020 review of CHFBC website data and individual co-op websites found that approximately 45% of co-op waiting lists were closed to the public.

Figure 1: Housing Co-op locations on City of Vancouver land



<u>Importance of Co-op Housing</u>

Co-op housing is a significant and important part of the City's affordable housing portfolio. Over the past decades, Co-ops on City land have provided important benefits to their members and to the broader community:

- Since their inception, they have preserved and grown mixed income communities;
- Co-ops have met and in many cases exceeded the original 15% affordability requirements set out in their operating agreements with CMHC, while also keeping housing costs low for all of their members; and
- The co-operative governance model fosters a strong sense of community within Co-ops, something that is very important and valuable in Vancouver.

The mixed income housing provided by Co-ops is important both for the financial sustainability of the Co-op as well as for the social development of Vancouver. Based on 2015 Census data, staff were able to gain greater clarity of the income mixes in Co-ops on City land in 2015. Using 1,050 two bedroom units – a large portion of Co-op units – as a sample to illustrate the income range, staff ascertained the following characteristics of Co-op household income-mix in 2015:

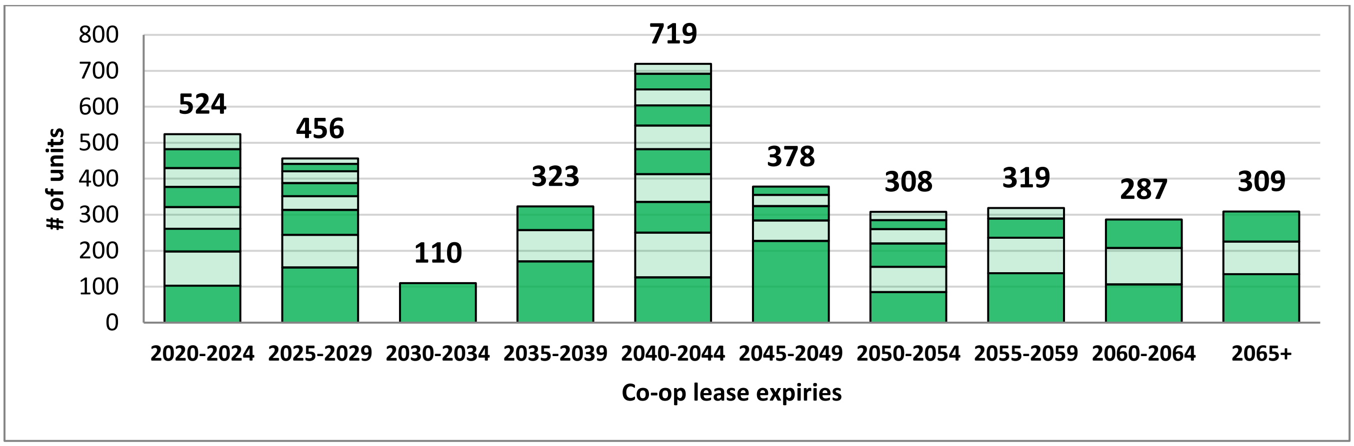
- The median income for 2 bed room households was $64,000.
- 64% of Co-op members were earning above 2015 HILs ($49,500) while 36% were below HILs.
- 20% earned under $34,000 per year.
- 20% earned between $34,000 and $53,000 per year.
- 20% earned between $53,000 and $77,000 per year.
- 20% earned between $77,000 to 100,000 per year.
- 20% earned over $100,000 per year, with 10% earning over $130,000 per year.

The foregoing demonstrates that in 2015, Co-ops were indeed very mixed income communities. They were providing deep affordability to a significant number of lower income households and also housing for a range of middle household incomes, with some households earning materially higher incomes than those set out in BC Housing Income Limits ("HILs"; as defined on page 11). While the City does not have access to current income data, it is reasonable to expect this diverse mix to not have changed significantly over the past 6 years, although some incomes would have inflated and some diminished with various employment and life events.

Upcoming Lease Expiries

16 Co-op leases will expire in the next 10 years and there are several leases with imminent expiries: one in 2021 and two in 2022. Lease renewals will provide Co-ops with security of tenure and the opportunity to secure long term debt to finance maintenance and building repairs. Some City land leased to Co-ops may be suitable for redevelopment, as determined by the City, in the short, medium, or long term, with the opportunity to increase the number of affordable housing units in Vancouver and also support other site uses such as broader community-serving amenities. Figure 2 below illustrates the timeline for upcoming Co-op leases and their unit counts.

Figure 2: Upcoming Co-op lease expiries and their unit counts on City land*



**Total units are represented by the side-by-side bars; each individual block within a bar represents one Co-op.*

Co-op Housing Leases and Challenges at Expiry

The City recognizes the importance of Co-ops as affordable housing operators that foster mixed-income communities on City land; however, there are some challenges at lease renewal:

- *The original Co-op leases were entered into at market rates and all but a few agreements clearly stipulated that the renewals were to be at market rates.*

  In the 1970s and 80s, under the Canada Mortgage and Housing Corporation (CMHC) programs, the City received market (or very close to market) value of the land from the Co-op when it signed prepaid ground leases. Co-ops paid for the use of the land through discounted CMHC mortgages. 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) would be surrendered to the City at no cost. Almost all of these leases clearly state that lease renewals would be at market rates and there are provisions under which the City may permit the leases to hold over on a month-to-month basis at market rates.

- *Housing charges (charged by the Co-op to their members) based on the payment of original pre-paid leases have not been adjusted over time in anticipation of future lease renewals.*

  As Co-ops entered into their leases a long time ago (primarily in the 1970s and 1980s), and as land rent was mostly prepaid, housing charges have been largely disconnected from market increases experienced by Vancouver residents who do not live in Co-ops.

  Co-ops have not adjusted their housing charges in anticipation of future lease renewals nor – to staff's knowledge – have they advised their members to personally save for future lease renewals. In the event that the City and individual Co-ops enter into a lease renewal, the new land rent needs to be added to the housing charge and there are no savings or reserve from which to draw.

- *Housing charges have not been adjusted with income growth.*

  Co-ops have not adjusted their housing charges to reflect member income growth. Currently, some members are paying as little as 10-15% of their household income on housing charges, far below the 30% benchmark used by CMHC, BC Housing and the City as the threshold of housing affordability relative to income. While this is of course a desirable situation for most people, the challenge arises when the expectation is to seek government subsidies to maintain that ratio while an increasing number of renter households are paying over 30% of income on rent without access to subsidized housing or rent subsidies.

- *Many Co-ops require significant capital repairs and have insufficient capital reserves to support this work.*

  Many Co-ops have deferred significant capital repairs and have not maintained adequate capital reserves to fund those repairs. While CMHC's program set some reserve limits, and Co-ops also experienced the unanticipated leaky condo crisis which required investment to address, other options such as requiring members to maintain personal reserves to support their housing repairs have not been implemented. Many of these aging buildings now require significant repairs in the near to medium term. The original leases clearly state the Co-op is responsible for capital repairs and should bear that cost either through their own means or with senior government funding support (CMHC). There are high expectations from Co-ops that the City should financially accommodate for the cost of these deferred repairs as part of any negotiated lease renewals.

Identifying the above challenges is in no way intended to suggest that Co-ops have not provided important housing and a strong sense of community to their members over the years. Rather, they are intended to describe the practical challenges that now face the City in considering the terms of any lease renewals.

Given that the future land rent payments are not factored into the housing charges and the significant capital repair challenges associated with aging buildings, Co-ops are unable to meet the renewal terms of their original leases (i.e. to renew at market rates) without significant increases in housing charges for their non-RGI members (middle income and higher income households as defined in the Table on page 11).

Co-op Housing Leases and Opportunities at Expiry

The most significant opportunities at lease expiry are: (1) to support/preserve the existing mixed income Co-op community, with a focus on supporting lower income households with demonstrated need for public subsidy; and (2) to explore the potential for redevelopment of City owned land upon which Co-ops are located as many Co-op sites hold the potential to create new affordable housing as well as the introduction of new uses, such as broader community-serving amenities (e.g. childcare).

City Land and Grants

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 resolution in 1981 which states, "when land is being provided for any social purpose, it [should] be done on a leasehold basis only". 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.

Co-op sites make up a significant portion of the City's non-market and supportive housing portfolio. As outlined in the Vancouver Housing Strategy, it is the City's goal to both maintain and grow the non-market housing portfolio in Vancouver. With limited fiscal capacity and available land, it is critical that the City optimizes the use of public land in a way that maximizes the social benefit to Vancouver residents. With the creation of the Vancouver Affordable Housing Endowment Fund (VAHEF), revenues generated from City housing sites will be reinvested to preserve and grow Vancouver's affordable housing portfolio.

Negotiating Co-op Lease Renewals: The 2017 Framework & 2020 Discussion Paper

In 2017, Council approved the *2017 Framework* (https://council.vancouver.ca/20170208/documents/cfsc5.pdf). This document was an important step in discussions with Co-ops regarding lease renewals. Based on the approach outlined in the 2017 Framework, in 2018 the City extended Offers to Lease to specific Co-ops with approaching lease expirations. None of these offers were accepted by Co-ops and the Co-operative Housing Federation of British Columbia (CHF BC) expressed concern with the overall approach. A description of Co-op and CHF BC concerns can be found on pp 12-14 of the Discussion Paper noted below. Through this feedback, it became clear that key elements that were absent in the 2017 Framework, such as land valuation, lease length, and the methodology for providing rent subsidies based on demonstrated need, needed clarification.

2020 Discussion Paper: A Proposed Approach

Based on this stakeholder feedback, the City reassessed its approach and released the *2020 Discussion Paper* on January 28, 2020 (https://vancouver.ca/files/cov/co-op-leases-discussion-paper-january-2020.pdf). This Discussion Paper outlined a new approach for Co-op lease renewals that sought to address the key themes arising in Co-op and CHF BC feedback. The Discussion Paper included four lease scenarios, as well as a draft template Offer to Lease. Additionally, a number of lease terms were outlined which would be requirements for updated contractual agreements (e.g. an over-housing/right-sizing policy, working towards a coordinated access system, etc.).

A period of engagement followed. Feedback was sought through an online survey, staff meetings with Co-ops, and discussions with CHF BC and CMHC. Staff focused on transparency and sought to meet with individual Co-ops and to answer questions about the proposed approach.

2020 Discussion Paper Engagement Summary

The public engagement period commenced with the release of the *2020 Discussion Paper*. The engagement process included a web-based survey that was open to all Vancouver residents, an invitation to meet with individual Co-ops, and a request to engage with CHF BC as a key advocate for and representative of Co-ops.

The City's deadline for completion of the survey and the invitation to Co-ops to meet with staff directly was extended twice due to the onset of the COVID pandemic and the original deadline to report to Council likewise extended.

Web Survey Results

The web survey closed on July 31 and received 268 complete responses submitted through the engagement survey, with 198 of those representing residents from 36 Co-ops on City land. Given the low response rate to the web survey, the findings cannot be considered conclusive and are included in this report for transparency.

Respondents indicated an overall 73% level of support for the City's proposed approach scores of 50 and above. Some respondents advised staff of their preference to share feedback directly with the Mayor's Office or provide comments through representatives. Other respondents noted they did not consider the survey an appropriate way to provide their comments. Accordingly, staff accepted feedback from Co-ops via other means, including virtual meetings and written correspondence.

Overall, there was support for the City's grant programs which provide discounted land rents based on demonstrated need, as well as slow the pace of housing charge increases for higher income members. Co-op sector respondents expressed a preference for longer, pre-paid leases that would allow longer or more flexible amortization opportunities for capital requirements. As well, Co-op sector respondents indicated that capital expenses and debt service should have been included as specific line items in the benchmark land rent calculation to reduce land rents.

