

ITEM SUPPLEMENTARY 31
MANAGER'S REPORT NO. 55
COUNCIL MEETING 89/09/05

RE: CARIBOO HEIGHTS DEVELOPMENT PLAN; NON-MARKET HOUSING SITES

MUNICIPAL MANAGER'S RECOMMENDATION:

1. THAT the recommendations of the Director Planning & Building Inspection be adopted.

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TO: MUNICIPAL MANAGER 1989 August 29
FROM: DIRECTOR PLANNING &
BUILDING INSPECTION

SUBJECT: CARIBOO HEIGHTS DEVELOPMENT PLAN; NON-MARKET HOUSING SITES

PURPOSE: To provide staff comments on the proposal that non-market group housing sites be made available on the basis of a 40 year lease, at 75% of market value.

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RECOMMENDATION:

1. THAT, as a policy guideline, municipally owned sites allocated for non-market housing purposes be made available on the basis of a 60 year pre-paid lease at 75% of market value.
2. THAT Council request the Housing Committee to review the Municipal Solicitor's alternative financing concept for the development of non-market housing, and report their recommendations to Council.

R E P O R T

1.0 BACKGROUND:

At its In Camera Meeting of 1989 August 08, Municipal Council received for information a report regarding the proposal by the Burnaby Loughheed Lions Housing Society to develop non-profit rental housing in the Cariboo Heights area. Arising out of their discussion, Council referred the following motion to staff for comment:

"THAT Council make non-market group housing sites available on the basis of a 40-year lease, at 75% of market value".

This report responds to this request.

2.0 CITY OF VANCOUVER EXPERIENCE

In the past, the City of Vancouver offered city owned land for non-profit housing developments on the basis of 40 or 41 year leases at 75% of market value. A simple analysis done by the City revealed that the City would

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break-even on its investment on a 41 year lease term. Subsequent analysis by CMHC and BCHMC concluded that a 60 year lease constitutes a break-even situation.

City of Vancouver Social Planning staff acknowledge that their initial analysis was based on very conservative assumptions, for example, the increase in land value over the lease term would not exceed the rate of inflation. It is recognized by Vancouver's Social Planning staff that further in depth analysis may conclude that a 41 year lease is 'too good a deal' and a longer term would be appropriate.

Moreover, the City has acknowledged that the Province will not support a 40 or 41 year lease at 75% of market value for developments under its Non-Profit Rental Housing Program. As a result, the City of Vancouver has moved to a 60 year term for its latest non-profit housing development, being a co-operative housing development in Champlain Heights.

3.0 REQUIREMENTS OF BCHMC

Staff has discussed the issue of a shorter lease term with staff at BC Housing Management Commission who have confirmed that a 60 year lease is considered preferable. A 40 year lease term may be considered, but the terms of the lease, including the write down from market value, would have to be negotiated. BCHMC have indicated that a 40 year lease at about 43-45% of market value may be considered, if such a lease were to be offered.

4.0 REQUIREMENTS OF CMHC

CMHC has also confirmed that a 40 year lease at 75% of value would not be acceptable for leased land under the Federal government's Co-operative Housing Program. The Co-operative Housing Program uses an alternative mortgage instrument, called the Index Linked Mortgage (ILM) that has the effect of lowering mortgage payments in the initial years of the mortgage term to increase affordability in the crucial initial years. The mortgage balance owing peaks between year 12 and 15 on a 30 year amortization.

In the event of possible default, or unforeseen extra costs such as major repairs, the 40 year lease term does not give a sufficient length of time to accommodate an increase in the amortization period to adequately respond to these situations. Considering this, CMHC cannot guarantee a loan for a co-op development with a lease based on a 40 year term at 75% of value as the risk to the mortgage insurance fund is considered too great. CMHC requires a 60 year lease at 75% of market value, but may consider a slightly lower lease term if the write down in value is increased.