All survey data and feedback received in response to the Discussion Paper from CMHC, CHF BC, and RePlans' Authorized Working Group (AWG) can be found in Appendix E.

Co-op and CHFBC Meetings

While some Co-ops accepted the request/invitation to meet with staff by the extended deadline, many noted their interest in waiting to hear from CHF BC. CHF BC was, understandably, focused on pivoting to support their members adjust to public health orders as well as supporting their own operations.

In late July 2020, CHF BC was able to engage with the City and, after a number of meetings, indicated that they were not satisfied that the proposed approach in the 2020 Discussion Paper could work and signaled an interest in exploring other options.

November 2020 to June 2021: An Interest-Based Approach

Given the clear signal from Co-ops during the engagement process that CHF BC was their collective advisor, since the late fall 2020, City staff have been meeting regularly and intently with CHF BC to identify a path forward which would balance the interests of all stakeholders to the greatest extent possible, while enabling the City to deliver on its policy objectives. Discussions have been positive and constructive and staff express their appreciation to CHF BC for their openness, collegiality, and candor during these discussions.

Strategic Analysis

The City and Co-ops have some shared interests and some distinct but not incompatible interests:

- The City and Co-ops both want to preserve and grow affordable housing, support mixed income communities, ensure security of tenure for the long term, avoid displacement of existing members, and ensure Co-op operations are sustainable and buildings are maintained well.
- As local government with limited public land and funds, the City seeks to prioritize rent subsidies to those who need it and be accountable and transparent about City investments.
- As housing organizations, Co-ops want to minimize housing charges for all members, to maintain autonomy over their operations with minimal oversight, and be able to borrow for capital rehabilitation work and spread the costs over time to manage their housing charges.

To support the continuity of Co-op housing on City land, the City needs to establish a reasonable, equitable, and transparent lease renewal and land rent valuation methodology that balances the City's goals for affordable housing delivery to benefit the broader community, interests of existing Co-ops and their members, and accountability as local government for public investment.

Key Facets of the Lease Renewal

Lease agreements have many terms and conditions, but the most significant provisions of each lease are: (1) the lease length, (2) the lease rate for the land ("land rent"), and (3) the terms and conditions upon which the lease is granted. Each of these factors introduce trade-offs between the interest of the Co-op as an independent autonomous association and the ability of the City to preserve and grow affordable housing assets and to prioritize support for households who need government support the most. In addition, because of the enormous need and demand for growing affordable housing in Vancouver, the work on Co-op lease renewals also necessitates significant consideration of redevelopment scenarios and options.

In consultation with CHF BC, a range of options/approaches to these considerations have been reviewed since the fall of 2020. Resulting from these discussions with CHFBC, staff have prepared a proposed *Co-op Lease Renewal Methodology* for co-op lease renewals which seeks to establish a reasonable balance between the shared and distinct interests of Co-ops as current housing operators and the City as local government.

Key Concepts and Affordable Housing Benchmarks

The proposed methodology – which is outlined in the following sections – builds on key programs and approaches in senior government affordable housing programs, namely HILs, RGI, income testing, and income reporting.

At the City, we align our benchmarks for City-supported affordable housing with senior governments because such alignment enables access to their funding programs, which are critical given the City's limited fiscal capacity. Such alignment also creates clarity for all housing providers and simplifies their work with all levels of government.

The table below outlines these key concepts and benchmarks.

Term	Definition
Rent-geared to income (RGI) / non-RGI	Households that pay a rent-geared-to-income rent or housing charge (i.e., a maximum of 30% of gross household income). Non-RGI households pay less than 30% of gross income in rent/housing charges. For example, a household earning $100,000 and paying $1,800/month for a 2-bedroom unit pays 21.6% of gross income.
BC Housing Income Limits (HILs)[4]	Housing Income Limits (HILs) represent the maximum gross household income for eligibility in many affordable housing programs. HILs are based on figures established by CMHC, and are intended to reflect the minimum income required to afford appropriate accommodation in the private market.
Assets[5]	A financial investment that can be converted into cash.
Income	Payments received from work, social assistance, pensions, interest, assets and other earnings.
Income/asset testing	The submission of information which is then used to set or adjust the lease rates or land rent costs and eligibility for public subsidy, as associated with income- or asset-tested households.
Income/asset reporting[6]	The submission of information for insight into affordable housing delivery, which is not used to determine or establish eligibility for public subsidy and not used to set or adjust the lease rates.
Low end of market	Rent calculated according to rental market conditions (e.g., 90% of average neighbourhood area rents as published by CMHC).
30% of income	In Canada, housing is considered "affordable" if it costs less than 30% of a household's before-tax income[7].

Key Policy Considerations

In the development of the proposed methodology, several key policy considerations arose related to public grants and public accountability. Based on existing City approaches and practices to these considerations, staff developed the methodology.

[4] https://www.bchousing.org/publications/2021-Housing-Income-Limits-HILs.pdf
[5] https://www.bchousing.org/glossary#I
[6] https://www.bchousing.org/publications/Proof-Income-Assets-Guide.pdf
[7] https://www.cmhc-schl.gc.ca/en/professionals/industry-innovation-and-leadership/industry-expertise/affordable-housing/about-affordable-housing/affordable-housing-in-canada

Consideration 1: Should City land rent subsidies be provided to non-RGI Co-op members earning more than HILs without income reporting?

Throughout discussions with CHF BC, there was consensus that all households earning under HILs were eligible for public grant support and, as per senior government programs, income testing to ensure continued eligibility was appropriate. However, it became clear that a key concern for CHF BC was income testing for households earning more than HILs. Staff developed the proposed methodology based on the principle that public subsidies should be primarily directed to income-tested households in a transparent manner, but that some limited public subsidy could be provided to support existing non-RGI members who earn more than HILs to preserve these mixed income communities. Accordingly, the recommendations assume that all land rent subsidies should be supported by either income reporting or income testing, the latter if the grant is to below Low End of Market rates.

Consideration 2: Targeting Public Grants

In general, staff work from the position that affordable housing grants should be targeted to households in Vancouver with demonstrated need. With over 4,700 households on BC Housing's waitlist and over 2,000 people experiencing homelessness in Vancouver, the City has traditionally sought to prioritize rent subsidies for those with most need. However, given market rates are often unaffordable for middle-income households, staff see the benefit in maintaining mixed-income communities as Council has expressed support for mixed-income housing.

Accordingly, the recommended methodology seeks to target the deepest subsidy to households earning below HILs while still providing some limited subsidy for households earning over HILs to (1) maintain the mixed income nature of the Co-op community, (2) enable the Co-op the ongoing opportunity for internal cross-subsidization at their discretion, and (3) provide time-limited support to households earning more than HILs to transition to new rates. These recommended supports are still significant subsidies and thus require a significant grant by Council.

Consideration 3: Alignment of policy and practice for rent subsidies and reporting requirements within City-supported affordable housing

Staff based the recommended methodology on the principle that there should be policy and practice alignment across the City's affordable housing portfolio: that approaches to rent/housing charge subsidies and income testing/reporting requirements should be consistent whether a person is living in a Co-op, City-owned non-market housing, or City-supported below-market rental housing. Staff recognize that there is currently differing approaches across leases that have been signed over decades, but have been working to standardize such approaches and would recommend that effort be continued.

Proposed Lease Renewal Methodology

The proposed approach has six key components:

1. Eligibility for renewal based on assessment of redevelopment potential
2. Lease Renewal: Term and Redevelopment Clause
3. Lease Rate: Land Rent
4. Payment Structure
5. Accountability and Reporting
6. Other Conditions

General business terms are outlined in Appendices A and B.

Through discussion with CHF BC, City staff and CHF BC representatives were able to achieve consensus on a number of elements of the recommended approach, with the exception of: *(3) Lease Rate: Land Rent*. Staff appreciate the significant progress through these discussions. After the proposal description, staff will describe CHF BC's feedback.

Importantly, the following principles are the general principles that – if approved – will form the basis of the City negotiating renewal leases with individual Co-op organizations. The key terms and conditions set out in the following section and in Appendices A and B are non-binding upon the City and the Co-ops and create no legal rights or obligations for the City or the Co-ops, but provide the recommended framework and methodology that would guide City staff in negotiating renewal leases for final approval by Council. Nothing herein shall fetter Council's discretion or the exercise of its authority regardless of when Council is called upon to exercise such authority or discretion. It is important to also note that the recommended principles work in relation to each other and should be viewed as a whole.

1. Near-Term Redevelopment Potential Assessment

Before any renewals are entered into and renewal rights are granted, it is recommended that the City determine upfront whether the Co-op site is a viable site for near-term redevelopment. If so, the City will seek to negotiate a Redevelopment Agreement with the Co-op for new homes, with a commitment of a long-term lease for those new homes.

Redevelopment of some lands leased to Co-ops upon expiry can contribute to the delivery of the Housing Vancouver strategy and target to create 12,000 new homes for low-income residents while replacing what exists today. It also enables the possibility of introducing new uses that further the City's broader objectives (e.g. daycare, libraries, etc.).

Evaluating redevelopment opportunities is best performed as a lease approaches expiry, but not all lands leased to Co-ops are intended to be redeveloped upon expiry. Subsequent to the use of City land for Co-ops to create housing in the 1960s, 1970s and 1980s, Co-op housing has continued to age while allowable heights and densities have increased significantly in the areas surrounding these sites, compared to the Co-ops' current built form. These two factors combined with favourable senior government funding and financing programs creates an opportunity to replace this aging housing stock and deliver net new housing that is affordable to existing and future Co-op members.

Under this recommended methodology, when a lease approaches expiry and redevelopment is being considered by the City, the City will proactively engage the Co-op as a potential partner in the redevelopment process. Through this process, the City and the Co-op will explore redevelopment of the lands or other housing options proposed by the City (e.g. another site, building, air-space-parcel or subleased housing within the City's non-market housing portfolio). The option(s) proposed by the City will: (1) account for the number of homes appropriate for the current Co-op membership, preferably in the existing neighbourhood[8] of the Co-op if not on the existing lands; (2) can be delivered so it is affordable to the existing Co-op members; and (3) support the temporary relocation of the Co-op (if required). The proposed option(s), objectives of the parties and key terms will be formalized in a non-binding Memorandum of Understanding (MOU).

As redevelopment is pursued by the City in alignment with the MOU, the City will seek to negotiate a lease or other form of agreement acceptable to the parties. This partnering process may involve a short term extension of the existing lease to align with timing of the redevelopment or relocation to other housing if the existing lease were to reach its expiry date before redevelopment could commence. More details about redevelopment as it pertains to lease renewals is available in Appendix B.

In areas where the city owns a significant proportion of the lands and wishes to implement a phased large site redevelopment, such as False Creek South, Co-ops on leased City land within the area will have a renewal and redevelopment schedule determined by when the City's large site redevelopment plan proposes to redevelop the City-owned sites.

If the site is not a candidate for near-term redevelopment, the Co-op will be eligible for the negotiation of a lease renewal as described in Item 2 below.

Appendix A contains the approach and timelines for assessing redevelopment potential for a Co-op before the Co-op is instead offered a lease renewal. Appendix B describes an option for the City to redevelop the lands during the course of the renewal lease.

2. Lease Renewal: Term and Redevelopment Option

(a) If the Co-op site is not a candidate for near-term redevelopment and is not a part of a large site redevelopment area, the Co-op would be eligible for the negotiation of a lease renewal of 40 years with a 20-year renewal option.

This combined potential 60-year term would represent a concession by the City. Given the age and condition of many of these buildings, there would be advantages to the City in limiting renewed leases to 30-year term which better aligns with the residual useful life of most existing wood-frame Co-op buildings and enables 25-year mortgage amortization for capital rehabilitation work. For Co-ops that were built in the 1970s and 1980s, their buildings are currently approximately 39 years old on average[9]. While some well-maintained buildings would be eligible for further extensions at the conclusion of the proposed 30-year extension, a majority of these sites will likely be redevelopment candidates due to high capital reinvestment needs or densification opportunities to create additional affordable housing. Staff were also interested in exploring the alignment of renewal terms with redevelopment to simplify that process.

[8] "Neighborhood" in this context refers to the local planning area in which the co-op is currently located. To learn more, visit the City's local area map: http://vancouver.ca/newscalendar/areas-of-the-city.aspx

[9] Based on internal City housing inventory data.

However, the Co-op sector has consistently expressed a preference for leases for 60 years. Staff recognize the importance of security of tenure for existing Co-ops and are recommending the longer term as a mutually-acceptable resolution, along with the following high-level conditions:

- A Redevelopment Option exercisable by the City, which supports Co-op members during redevelopment and provides flexibility for the City to ensure lands are optimized to deliver on Council affordable housing objectives.
- Specific conditions which facilitate an Option to Renew for Co-ops which are not redevelopment candidates at the end of a 40-year lease term.
- Co-op borrowing for capital rehabilitation work will be reviewed and must be approved by the City, with approval not being unreasonably withheld. The decision-period will allow the City to perform its due diligence in reviewing the redevelopment potential of a site

(b) If a Co-op is eligible for the negotiation of a lease renewal because it is not a near term redevelopment candidate, but it is part of a large site redevelopment area then the Co-op's lease renewal term will be based on the projected phased timeline for the large site redevelopment.

Appendix A contains the proposed (a) Lease Length Terms and (b) Large Site Lease Renewal Matrix. *Appendix B* includes Redevelopment Option details.

3. Lease Payment: Land Rent

Besides lease term, land rent is another key component of the proposed methodology. As noted earlier in the report, the City must balance the desire to support Co-ops as mixed income communities, the interests of existing Co-op members, and the broader housing and affordability pressures facing the City given its limited fiscal capacity and available land.

Overall, staff have aimed to simplify the approach while maintaining flexibility to adjust to accommodate changes in Co-op member incomes over time, if needed. The proposed approach incorporates ideas explored with CHF BC over recent months with elements from the original 2020 Discussion Paper.

Proposed Approach:

1. Prior to the beginning of any renewal lease term, the Co-op shares their current income profile with the City and sets their desired income mix based on the number of RGI units they wish to maintain and all Co-op households will be income tested. Staff expect the income mix to be based on the Co-op's income profile at point of renewal. For most Co-ops, it will be in that 15-30% range of members who are RGI, but for some Co-ops, it could be higher.

2. Once the Co-op establishes its income mix, the City will calculate the land rent using a number of benchmarks:

a) *Operating and capital expense benchmarks*

The City will use monthly cost benchmarks that were established through discussions with CHF BC. Operating expenses (OPEX) will be benchmarked at $432 per unit per month (PUPM) and capital expenditures (CAPEX) will be benchmarked at $550 PUPM. Each of these would be escalated at a rate of 2% per each subsequent year of a renewal term.

Existing leases require that Co-ops be responsible for all capital maintenance, to be funded from housing charges and/or senior government grants and/or low-cost financing. Therefore, staff note this recommendation represents a significant compromise, as it is a departure from the original agreements, as well as the “share of the building approach” proposed in the 2020 Discussion Paper, resulting in a significant subsidy to fund deferred capital rehabilitation costs through reduced land rent.

While the agreed upon annual capital allowance of $6,600/unit is high, it takes into account the age and condition of existing buildings, many of which have significant upcoming capital requirements. Furthermore, it will be a condition of the renewed leases that the difference between actual capital reinvestment and the CAPEX benchmark will be set aside in the Co-op’s reserve. These funds will be restricted to future capital work or to support a redevelopment scenario. The City will be entitled to receipt of the balance in this reserve should the terms of the lease not be adhered to.

b) *Unit benchmarks*

Staff recommend using BC Housing and CMHC benchmarks to set the base land rent for the units based on the income mix determined by the Co-op:

RGI units for households earning below HILs:
For these units, the City would calculate land rent using 30% of the target average income of those units (70% of HILs) as the rental income benchmark.

Non-RGI units:
For these units, the City would calculate land rent using the lower of 25% of median Vancouver incomes or a 15% discount from CMHC average market area rents (low end of market or LEM) as the rental income benchmark.

Staff suggest using median Vancouver incomes instead of median Vancouver renter incomes because the proposal bases the units on LEM rental rates and also introduces the “lower of” concept with a reduced 25% of income benchmark, thus provides a greater subsidy to the Co-op member than using 30% of renter incomes. Further, the model introduced generous CAPEX benchmarks instead of the share of building approach originally intended so there is an additional further discount provided.

c) *Transition Grant for non-RGI units*

The City also recognizes that many Co-op households who earn above HILs are paying less than LEM for their housing charges right now – with some households paying as little as 10% of their household income on housing charges. While these households can notionally afford to increase to LEM or 25% of median Vancouver income rates, staff recommend supporting these households with a time-limited transition so they do not see significant increases so quickly that they are incentivized to leave which may destabilize the mixed income community and cross-subsidization. Income testing will be required at the commencement of the future lease to support the additional subsidy as part of a lease renewal.

See Appendix C for scenarios and additional information.

Together, the recommended OPEX and CAPEX benchmarks and the HILs benchmarks reflect a compromise on the City's part to ensure the Co-op is able to afford for land rent.

These are long-term leases; any increase or decrease in RGI units over time will result in an adjustment to the land rent which terms and conditions of adjustment will be negotiated and agreed upon as part of the renewal lease.

The proposed model is also flexible in that the land rent can be adjusted in the event of a Co-op receiving senior government funding.

It is important to clarify that Co-ops will continue to set housing charges, and that these will primarily depend on expenses which are directly managed by Co-ops as well as to what extent they chose to implement or continue internal cross-subsidization programs within the proposed land rent model.

To confirm, any discount from market rent constitutes a grant as per the Vancouver Charter. Accordingly, in this proposed model, the Co-op, as a whole, would be in receipt of a grant if so approved by Council as part of any lease renewal.

The 2020 Discussion Paper included provisions for annual ground rent escalation. In discussions with CHF BC, a key consideration was information provided by CMHC in relation to their affordable housing lending program requirements, which require a lease to not include provisions for land rent escalation or for the risks associated with escalation to be mitigated. Staff recommend eliminating ground rent escalation from the model with the goal of ensuring Co-ops are not precluded from obtaining federal funding for capital projects. However, the omission of rent escalation would represent a concession by the City insofar as it would result in a deeper discount for all Co-op members in non-RGI units.

4. Payment Structure

The Co-op sector has expressed interest in prepaid leases and CHF BC suggested a flexible arrangement that would be acceptable to Co-ops, private lending institutions, and the City.

Staff support this approach to lease payments, which can include a full prepayment, partial prepayment and scheduled annual payments, or fully scheduled annual payments, to be determined at the discretion of the City.

Appendix A outlines the details of the proposed Payment Structure.

5. Reporting and Accountability

Staff are proposing three components to the Reporting package to be part of the terms of any lease renewals to be negotiated:

i) *Annual income testing for all RGI members*

This is standard across all of the City's non-marketing housing to justify housing subsidies. As noted earlier, if the City starts to see a pattern emerge through this annual testing that the Co-op has more or fewer RGI units than expected, staff would meet with the Co-op to discuss their income mix intentions and any need to adjust the lease rate in accordance with the renewal lease provisions. This flexibility will enable the City to be responsive to changes in the Co-op's membership. If, for example, there were a number of retirements resulting in people earning less income and needing deeper subsidy, the City could adjust the land rent in accordance with the terms of the renewal lease.

ii) *Income Reporting every 5 years for non-RGI members*

For the non-RGI households – who are still receiving a rent subsidy to bring them to Low End of Market or 25% of median Vancouver incomes, whichever is lower – the City would require income reporting every 5 years. This would enable the City to report at an aggregate level the beneficiaries of this public investment. This is consistent with requirements for LEM units in new City non-market housing projects and below market rental projects. This would not have any impact on or result in an adjustment to the land rent for the Co-op.

iii) *Income testing for non-RGI members to access the transition grant at the commencement of the future lease*

For the non-RGI households – who are still receiving a rent subsidy to bring them to Low End of Market or 25% of median Vancouver incomes and wish to access the transition grant as an additional subsidy – the City would require income testing at the commencement of the future lease.

iv) *Voluntary Identity Reporting every 5 years for all members*

For all members, every 5 years, the City would seek voluntary identity reporting so we could gather disaggregated identity data for residents supported in City housing. This requirement arises from the recent Council motion to better understand equity in access to our publicly supported housing. The City would seek to align its voluntary reporting with such programs being developed by BC Housing.

Staff recognize that increased oversight and reporting requirements, particularly on an annual basis, will necessitate changes to the existing relationship between the City and Co-op housing associations operating on City land. However, this requirement arises because in the proposed model, the City would be subsidising these operations through a below market lease (as opposed to the market rate in the original lease). Similar arrangements are undertaken in other subsidy programs and this reporting is necessary to ensure public accountability and transparency for public investment.

6. Other Conditions

A number of other conditions agreed to by CHF BC representatives and City staff are included in Appendix A. They relate to matters such as coordinated access, auditing, borrowing, etc.

Proposed Methodology: Outcomes

While staff have made some significant concessions in the proposed model, staff consider the proposed methodology to be reasonable for a number of reasons:

- No member in the Co-op would pay more than 30% of their income on housing charges and no displacement.
- RGI qualifying households would receive the deep affordability that they need.
- Non-RGI households that are earning more than HILs would still pay less than market rates because the methodology would maintain the underlying benchmark for their units at LEM rates or 25% of median Vancouver incomes, whichever is less.
    - This should provide an incentive for higher income members to stay, enabling the Co-op to maintain itself as a mixed-income community.
    - This still should enable some cross subsidization within the Co-op
    - For the non-RGI households, the proposed additional temporary rent subsidies for 7 years to enable them to transition from their current housing charges to low end of market rates.
- There are generous CAPEX and OPEX allowances.
- Reporting requirements are reasonable given the value of the public subsidy being provided to the Co-op.

CHF BC Feedback on Proposed Model

Through staff discussions with CHF BC representatives, agreement in principle was achieved on many of the principles that will guide and provide the framework for the negotiation of any lease renewals as noted above.

Staff understand that CHF BC has concerns about one item in the proposed approach: *Lease Rate: Land Rent.* CHF BC has expressed preference for an approach in which the lease rate is based on all current housing charges remaining the same for all members, regardless of their income, and that there be 2.5% average annual increase across all households until 2028 when CMHC subsidies expire, after which the escalation will be 2% per year.

CHF BC provided the description of its preferred approach and it is included in Appendix D.

Staff have identified the following fundamental implications of CHF BC's preferred approach to lease rate calculation:

- CHF BC approach would result in very deep subsidies for non-RGI households that earn more than HILs and thus have greater means to access housing in the market. While staff understand the desire to keep housing charges low for all existing members, including those who earn more than HILs, the provision of deep subsidies to these members would be at odds with the large unmet need for subsidized housing. There are presently over 4,700 people in Vancouver on the BC Housing waitlist, 2,000 of them who are homeless.