5.0 DISCUSSION

It is apparent that offering municipal sites designated for non-profit housing on the basis of a 40 year pre-paid lease at 75% of value would render the sites ineligible for the senior governments' current social housing programs, resulting in no unit allocation. The Planning & Building Inspection Department staff still believe that the senior government's social housing programs offer the best opportunities for development of non-profit housing in the municipality.

As noted above, the City of Vancouver, BCHMC, and CMHC all regard a 60 year pre-paid lease at 75% of market value as being appropriate for non-profit housing development. It appears that a shorter lease term may be acceptable only if a greater write down from market value is realized. In the case of CMHC, a 60 year lease is considered necessary due to the nature of the mortgage instrument used for the co-operative housing program, although there is indication that a slightly shorter lease term may be considered on an individual site basis.

It is evident that the amount of write down from market value required to make a given project feasible under the senior government's social housing programs is related to variations in property values. Property value may vary with location and with the state of the land market at any time.

In essence, if a larger write down from market value is required then a shorter lease term may be negotiated with the funding agency.

In summary, it is evident that for the senior governments' social housing programs, a pre-paid land lease of 60 years at 75% of market value is generally considered acceptable. There may be instances, due to variable property values, where a write-down of greater than 25% from market value is desired. In this case, prior to entering negotiations, staff would report on the specific circumstances of the site, the proposed development, the financial implications and results of preliminary discussions with the funding agency. In this report, staff would make a recommendation to Council whether this deviation from policy should be pursued.

6.0 MUNICIPAL SOLICITOR'S ALTERNATIVE FINANCING ARRANGEMENT

The above comments are predicated on the structure and requirements of the Federal Government's Co-operative Housing Program and the Provincial/Federal Non-Profit Rental Housing Program. The Municipal Solicitor is of the opinion that there is a more favorable financing arrangement that could be utilized to fund housing on the non-market housing sites. According to the Municipal Solicitor's concept, once the mortgage had been paid off, rent (or, in the case of co-ops, housing charge) revenues from the project would be paid directly to the lessor (the municipality) for the balance of the lease term. In this way, the original 'write-down' from market value can be recaptured.

This financing formula is very different from what is currently accepted under the senior government's programs. Since these programs will be soon entering an evaluation phase, it would be timely to review this alternative more closely, and if proven desirable, present it as a model to the senior governments for affected municipal lands. It is recommended therefore, the Housing Committee examine the financing concept and report their recommendations to Council.

7.0 CARIBOO NON-MARKET HOUSING--THE NEXT STEPS

With regard to non-profit housing at Cariboo Heights, Planning & Building Inspection Department staff members have met with CMHC about the feasibility of establishing a housing co-operative on a site designated for such purposes. Staff will be reporting in the very near future on these discussions and the process required to achieve this goal. CMHC has indicated that they prefer that the terms of the lease be worked out very early in the process.

Staff will also be reporting in the near future on a process by which non-profit groups can be selected for any possible future non-profit housing initiatives on municipal land. As part of this, staff hope to establish an informal system whereby possible sites can be reviewed by the funding agency prior to selection of a group so that issues such as project viability and possible lease terms are raised at the outset.

8.0 CONCLUSION

It is suggested that as a policy guideline, non-market group housing sites be made available on the basis of a 60 year pre-paid lease at 75% of market value. It is recognized that due to variations and fluctuations in land value, there may be requests to deviate from this policy in order to develop non-market housing under the senior governments' programs. In these instances, staff will report to Council before entering negotiations providing recommendations whether this departure from policy should be pursued. In this way, it may be possible to negotiate terms that are satisfactory to both the municipality and to the senior government funding agencies. As with all land dispositions, the final terms of the lease would be subject to the approval of Council.

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In addition, it is recommended that the Housing Committee examine the alternative financing concept that is currently being reviewed by the Municipal Solicitor, and report their recommendations to Council.

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EG/kmg

cc Municipal Solicitor
Director Finance

A.L. Parr

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DIRECTOR PLANNING
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