  As noted in the financial analysis section below, the estimated value of the grant to non-RGI households earning above HILs that would be provided under the CHF BC methodology is $12.2 million more per annum than the $4.3 million that would be provided under the approach recommended by City staff.

- This approach to non-RGI households creates inequities between non-RGI households in Co-ops and non-RGI households in other City non-market housing and below market rental projects. It would be challenging to justify why non-RGI tenants are treated differently in City-enabled affordable housing compared to those in Co-ops.

<u>Other lease scenario: End of Lease</u>

The end of lease scenario is the City's least preferred option, which applies if the City and Co-op cannot agree to lease renewal terms and the site is not a candidate for redevelopment.

As noted in the 2020 Discussion Paper, the housing would be preserved and the City would initiate a Request for Proposals to identify a new operator (i.e., co-operative or non-profit). All Co-op members would be given the option to stay on as renters. The City would commit to no household paying more than 30% gross income in rent and would work to ensure no one is displaced due to financial constraints. The Co-op could continue to exist as an association to maintain the community, but would not be a party to the new lease.

<u>Property Transfer Tax</u>

Property Transfer Tax (PTT) is a Provincial tax that is applied to leases with a term of 30 years or longer. It is a considerable financial cost that impacts housing affordability. CHF BC has acknowledged the City's position that the City will not cover Property Transfer Tax for lease renewals. CHF BC representatives and City staff agree that joint advocacy to the Province to either waive the PTT for affordable housing lease renewals or implement a grant offset would be a reasonable approach.

If the Province does not agree to cover the PTT either through a waiver or grant offset, then the renewing Co-op will be responsible for the cost of the PTT.

Next Steps

Should the proposed methodology be approved, staff will proceed to discuss lease renewals with individual Co-ops. Upon completion of staff negotiating all the terms and conditions of a lease renewal for an individual Co-op site, the proposed lease renewal will be brought to Council for consideration and approval, requiring 2/3 vote of Council, as per the Vancouver Charter, as any such leases which are below market rates would need to be approved as a grant.

FINANCIAL IMPLICATIONS/RELATED ISSUES/RISK

Financial Implications

To demonstrate the land rent subsidies to Co-ops represented by both staff's recommended methodology and CHF BC's preferred approach, staff used 2015 census data on income mix, 2021 HILs limits and Citywide CMHC average rent to provide a current day estimate of the relative annual land rent discount for the existing Co-op unit stock, assuming all Co-op leases are renewed. The calculation is intended to provide an indicative estimate of the relative subsidies across the whole portfolio from a defined benchmark assuming that Co-ops would seek discounts offered for all household earning below HILs limits (assumes approximately 48% would earn below HILs).

Using the above approach:

- Staff's proposed methodology would result in a subsidy to Co-ops of ~$15.5 million per year, ~$4.3 million (28%) of which would be going to non-RGI households earning above HILs.

- CHF BC's preferred approach would result in a subsidy to Co-ops of ~$27.7 million per year, ~$16.6 million (50%) of which would be going to non-RGI households earning above HILs.

Based on these high-level indicative estimates, CHF BC's preferred approach could result in $12.2 million more in annual subsidy from the City for households earning above HILs than staff's recommended methodology.

To understand the value of this trade-off in terms of affordable housing development, this $12.2 million difference could enable the City to:

- *Deepen Affordability:* Double the number of HILs units in Co-op sites. This could be used to accommodate approximately 1/3 of the BC Housing waiting list for Vancouver; or

- *Expand CHIP:* Expand the current $6.25 million/year CHIP program to deepen affordability in non-profit housing projects (up to $35,000 - $100,000/unit for shelter and HILs rate units); or

- *Increase Land acquisitions*: Acquire additional land that will enable the creation of ~80-120 social housing units a year; or

- *Expedite SRO Strategy*: Replace an existing City SRO building with self-contained housing every 3-4 years.

It is important to note that not all Co-ops will renew at the same time so annual lease payments available for reinvestment in affordability would grow as leases are renewed. As well, income mix would vary.

Legal Implications

Any future approval by Council of the City entering into a Renewal Lease at a lease rate or rent for the City lands that is below market value constitutes a grant pursuant to section 206(1) of the Vancouver Charter. Pursuant to section 206(1), the approval of a grant requires the affirmative vote of 2/3 of all members of Council and that the Co-op organization receiving the grant meet one of the criteria to be an eligible recipient of a grant.

CONCLUSION

This report outlines recommendations for a Co-op Lease Renewal Methodology that builds on the 2017 Framework. These recommendations set out a reasonable, predictable, consistent, transparent and responsive approach to renewing leases with Co-op housing associations operating on leased City land, in a way which balances significant but justifiable public grant support for existing mixed-income Co-op communities with accountable and prudent stewardship of limited public assets.

Lease renewals negotiated based on the methodology outlined in this report will provide certainty to existing Co-ops and their members, ensure that more significant assistance is available to Co-op members based on demonstrated financial need in the absence of federal assistance, ensure increasing alignment in practice across City supported non-market housing, and contribute to the preservation and growth of all affordable housing assets in the City through the VAHEF portfolio.

The recommendations set out in this report are not the sole means of achieving the City’s policy goals, as addressing affordable housing challenges is a multi-faceted issue. However, fair and equitable land rent costs associated with the use of City land are an important input to addressing the housing challenge, particularly given the significance of the assets within the leasehold Co-op portfolio. It is prudent for Co-ops with leases that do not expire in the near future to fiscally plan and prepare for lease expiration.

* * * * *

APPENDIX A: Key Lease Renewal Methodology Principles

The following are the general principles that will form the basis of the City negotiating renewal leases with individual Co-op organizations. The key principles set out in this Appendix are non-binding upon the City and the Co-ops and create no legal rights or obligations for the City or the Co-ops, but provide the general framework and methodology that will guide the City in negotiating renewal leases. Nothing herein shall fetter Council's discretion or the exercise of its authority regardless of when Council is called upon to exercise such authority or discretion. It is important to also note that the recommended principles work in relation to each other and should be viewed as a whole.

1) Redevelopment Potential Assessment/New Space Lease

Evaluating redevelopment opportunities is best performed as a lease approaches expiry, but not all lands leased to Co-ops are intended to be redeveloped upon expiry. Before renewal, the City will determine upfront whether the Co-op site is a suitable site for near-term redevelopment. Under this proposed methodology, when a lease approaches expiry and redevelopment is being considered by the City, the City will proactively engage the Co-op as a potential partner in the redevelopment process as follows:.

- For any Co-op that has an existing lease expiring prior to December 31, 2026, the City may issue a notice advising of the City's intention to redevelop its lands within 90 days of this framework being approved by Council. In such cases, the City will endeavour to provide to the Co-op (in consultation with the Co-op) a redevelopment plan (the **"Redevelopment Plan"**) within three years (the **"Plan Notice Period"**) of issuing the aforementioned notice. The Redevelopment Plan will outline the City's proposal to the Co-op for the lease of New Space (as described below), timing for redevelopment of the lands and a relocation plan.

- After proposing the Redevelopment Plan, the City may extend the existing lease or licence to occupy on a short term basis to align with the implementation of the Redevelopment Plan. If the existing lease expires during the Plan Notice Period and before a Redevelopment Plan has been proposed, then the Co-op will be eligible for a short term lease extension to the end of the Plan Notice Period.

- If no Redevelopment Plan is proposed by the end of the Plan Notice Period or execution of the Redevelopment Plan is no longer feasible, the Co-op will be eligible to enter into a Renewal Lease (as described in this framework) and the City will agree therein to not issue a Redevelopment Notice during the first ten years of the Term.

- For any Co-ops with existing leases expiring on or after January 1, 2027 that wish to enter into a Renewal Lease prior to expiry of their existing leases in accordance with the framework set out in this Report, the City will consider such proposals with a priority being given to those Co-op sites that require significant capital maintenance to be financed. In any such case, if a Renewal Lease is successfully negotiated, the City will agree therein to not issue a Redevelopment Notice during the first ten years of the Term.

In areas where the city owns a significant proportion of the lands and wishes to implement a phased large site redevelopment, Co-ops on City-leased land within the area will have a renewal and redevelopment schedule determined by when the City's large site redevelopment plan intends to redevelop the City-owned sites. For clarity, assuming a large site redevelopment is forecast to be redeveloped over 20 years in two phases: 0-10 years; and 10-20 years, the Co-op lease will be renewed as follows:

Redevelopment Phase	**Phase 1 - 0-10 years**	**Phase 2 – 10-20 years**
Scenario	**Replacement building or site is available as the Co-op lease expires**	***Co-op lease expires before Phase 2 commences in year 10***
Lease Renewal / New Space Lease Approach	The City will not renew the lease but will offer a lease lease/create space to enable the replacement of Co-op housing within the community	Co-op would be offered and pay for a lease extension to the beginning of the second redevelopment phase in year 10 with short term options to extend depending on the specific development timing of the new Co-op building.

Upon providing the Redevelopment Notice and Redevelopment Plan, the City will offer the Co-op the opportunity to enter into a new long term lease for "New Space" to replace the existing Lease of the Co-op units on the Lands. The in-principle framework for the New Space lease are outlined in Appendix B. If the site is not a candidate for near-term redevelopment or part of a large site redevelopment area, the Co-op will be eligible for a lease renewal as described in Item 2) below.

2) Lease Renewal: Term

- Forty (40) year standard term, with
- Twenty (20) year option in favour of the Lessee, if:
  - The lease is in good standing, with no material breaches outstanding.
  - The Lessee is not in breach of any material conditions of additional agreements that may be in force between the City and the Lessee from time to time.
  - The City has not exercised its right to issue a Notice of Redevelopment.
  - The Lessee demonstrates the capacity to maintain the buildings throughout the extended lease term as evidenced by an asset management plan prepared according to an agreed framework, funded reserves in accordance with that plan, and projections indicating financial viability during the full term of the lease.
  - The Lessee undertakes to provide more than 15% of its homes (or such other minimum as may be stipulated in the lease) to income-tested members for whom the break-even housing charge exceeds 30% of their gross household income.
- The City may waive the above noted conditions for the 20-year option in its sole discretion and will not unreasonably withhold its approval of a 20-year option, subject to fulfilment of the terms and conditions of the lease and Council approval of any renewal lease, including the terms and conditions of granting such lease renewal.

- A Redevelopment Option for the City based on the Redevelopment Framework outlined in Appendix B will be used as a guide and framework for negotiating all renewal leases between the City and a Lessee.
- When exercising its option, the City will make every reasonable and good faith effort to advise the Lessee of its intentions and to engage the Lessee in discussions about redevelopment opportunities prior to issuing a Notice of Redevelopment.
- Upon being advised by a Lessee that the Lessee wishes to initiate the redevelopment of its Lands, the City will make every reasonable and good faith effort to engage the Lessee in discussions toward that end.
- Credit on new lease payment in case of early renewal: straight-line based on original prepayment for remaining years of original lease.

3) Lease Renewal: Land Rent

- Once determined, any periodic payments would be scheduled and create a binding obligation on the Co-op regardless of changes in financial circumstances. A proportion of the lease price may be prepaid by a Co-op, to be mutually determined by the City and Co-op in individual negotiations.
- Operating costs (OPEX) used to calculate Lease Payments will be limited to the benchmark agreed between the parties (currently $432 PUPM net of non-rental revenues) at the execution of the lease, with a provision for annual inflation (i.e. 2%)
- Capital costs (CAPEX) used to calculate Lease Payments will be limited to the benchmark agreed between the parties (currently $550 PUPM) at the execution of the lease, with a provision for annual inflation (i.e., 2%). If actual CAPEX requirements are less than the benchmark in a given year, the balance will be directed to capital reserves. City reserves its rights under the lease to use of the capital reserves if the terms of the lease have not been met (i.e., building not turned over in good condition).
- Proportion of low income members/affordability target.
    - Should be agreed-upon at the beginning of the lease and must be at least 15%.
    - The City will look at a rolling three years – if the balance is not maintained, there will be an adjustment of the lease rate payable, either a surcharge or discount to address not being in alignment with agreed upon balance, to be negotiated between the City and an individual Co-op as part of a lease renewal.
    - If during the life of the lease, the balance needs to shift, then there can be a provision to adjust the scheduled payments for the remainder of the lease. E.g., if the affordability level in a Co-op increases, the Co-op can apply to have the minimum affordability commitment reassessed, leading to the possibility of negotiations regarding further land rent reductions.
- Land rent formula for RGI units for households earning below HILs:
    - Rental income benchmark for HILs units, for land rent calculation: 30% of the target average income of those units (70% of HILs).
- Land rent formula for non-RGI units:

- Rental income benchmark for land rent calculation is the lower of a 15% discount to CMHC average neighborhood area rents or 25% of median Vancouver incomes.
- The City may implement a Transition Grant to slow the pace of housing charge increases for these households over a seven year period. This will be an additional land rent discount which is phased out over time. Income testing will be required to support the additional subsidy as part of a lease renewal.

- City reserves the right to determine how to adjust lease rate with Co-op in event there are federal subsidies: e.g., adjust the lease rate upward to address the receipt of Federal Operating subsidies and reinvest those savings in other projects or deepen affordability in that Co-op.

4) Payment Structure and Mortgage of Leasehold Interest

1. The rent payment structure for the lease is a combination of: 1) lump sum payment at the commencement date of the lease; and 2) a schedule of periodic payments (e.g., annual lease payments) throughout the term of the lease.

2. Co-ops will not be precluded from obtaining financing, as the payment obligations to their lenders will have priority over the periodic payment obligations to the City.

3. Each Co-op will be required to manage its operations and budgeting such that it can meet its ongoing payments obligations to both its lender (if applicable) and to the City

4. Failure to keep the lease in good standing will constitute a default under the mortgage; and failure to keep the mortgage in good standing will constitute a default under the lease. Therefore, any default by the Co-op in relation to either the Lease or its mortgage security agreements will place the Co-op in default under both arrangements.

5. In a default scenario, it is expected that either the City or the Lender would appoint a receiver manager or implement a workout strategy to attempt to put right the Co-op’s finances and bring both the lease and the loan back into good standing.

6. In the case of a City-approved mortgage, a tripartite agreement between the City, the Co-op, and the secured lender will likely be a requirement of any lender. The City anticipates that the following provisions would be part of any such tripartite agreement:

   a. Lender agrees not to accelerate the loan (i.e. demand the entire balance owing) without ample advance notice to the City.

   b. City agrees that so long as the lender has not accelerated the loan, the available cash will be applied (after realization costs) first to meet the Co-op’s debt service obligations, and then to meet the Co-op’s periodic rent obligations.

   c. City agrees that in the event the leasehold is seized and sold, as to disposition of sale proceeds, the outstanding obligations to the lender will take priority over unpaid periodic rent to the City.

   d. In a default scenario, the City will maintain its entitlement to scheduled payments from the Co-op in amounts specified or determined in accordance with the lease, and any shortfall in remittances to the City will accrue and remain collectable from the Co-op pursuant to the lease, with interest.

7. It is intended that the above provisions would be included in the Lease to provide lenders certainty at the underwriting stage that they will have acceptable protections in the event of a default.

8. The land rent will be reduced by a credit for unexpired time on the current lease (calculated on a “straight line” basis in current dollars).

5) Accountability and Reporting

- For RGI units: Annual income testing for all RGI members throughout lease term to support land rent discounts provided by the City, and to support any adjustments if required.
- For remaining households (non-RGI): Income reporting every five years and income testing at commencement of lease to access the transition grant.
- For all households, voluntary identity reporting every five years.

6) Other Conditions

- At least 15% of units will be allocated to members for whom the standard breakeven housing charge would represent more than 30% of their pre-tax income~~.~~
- The Lessee will make every reasonable effort to secure financial assistance from the provincial or federal governments to reduce the cost of meeting its commitments to house low-income members or funding capital improvements identified in the asset management plan.
- The Lessee will work with other Co-ops toward a coordinated access system for new membership applicants and consider applicants from the BC Housing waitlist/inventory.
- The Lessee, acting reasonably, will adopt and implement unit occupancy guidelines that align with the National Occupancy Standards, or any replacement standards agreed between the City and the Lessee, provided that no member will be required to leave the Co-op as a result.
- The City may perform audits or inspections of the Lessee’s books and records and the Leased Premises where such information is related to the Lessee’s obligations under the lease.
- The Lessee will make reasonable efforts in the renovation, repair and operation of the buildings to improve environmental performance.
- The Lessee will not admit new member households whose monthly income at the time of application is more than six times the prevailing market rent for similar units in the surrounding area.
- The Lessee will not incur debt without the City’s approval:
    - if the debt cannot be fully amortized during the initial 40-year term of the lease, or
    - following the City’s issuance of a Notice of Redevelopment.
- Where the City has a right of approval in respect of consenting to a Co-op’s mortgage, it will not unreasonably withhold such approval.

- The City will work with the Co-op and senior government partners as necessary to enable required borrowing or access to grant programs.
- The City will work with the Co-op and potential lenders as necessary to enable required borrowing, provided the changes do not result in a financial loss to the City.
- The Lessee will include in its Occupancy Agreement with members restrictions on subleasing other than on terms approved by the City.
- The City will support the Lessee in making a joint representations to the Province for reimbursement of any Property Transfer Tax incurred by the renewal of the lease. In the event the Province does not agree to address Property Transfer Tax, the City will not be responsible for any Property Transfer Tax payments or to provide a further land rent discount associated with this cost.
- That renewal leases are negotiated on terms and conditions as outlined in this report, and such other terms and conditions as are satisfactory to the General Manager of Arts, Culture and Community Services, Director of Finance and the Director of Legal Services.

Appendix B: Redevelopment Option Framework

The following are the general principles that will form the basis of the City negotiating renewal leases with individual Co-op providers. The key principles set out in this Appendix are non-binding upon the City and the Co-ops and create no legal rights or obligations for the City or the Co-ops, but provide the general framework and methodology that will guide the City in negotiating renewal leases. Nothing herein shall fetter Council's discretion or the exercise of its authority regardless of when Council is called upon to exercise such authority or discretion. It is important to also note that the recommended principles set out in this framework work in relation to each other and should be viewed as a whole.

In the case where a new lease is granted to a Co-op upon the expiry of its current lease that is for a longer term (e.g., 40 year Term with a 20-year Option to Renew in favour of the Lessee) in accordance with the Co-op lease renewal framework set out in this Report (**"Renewal Lease"**), the Renewal Lease will include certain redevelopment principles (**"Redevelopment Principles"**) describing how the City and the Co-op will work together in the event the City elects to initiate, plan, and redevelop the lands leased to the Co-op (the **"Lands"**) at a future time during the term of the Renewal Lease, as may be renewed (the **"Term"**). The Redevelopment Principles are summarized below.

If a Co-op proposes the City initiate redevelopment of its existing housing on the Lands leased from the City, the City will make reasonable and good faith efforts to engage with such Co-op, but for certainty, the Redevelopment Principles would not apply unless the City accepts the Co-op's proposal.

REDEVELOPMENT PRINCIPLES:

1. City's Redevelopment Option

- Throughout the Term of the Renewal Lease, the City may, at its option, plan, initiate and redevelop the Lands, subject to the terms herein.

- In identifying potential City-owned sites for redevelopment, the City may consider factors such as the building condition and/or potential for creating more affordable housing arising from, but not limited to, the existing or future potential to increase the density of residential development on the Lands or other lands in the community, taking into consideration the zoning, the official development/community plan(s) or equivalent planning framework.

- Should the City wish to exercise its option to redevelop the Lands, the City may terminate the Renewal Lease between the City and Co-op (at no cost to the City, except as stipulated below) to enable redevelopment of the Lands, subject to meeting the obligations set forth in Section 2 below pertaining to the following:

    a) Notice Period
    b) Option for Co-op to lease New Space
    c) Affordability
    d) Temporary Relocation
    e) Outstanding Debt & Capital Maintenance Planning

2. Obligations to the Co-op once the City exercises its option

a) Notice Period

- During the Term, the City will provide at least 5 years' prior written notice to the Co-op advising the Co-op that the City has elected to exercise its option to redevelop the Lands and to terminate the Renewal Lease (the **"Redevelopment Notice"**).

- Prior to issuing the Redevelopment Notice, the City will make reasonable, good faith efforts to proactively discuss the City's plans for the redevelopment of the Lands with the Co-op, including matters related to timing of the redevelopment; provided, however, that the City's failure to discuss its plans with the Co-op will not preclude the City from having the right to issue a Redevelopment Notice.

- In all cases, the City, at the earliest time possible, will make reasonable efforts to engage the Co-op and work together in the initiation, planning, and redevelopment of the Lands.

b) Lease of New Space

- After issuance of the Redevelopment Notice, the City will offer the Co-op the opportunity to enter into a new long term lease (typically 40 years or longer and typically 60 years or longer for new construction financed and constructed by the Co-op) for **"New Space"** to replace the existing Co-op units on the Lands. The New Space offered to the Co-op may include but will not be limited to one of the following: the Lands; off-site lands; a portion of the improvements to be constructed within the existing Lands; or a portion of the improvements that have been or will be constructed within off-site lands.

- The Co-op must advise the City within 60 days of the City receiving development approvals for the Lands as to whether it will enter into a new long term lease for the New Space (the **"New Lease"**). The terms and conditions of the New Lease for the New Space will otherwise be consistent with the City's then-prevailing policies applicable to Co-ops and affordable housing, as same may be substituted or replaced from time to time.

- The New Space will include, at least, the number of units occupied by the then-existing registered members of the Co-op and the City will endeavour to work cooperatively with the Co-op to design the New Space to provide appropriate types of units for the then-existing registered members (i.e. number of family units, accessible units, etc.).

- If the New Space is not located within the Lands, the City will endeavor to provide the Co-op with one or more options for New Space that will be located within the neighborhood, or if no viable options are available within the neighborhood[10], as determined by the City, the City will work with the Co-op to find a location for the New Space that is amenable to the Co-op, acting reasonably. Notwithstanding the foregoing, if the Co-op does not accept the offer for the New Space for any reason, the City may continue with its plans to redevelop the Lands and the Renewal Lease will terminate in accordance with the Redevelopment Notice. [i]

[10] "Neighborhood" in this context refers to the local planning area in which the co-op is currently located. To learn more, visit the City's local area map: http://vancouver.ca/newscalendar/areas-of-the-city.aspx

- The New Lease will include provisions that enable the Co-op to arrange for any necessary financing/funding if the Co-op is required to construct the replacement housing units within the New Space and/or if the Co-op wishes to construct other uses on site, including additional units, which shall all be at the Co-op's sole cost and expense.

c) New Space Lease Affordability/Housing Charges

- Any lease rates that are set below market rates will require Council approval, as a grant, at the time of approval by Council of the New Lease for the New Space.

- The New Lease for the New Space will incorporate lease rates that preserve the affordability for moderate to low income Co-op members registered within the Co-op.

- Funding from senior levels of government will be pursued whenever such funding is available.

- The methodology for determining land rent will be based on the projected revenue and expenses of the project, the project's ability to deliver the level of affordability as agreed by the City and the Co-op, the project's ability to secure construction financing to construct improvements within the Lands or off-site lands (or repay the cost of construction/acquisition of an already constructed asset - e.g. turn-key units within an off-site building), and ensure long-term viability over the term of the New Lease.

- The City's then-prevailing policies applicable to Co-ops and affordable housing will be the policies that will govern at the time the City exercises its redevelopment option for the Lands and the City and the Co-op prepare the New Lease.

- The methodology for the New Lease valuation involves the following housing charge assumptions, subject to change to meet senior government funding/financing requirements:

	EXISTING CO-OP UNITS	**NEW CO-OP UNITS**
RGI Unit Housing Charges	Will remain consistent with current housing charges and adjusted based on income testing throughout the term of the lease	New housing charges from additional Co-op units created from the project are based on income of the new Co-op member determined at the time of occupancy and adjusted based on income testing throughout the term of the lease[11]
Non-RGI Unit Housing Charges	May increase from current to support project viability and not to exceed 30% of the average household income of the existing non-RGI Co-op members Incomes that support low end of market rates will be assumed when determining the average household income of the existing non-RGI Co-op members for individual members that do not	Incomes that support low end of market rates at the time of redevelopment will be assumed for these units and incorporated into the average household income of the non-RGI Co-op members

[11] Note: Affordability of any non-co-op units created from the project are based on a minimum affordability determined by the City

	EXISTING CO-OP UNITS	NEW CO-OP UNITS
	participate in income testing at the time of redevelopment Increases in housing charges will also be assumed during the term of the lease to account for anticipated cost escalation and member turnover	
	Non-RGI housing charges will never decrease during the term of the lease and escalate at least with increases in operating costs and projected capital reserve contributions for capital maintenance anticipated in the remaining term of the lease. Any future net operating income will be structured as rent to the City subject to lender requirements, and/or surpluses to be shared with the Co-op, with the Co-ops share used to support future lease renewal payments and/or redevelopment The ground rent and surplus received by the City are to invest in future affordable housing in Vancouver as part of the portfolio strategy within the new Vancouver Affordable Housing Endowment Fund. For reporting purposes, the average income for non-RGI Co-op members is required at least every 5 years during the term of the lease or other frequency aligned with senior government lender requirements	

d) Temporary Relocation

- In the event the City has provided the Redevelopment Notice and the Co-op has elected to proceed with entering into the New Lease for the New Space, but such New Space will not be ready for occupancy at the time the Renewal Lease is terminated:

    - The City will find temporary housing for all then-current registered Co-op member households in reasonably suitable accommodation
    - If the Co-op is leased an asset (existing building or ASP) to maintain/operate for the temporary period, the Lease rate will align with the lease renewal methodology for determining lease rate with lower assumed capex given short term nature of lease (effectively a grant requiring Council approval)
    - If the Co-op is a tenant during the temporary period in a building for a defined number of units (no asset management requirements), Rent is lower of market rates or lease rent in lease renewal methodology for determining gross annual income of the Co-op based on income/affordability
    - The City will make reasonable efforts to locate such temporary housing within the same community.
    - Such temporary housing will be made available until such time as the New Space is ready for occupancy.

- Note: If the Co-op has elected to NOT enter into the New Lease for the New Space, the City will follow the then-existing City policies and/or guidelines regarding individual tenants that are requesting assistance in finding new accommodations.

e) Outstanding Debt & Capital Maintenance Planning

- In the event the City has issued the Redevelopment Notice, the City will commit to:

    i. Repayment of any debt that the Co-op may have registered against its leasehold interest for capital rehabilitation costs that is outstanding at the time the Renewal

Lease is terminated resulting from the City exercising its option to redevelop the Lands, provided such debt is in good standing and owed by the Co-op to a financial institution under a mortgage, the terms of which were previously approved, if approval was necessary, by the City in accordance with the terms of the Renewal Lease.

ii. Coordinate with the Co-op on a capital maintenance plan during the 5-year period following delivery of the Redevelopment Notice so capital investments made by the Co-op are reflective of the redevelopment time horizon and adequately manage the condition of the existing Building prior to redevelopment.

<u>Appendix C</u>: Scenarios for Co-op members based on Staff recommendations

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

	Annual income	**Current housing charge**	**Housing charge in 2027**	**Estimated discount to market** ($2,295 in 2027)	**Details**
Low-income senior	$40,000	RGI - $1,000	RGI - $1,000	56% below market	A low-income senior would pay the same geared-to-income monthly housing charge as they currently do and a portion of it would be covered by a senior government or subsidy provided by the Co-op. The City is recommending focusing subsidies to low-income households, meaning deeper discounts would be given to households with a demonstrated need. The City would reduce the ground rent owed, so that 90 per cent of the housing charge (the amount the resident pays to live in the Co-op every month) would be applied to the operation and maintenance of the Co-op. The Co-op could continue providing affordable housing to this low-income senior.
Middle-income family with young children	$67,500	$1,335	$1,687	26% below market	A family with young children would end up paying a maximum of 30% of their income in housing charges in seven years' time, or around $1,687 per month. Under the City's recommendations, residents would be paying 30% or less of their income once the rent increases take effect. A transition grant would help slow these rent increases, meaning that in seven years' time the family would be paying approx. $1,687 by 2027 for a two-bed household (approx. annual increase of $50/month) This is still 26% below the expected market equivalent.
High-income couple	$130,000	$1,335	$1,879	18% below market	A couple with high household income would end up paying approximately 16% of their income for rent in seven years' time, this is still far below the average proportion of income that renters pay in Vancouver. As with the example above, the transition grant would slow the rent increase. In this example their monthly housing charge would increase by $78 each year. While their housing charge would increase, they would be able to remain in their unit and continue paying considerably less than market rates.

Appendix D: CHF BC Lease Rate Approach

A co-op that renews its lease under the new framework will, starting from its then current Housing Charges and other revenue, use its borrowing capacity and reserves to:

- Retire or refinance any debt that is past its scheduled payout date.
- Undertake any immediate capital projects indicated by its Asset Management Plan (AMP).
- Fund such up-front payment to the City as the City may deem appropriate up to a maximum of the appraised value of the lease.

Following the renewal, the co-op will:

- Increase Housing Charge and other revenue to the point that the co-op can cover, once CMHC's Rental Assistance Program expires, through gross Housing Charges collected from all members, revenues sufficient to:
    - Service existing debt as scheduled.
    - Pay scheduled capital expenses and fund reserves consistent with its AMP. Amounts in excess of the agreed benchmark will be the co-op's responsibility.
    - Pay its operating expenses. Amounts in excess of the agreed benchmark will be the co-op's responsibility.
    - Support a minimum 15% of members for whom the co-op's breakeven Housing Charge would be greater than 30% of gross income at an affordable Housing Charge.
- During this period, it will make the scheduled payments to the City specified in the lease, less amounts deducted or waived as credit for any unexpired portion of the existing lease.

Once the affordability target is reached:

- Housing Charges inflate at 2%/year or more as required by the AMP and the affordability requirement.
- Scheduled payments to the City will continue until the end of the lease term or until the sum of the up-front payment to the City and the scheduled lease payments equals the appraised value of the lease, whichever occurs sooner.

The sum of the up-front payment and the scheduled payments, less a credit for any unexpired portion of the existing lease, will constitute the price, and the difference, if any, between the appraised value of the lease and the price will constitute the City grant. For greater clarity, the credit for any unexpired portion of the existing lease will be realized by waiving scheduled lease payments (but still crediting them to the accumulated amount paid) until the balance of the credit is retired.

Appendix E: Co-op Housing Engagement Summary

Final Report - October 2020

In January, the City released a discussion paper with four lease renewal scenarios to address concerns voiced by co-op boards and members. A survey was developed to accompany the discussion paper as an engagement tool to gauge public opinion on the proposed lease renewal scenarios. The feedback will be used to refine the scenarios and will help the City better understand the challenges and concerns of co-ops.

As of June 30, 2020 staff have received 266 complete responses and 877 total responses to the online survey. The survey launched on January 27, 2020 on the new public facing webpage: vancouver.ca/co-ops. In addition to the online survey, the project team met with co-ops on an individual and case by case basis. The following report summarizes the feedback received through the engagement survey.

Context

While the survey questions were designed to learn from the public about the strengths and weaknesses of the four proposed lease renewal methodologies (Scenario A, B, C, D), many of the comments overwhelmingly expressed the importance of co-ops to living and working in Vancouver. The most common sentiment expressed throughout all of the feedback received, was to *keep existing co-ops and to build more co-ops so that more people in Vancouver can benefit from this housing model.*

Select quotes from survey participants:

"I just love the live [sic] of a co-op. As a single senior with lots of life ahead of me, I always felt safe and happy as part of the co-op family. It is different from living in a rental apartment as you get to know all of your neighbours."

"This beautiful housing model is an essential part of any realistic solution to housing affordability."

"I grew up in a housing co-operative and I live in one now (after a decade of trying to survive as a single parent living in run down basement suites) and it's changed our lives. Truly. It has completely changed the whole trajectory of my kid's life, and mine as well. The more co-operative housing we can provide, the better. This IS the solution for low-mid income Vancouverites, any co-op resident will tell you the same."

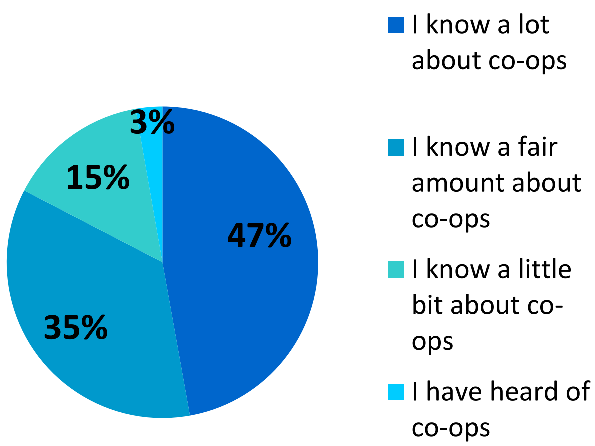
"Co-op housing offers a beacon of hope for many of us who would love to stay in Vancouver but can never imagine being able to afford more than unstable housing…"

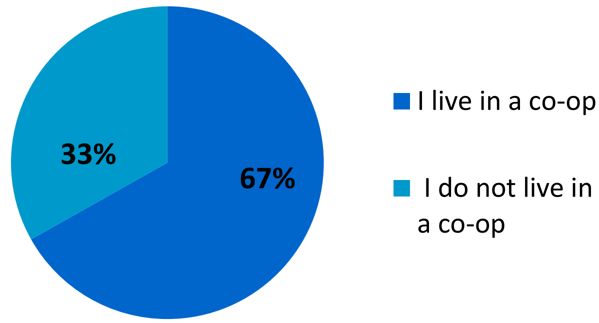
In addition, many comments expressed the challenge and instability of living in Vancouver as the underlying frame for their comments about each scenario.

"We are all living on an economic knife edge, one step away from homelessness. My neighbours live in fear of displacement…perhaps living in Vancouver these days means every lower income person has to do a stint of homelessness. It's a merry go round of poverty."

Participants

The majority of survey respondents were very familiar with co-ops: 82% of respondents reported either knowing a lot about co-ops or a fair amount about co-ops. Further to this, 67% of respondents identified as living in a co-op with representation from 41 unique co-ops across the City (see Appendix A for list of co-ops that were engaged). Respondents range from having lived in a co-op from less than one month to 40 years with the average length of time living in a co-op being 16 years.



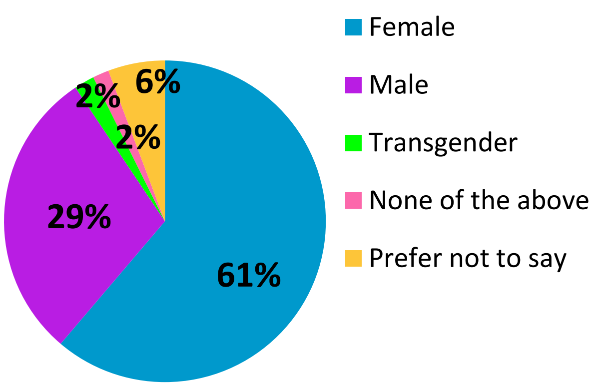


Demographics

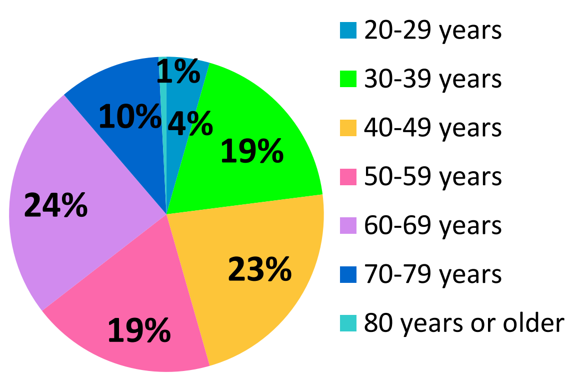
Families with children:

- 35% of participants have children at home
- 65% of participants do not have children at home

Gender:



Age:



When asked, "*how did you hear about this consultation?*" the three most common responses were online news, social media and through a connection to a co-op (i.e. co-op mailing list or notice to members).

Scenarios

There are four scenarios presented in the discussion paper that reflect differing approaches to renewing leases. The scenarios attempt to balance the interests of co-op members and the City's commitment to deliver affordable housing on public land.

Scenario A - Basic Renewal

The City would provide a discount to the annual ground rent paid by the co-op to ensure 15% of units pay housing charges geared to their household incomes. Co-ops would only be required to meet basic reporting requirements with limited annual monitoring and lease reporting.

Survey participants were asked to provide comments on the benefits and drawbacks of this scenario. Comments are organized by commonly occurring themes. Many of the drawbacks also suggest recommendations for improvements.

Benefits to Scenario

Drawbacks to Scenario

Maintaining autonomy
Co-ops are able to maintain their autonomy and self-governance structures independent of the City.

Limiting reporting requirements
Many co-ops are managed by volunteers; this scenario would simplify reporting for the volunteers.

Keeping status quo
Maintaining status quo was seen as a significant benefit. In particular, the ability to stay as mixed income communities.

Maintaining privacy
Privacy was cited as important for maintaining dignity of the members (i.e. not sharing income statements with volunteer management). A proposed recommendation is anonymous reporting.

Certainty of ground rents

Participants like the certainty of the ground rent required by the City and felt that this would make planning for the future and budgeting easier for the co-op, especially regarding infrastructure upgrades. This also enables better stability for residents.

Need more accountability
Critique that basic reporting would not be enough and that both an individual's assets and income should be required to ensure subsidies are going to those who need it most.

Redundancy of reporting
Survey respondents indicated that co-ops already have reporting requirements to the Provincial and Federal governments.

Need for improved management and oversight
Members would need training in administration and management to implement this approach. There is also a need for improved oversight to ensure units are not being used for temporary rentals and that family units are being allocated to families (2/3-bedroom units).

RGI percentage is inadequate
This was the most commonly cited feedback with many participants indicating that more than 15% of units should be at RGI/housing-charge-geared-to-income rates. Some people felt that all housing should be RGI and, in particular, all accessible units.

Housing-charge-geared-to-income (HCGI) approach

Support for 15% HCGI units.

Summary of themes

Scenario A would provide better support for volunteers in terms of management and reporting.

Scenario A ensures autonomy of each co-op.

Scenario A doesn't improve affordability and there are many fears of displacement for existing members.

Many buildings require infrastructure upgrades and Scenario A does not provide enough support to pay for these.

Fear of displacement

Many of the comments expressed concern that this option would price out existing members including members who are ineligible for subsidies. There was a desire to see a more nimble approach that could respond to changes in a person's income status over time. In addition, there was concern that members who are currently over-housed would be displaced.

Does not strengthen affordability

Many respondents indicated that the ground rent increases would be unaffordable; the existing 30% measure for affordability was not enough and should also include childcare, and that there would not be enough support (short and long-term subsidies) for people facing income instability.

Deterioration of buildings

It was identified by many co-op members that various buildings were in need of renewal and that paying for and planning for this was challenging for co-ops, especially those with short leases. There was also concern that members would have to make an unfair choice between building renewal and rent subsidies. There was a desire by some respondents to give co-ops the option to purchase their land from the City.

Maximizing housing

Some respondents felt that this option does not leverage the value of the land to build more affordable housing. Therefore, this scenario would not increase access to co-op housing.

Impact to culture of co-ops

Many expressed that this scenario does not consider participation in co-op life as part of the income equation. There is also concern about retaining the diverse mix of community members.

Scenario B - Affordability Grant

A co-op pays the City ground rent on an annual basis that is more deeply discounted. This larger discount includes the discount provided in the Basic Renewal scenario, plus an additional discount based on the actual incomes of households within the co-op. To ensure grants are provided to those with demonstrated need, the City will require anonymized income information.

Benefits to scenario

City support
Helpful to have the City's support for operation and management of co-ops. In addition having discounted annual rents will improve stability. Some respondents felt that more reporting requirements for more affordability was a fair exchange.

Affordability
No one will spend more than 30% of their income on housing. This will allow all members to have affordable housing, ensure families can stay in Vancouver and for co-ops to maintain a mix of incomes. In addition, there is support for an RGI approach.

Transparency
City oversight of reporting and increased income transparency will provide better access to grants for those with demonstrated need. Other comments suggested that this scenario will promote fairness.

Summary of Themes

Support for strengthening affordability for all

Increased transparency from City oversight and increased reporting.

Scenario B reduces autonomy and privacy.

Affordability measure, maximum 30% of income spent on rent, would not be sufficient.

Drawbacks to scenario

Negative impact on community
There was concern expressed that this option will not enable a diversity of members to continue to live in a co-op. It would create homogeneity.

Affordability measures are not affordable
Desire for the City to focus on affordability more holistically. The most commonly expressed theme was 30% of income spent on rent would be too high and further disadvantage low-income residents. There was a desire to see protection against displacement built into the scenario. Multiple comments indicated that there should also be shelter rate and emergency housing units. Further, there was concern that high income earners would take the place of low- income earners and cause erosion of the social mix that is an inherent value of co-ops.

Administration of grants
Respondents indicated that without grant certainty from year to year, co-ops can't invest and plan for their futures.

Reporting reduces autonomy
A common sentiment expressed was that the level of reporting required by the City reduces the autonomy of the co-op. Many respondents shared that the reporting requirements were invasive and onerous, putting an unfair responsibility on volunteers. For co-ops that don't have volunteer management they felt this would require an added expense of hiring an administrator.

Building renewal
Concern that there would not be funds to support building repairs due to high levels of rent subsidy.

Scenario C - End of Lease

In the event that a co-op does not wish to renew their lease with the City, the lease would end. In this case the City would work with the co-op to protect members from displacement. A request for expressions of interest would be initiated by the City to identify a co-op or non-profit operator to take over the housing operations.

Benefits to Scenario

This option received the most negative feedback with many comments citing that it had *"no benefits."*

Experienced management

Some respondents felt that non-profit management could be a benefit for some co-ops and could bring an insurgence of new ideas and best practices. Other comments indicated that this would be dependent on who the non-profit was, thus co-ops would want to be included in this decision.

Increase housing stock

A few participants felt that this scenario creates an opportunity for renewal and potential expansion of co-ops. This could be particularly helpful for co-ops in need of infrastructure upgrades.

Reduce displacement

A non-profit provider could better support housing people who need it most.

Summary of themes

New non-profit operators could bring experience and new ideas to the co-op.

Concern that this scenario could change the management model and there is strong desire to see co-ops continue to operate as co- ops.

Fear of housing insecurity and displacement.

Drawbacks to Scenario

Change of management model

There was much concern expressed with regard to changing the management model of co-ops. There was fear that this could create more restrictive rules and reduce the control of co-op members.
Comments expressed that the existing co-op model should be maintained as it is both well established and successful. Respondents expressed concerns that the City would not prioritize housing needs above profit from development.
A few participants provided recommendations to improve this scenario:

- Creating guidelines that model co-op living
- Creating agreements that include timing of transfer in order to avoid a repeat of Little Mountain.
- Enable management of certain co-ops by existing co-op operators.

Displacement

This scenario was repeatedly referenced as stressful for members. There was concern about housing insecurity during transition and potential rent increases with a new operator.

Building renewal

This scenario does not help aging building stock or increase the amount of co-ops available. Respondents expressed a desire for the federal government to intervene in order to designate the land for co-op use in perpetuity.
Co-op members also expressed a desire to be compensated for money invested in the co-op over time.

Scenario D - Redevelopment

As co-op buildings age, they may need major system and seismic upgrades, renovations, and repairs. In cases where the needed repairs are significant, there may be an opportunity to redevelop existing buildings and increase the number of affordable co-op homes. In this case, the City would work with the co-op to minimize displacement and disruption to co-op members. This process would be individualized and case-by-case.

Benefits to Scenario

Building renewal

Many buildings need to be redeveloped. This could be strategic timing and redevelopment could provide the opportunity to improve energy efficiency measures. The financial burden of maintaining an older building would decrease.

Increased housing stock

A commonly expressed benefit of this scenario was that it could increase the amount of housing available. In particular, the City could build more affordable housing and more co-ops. Others expressed that redevelopment would be a better use of City resources.

Summary of themes

Support for renewing buildings and creating opportunities to increase housing stock.

Strong support for building more co-ops and affordable housing.

Concern that Scenario D will be disruptive for co-op members and lead to displacement.

Concern that Scenario D will decrease the community cohesion that exists in co-ops.

Suggestion that this scenario should be considered separate to lease renewals process.

Drawbacks to Scenario

Displacement

Many respondents expressed this scenario would be disruptive to members

and cause displacement. There was concern for how redevelopment would impact vulnerable community members such as seniors and families. Comments indicated that this scenario would be gentrification.

Reduce affordability

Concern that new units would result in housing charges that are no longer affordable and reduce subsidized housing. Recommendation that new developments should only have RGI units.

Management concerns

It was emphasized that existing co-op members should be granted right of first refusal. In addition, co-ops should keep their autonomy. There was a recommendation that there should be a framework to coordinate redevelopment over the long term so that it is not a piecemeal approach and that the merit of redevelopment should be considered case by case. Other management models suggested were community land trust and non-profits.

Erosion of community

Fear that existing communities will be severed and that other housing types (condos) will not foster community interaction. New developments should include common spaces, garden/outdoor space and childcare.

Housing model

Fear that redevelopment would create smaller units. Recommendation to use existing land on site and around existing co-ops to add density by infill as opposed to full redevelopment. Desire for the City to incentivize building more co-ops.

Questions received for each scenario

Scenario A

- Will the 30% affordability measure still exist for this scenario?
- With limited reporting, is there a risk of the co-op being mismanaged or taking advantage of City subsidies? Is there a history of this that warrants additional reporting?
- If the maximum number of units priced at household income is set at 15%, are the remaining 85% of units priced at market rates? Or is 15% a minimum target?
- Would 15% RGI only apply to new or existing members?
- Does the City use median incomes to calculate lease costs?
- Seeking clarity on ground rent calculations and costs.
- Why does the City have a say in co-ops?

Scenario B

- How do you value the volunteer hours and the other countless benefits to the City of healthy mixed communities?
- Would the City be able to make sure the anonymous income statements are real and not manipulated?
- Over the next few year a very large portion of our members will retire and their incomes will drop. Is the ground rent discount negotiable every couple of years or is it a one-time study?
- Does the co-op maintain autonomy over member selection? How do incomes of new members affect an ongoing lease? Have operating costs been factored into lease rates as well as simple rent income?
- Will there still be a minimum/maximum income required to live in a co-op?
- Where do funds to pay the ground lease come from?

Scenario C

- How would the City vet “*partners*”? Would there be opportunities for groups to come together to become their own co-op non-profit operators?
- How would the decision be made about who would administer the building? Would the co-op have a say in deciding?
- What would happen to the co-op if an agreement with a non-profit collapsed?

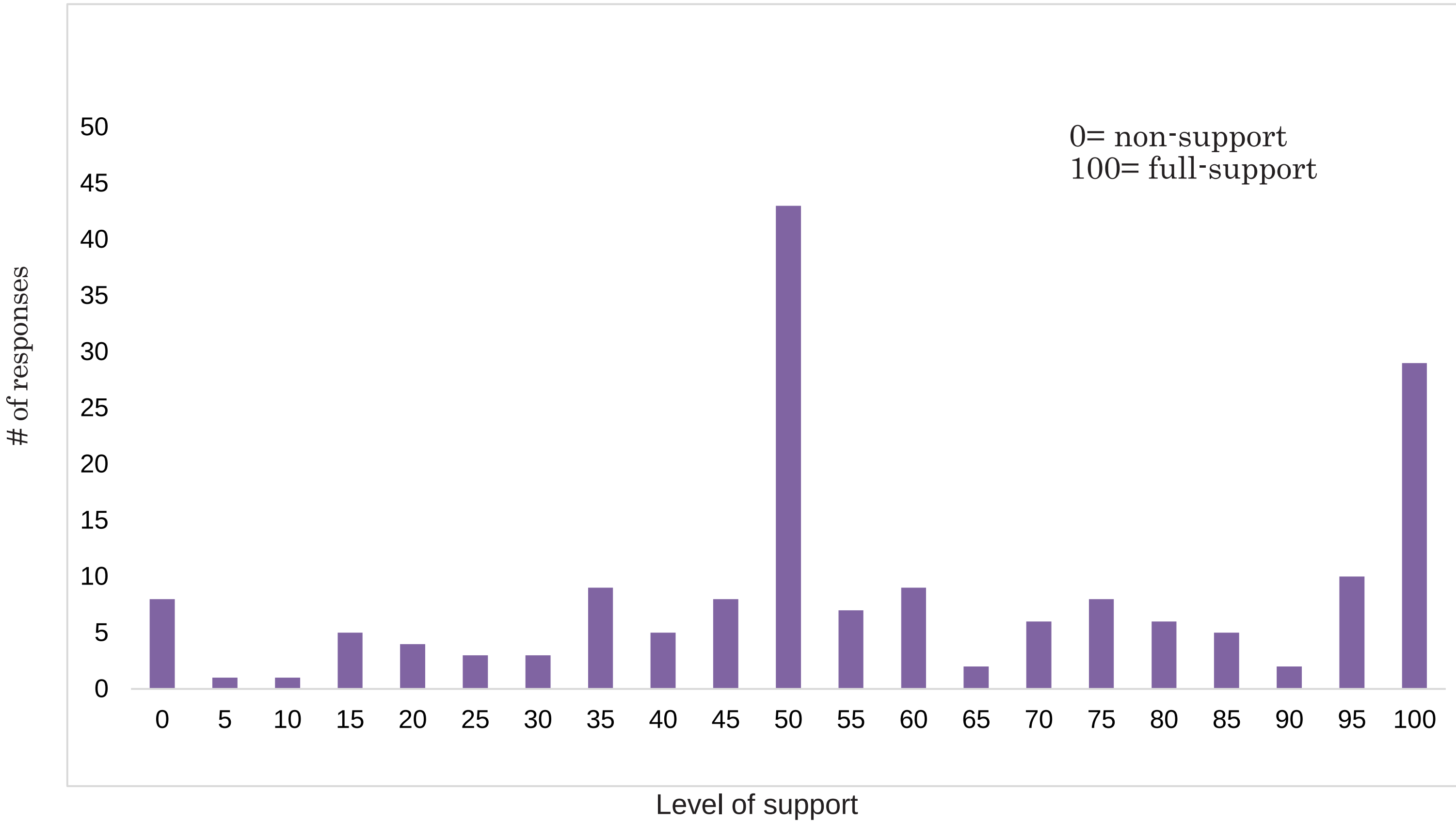
Scenario D

- What would the co-op structure look like in a redevelopment scenario? Would the co-ops be forced to redevelop? How much autonomy would they retain? How affordable would units be? What kind of Operating Agreement and subsidy structure would be put in place?
- How do the City and co-ops determine if redevelopment needs to be set in motion?

Overall support

Survey participants were asked to rank overall level of support for the lease renewal methodologies on a scale from 0-100. The graph below illustrates 0 as non-support and 100 being full-support for the proposed scenarios. The responses indicate the majority of respondents (73%) support the scenarios outlined in the Discussion Paper, providing a score of 50 and above. Meanwhile, 27% of respondents do not support the scenarios, providing a score under 50.

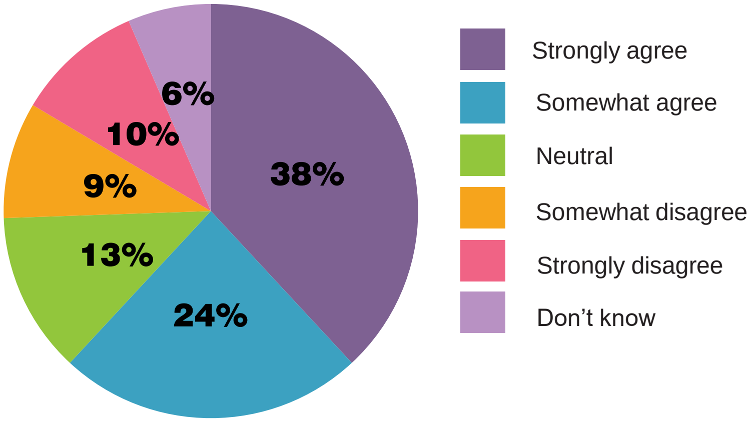
Overall level of support for scenario approach from 0-100



Grants

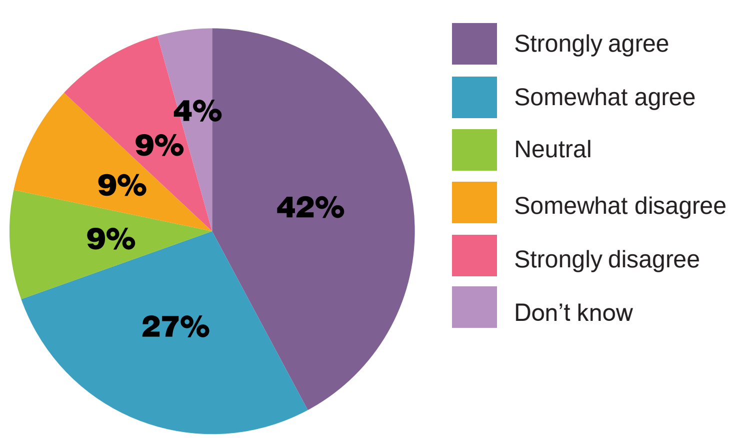
Annual Grants

Participants were asked if they support the City's approach to provide annual grants using a scale to rank level of agreement.



Transition Grants

Participants were asked if they support the City's approach to provide transition grants using a scale to rank level of agreement.



Grant comments

- Mixed opinions on whether grants should be awarded to co-ops based on whole or individual memberships.
- Housing should be affordable without need for grants.
- Support for building in accountability measures such as income verification.
- More information is needed to determine if seven years is adequate for a transition grant.
- Questions about what happens after seven years.
- Co-ops need money allocated specifically for management.
- Co-ops need renewal and building upgrade grants in addition to the grants proposed.

List of co-op that responded to the engagement survey

Access Co-op	Four Sisters Co-op	Marpole Terrace Co-op
Alder Bay Co-op	Grace MacInnis Co-op	Matheson Heights Co-op
Alexander Laidlaw Co-op	Helen's Court Co-op	Mau Dan Gardens Co-op
Amicae Co-op.	Heritage Co-op	Northern Way Co-op
Arbutus Co-op	Jasmine Place Co-op	Pacific Heights Co-op
Arlington Grove Co-op	Jericho Place	Paloma Co-op
Athletes Village Co-op	Kaslo Gardens Co-op	Penta Co-op
Cedar Mill Co-op	Killarney Gardens Co-op	Rising Star Co-op
City Edge Co-op	Kinross Creek Co-op	Still Creek Co-op
Creekview Co-op	La Petite Maison Co-op	Sunbridge Co-op
De Cosmos Village Co-op	Le Coeur Co-op	The Edge
Eight Oaks Co-op	Lore Krill Co-op	Twin Rainbows Co-op
False Creek Co-op	Maple Creek Co-op	Vera Co-op
Fraserview Co-op	Marina Co-op	

Summary of feedback from CMHC, CHF BC and RePlans's AWG.

CMHC:

- Some National Housing Strategy programs have higher minimum affordability targets than 15% minimum in Basic Renewal. FCHI-2 supplement program does not allow for stacking with the City's Affordability Grant for the same households. A maximum of 60% of households can receive subsidy from all sources with limited exceptions.
- The City would need to work with CMHC to transfer FCHI-2 or other federally administered agreement to a different housing provider in lease end scenario.
- FCHI-2 does not impose income caps for non-subsidized households; encourages co-ops to set non-assisted housing charges as close as possible to market rents for internal co-op cross-subsidy.
- Annual rent escalation does not align with lending requirements but may be permitted in certain scenarios.

CHF BC

- Preference for longer, prepaid lease terms to allow longer amortization of mortgages for capital repairs.
- Concerns about capital and debt service costs not being factored into the benchmark land rent calculation.
- Property Transfer Tax cost poses a significant challenge (CHF BC expects the possibility of a levy even in the case of a 30 year lease length).
- CHF BC advocates for compensation based on remaining lease length in the case of early re-negotiation.
- Escalating land rent poses challenge for lenders.

RePlans's AWG

- Longer lease terms with a prepaid option.
- Lease costs that allow long-term financial viability, informed by data-driven decision making (i.e. co-op expenses and median Vancouver renter incomes)
- Continued self-governance, with accountability.
- RePlan made three requests of the City:
    1. The City's proposal should be endorsed by CHF BC and an external financial institution.
    2. That staff complete co-op lease renewal on terms approved by Council by July 6, 2021.
    3. That if terms of renewal are not satisfactory for co-ops with expiring leases, to allow the co-op to hold over for an additional year without penalty or cost.
- Co-op participation in redevelopment planning.