

TO: CITY MANAGER **DATE:** 2011 May 25

FROM: DIRECTOR PLANNING AND BUILDING **FILE:** 4500 30
Reference: 5706 Irmin St

SUBJECT: 5706 IRMIN STREET - PROPOSAL FOR DISSOLUTION OF THE CITY PROPERTY LEASE WITH ACTION LINE HOUSING SOCIETY

PURPOSE: To respond to the request from the Action Line Housing Society to dissolve their existing lease of City owned lands at 5706 Irmin Street, and to seek Council approval for the City to assume management of the existing 20-unit non-market rental family housing project on the property.

RECOMMENDATIONS:

1. **THAT** Council authorize the dissolution of the City property lease with the Action Line Housing Society of the City owned lands at 5706 Irmin Street, subject to the terms and conditions outlined in this report.
2. **THAT** the City assume management of the subject existing 20-unit housing project on the City property, as outlined in this report.
3. **THAT** a copy of this report be forwarded to the Action Line Housing Society, 3755 McGill Street, Burnaby, B.C., V5C 1M2.

REPORT

1.0 INTRODUCTION

Over the past 42 years, Action Line Housing Society has operated a 20-unit, non-market rental family housing project on City-owned land at 5706 Irmin Street (see *attached* Figure 1) under a 60-year lease agreement. The Society has recently approached the City to request that the City dissolve the remaining lease obligations, and that the land and the improvements revert back to the City. Based on a review of the property, the existing rental housing project at 5706 Irmin Street is considered to be a viable tangible asset that provides an otherwise scarce resource in the City for affordable housing.

This report reviews the request of Action Line Housing, and in response, seeks Council authorization to dissolve the existing lease, and presents a proposal for the City to assume management of this housing project, subject to specific terms and conditions. It is noted that this proposal represents a significant action on the part of the City to further contribute to the maintenance and ongoing management of this important existing rental housing stock in the City.

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2.0 LAND LEASE AGREEMENT

The existing lease with Action Line Housing Society for the 1.39 acre city-owned site at 5706 Irmin Street was signed in 1968 for a sixty-year period (terminating in 2028 October) to accommodate the development and management of 20 units of non-market rental housing for families. The project was built in 1969 with funding under Section 16a of the National Housing Act. In 2000, the Society paid off the outstanding mortgage. There is just under 18 years remaining on the land lease with the City.

The land lease rate to Action Line Housing Society was originally set at \$1 per year with the rate to be renegotiated at ten years, and then every five years thereafter. The land lease rate remained at \$1 per year between 1968 and 1985. At the time of the renegotiation of a 5 year term for the lease rate in 1985, Council authorized a land lease rate at \$1 per year provided that all the units were rented to low-income households. Specifically, the renegotiation provided for a land lease rent charge of 5% of land value which was reduced by one-twentieth for each unit rented to households with income below the low income threshold set by the CMHC Housing Income Limit (HIL). Land rent has been paid periodically since then according to the same formula. The effect of this agreement has been that no land lease rent was payable to the City if all households had incomes below the established low income threshold.

The land value for the subject property was more recently set at \$4.2 million for the purpose of establishing the current land lease rate of \$210,000 per year based on 5% of value. The actual land lease amount continues to be reduced to \$1.00 per year, if all units are rented to households that meet the Housing Income Limits (HIL). Should any unit be rented to a household with income above the HIL limit, the land lease payable by the Society is one-twentieth of the 5% land value, or \$10,500 per year (or \$875 per month) for each unit that is occupied by a tenant exceeding the maximum HIL.

Action Line Housing Society has advised that three units are occupied by families with incomes above the \$51,000 HIL currently used by the Society. As such, the resultant land lease rate owed to the City for 2010 is \$31,500.

It is proposed that payment of this owing amount to the City be part of the terms and conditions to dissolve the existing lease agreement.

3.0 THE EXISTING IMPROVEMENTS

3.1 Existing Townhouse Development

The subject twenty-unit residential development, constructed in 1969, is split into three buildings of five, six and nine contiguous three-storey townhouses. The buildings are of wood-frame construction with stucco and cedar siding. Each of the twenty units is identical in design and has a gross floor area of 1,236 square feet on three levels, with the majority of the living space on the upper two floors. Each unit has a paved driveway and a single carport with access from Irmin Street. There is no lane access.

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The lower of the three levels provides a grade-level entrance and contains a utility room and a combination two-piece washroom. The gas furnace and water heater are at this level, as well as an outer room that can be used as a games room, TV room or office. The lower level contains 294 square feet of living space.

The first upper level contains the living room, dining room and kitchen. There is no washroom on this level. Each kitchen is equipped with a refrigerator and electric range, along with a double stainless steel sink and upper and lower cabinets. This level has 471 square feet of living space.

The upper level contains three bedrooms with a full bathroom. The master bedroom is the largest of the three with the smaller two primarily designed for children. The top floor contains 471 square feet of floor space.

3.2 Building Condition

City staff inspected each of the twenty units in the complex. Given the occupied status of the building, the inspections were based on a visual assessment of each unit's exterior and interior elements.

Overall, the buildings are considered to be in average condition for their age and type. While there are a number of improvements needed, the units are considered to be very rentable and represent exceptionally good value given the size of the units. The completed assessment found that the complex has an estimated remaining economic life of about 20 years.

3.3 Building Repairs and Improvements

Based on a projected twenty-year remaining economic lifespan for the project, an estimated cost of repairs and maintenance were categorized as "immediate" and "longer term" maintenance items. Generally speaking, the "longer term" maintenance items would generally equate to those requiring attention beyond the first five-year period.

3.3.1 Immediate Maintenance Items

The cost associated with immediate maintenance items requiring attention is estimated to be in the range of \$306,000. These items include the following:

- Repairs to the guard rails and failing membrane of the wooden decks for 17 out of the 20 units; as well as replacement of some supporting elements of the decks.
- Attention to deficiencies including carbon monoxide detectors and hard-wired and interconnected smoke detectors that were either not present or non-operational.
- Other minor electrical and mechanical deficiencies such as reverse polarity in electrical receptacles.
- Required repairs and upgrades to the four vacant units to be re-tenanted.
- A general clean up of the front and rear grounds and associated landscaping.

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Of relevance to the above referenced maintenance items is the fact that Action Line Housing Society has drawn a capital reserve fund amount of \$310,000 (estimated) from the project's income over the past years for maintenance purposes.

It is proposed that the transfer of the estimated \$310,000 capital reserve fund from Action Line Housing Society to the City, to assist with the needed immediate maintenance works, be part of the terms and conditions to dissolve the lease.

3.3.2 Longer Term Maintenance Items

The subject buildings are 42 years old and will likely reach the end of their useful economic life in the next 20 years. As the improvements are retained for rental purposes going forward, the building's mechanical and electrical systems, service connections, plumbing and fixtures, interior finishes and appliances will require standard upkeep, repair or replacement. It is estimated that the costs of these longer term maintenance items can be internally funded going forward by the rents received from the project.

3.3.3 Other Potential Improvements

In 2008 January, Council adopted the recommendation of a report from the Community Development Committee refining the use of Community Benefit Bonus Housing Funds. One of the stated uses of these funds within this policy framework is to enhance the overall viability and value of affordable housing facilities. The City currently has funds available for affordable housing purposes. There is potential to use a modest portion of these funds to assist in further improving the overall livability and functionality of the complex, as well as to improve the project's integration within the surrounding area.

Staff propose to advance a future report to the Community Development Committee for consideration of specific suggestions for a modest, one time supplemental funding from this source to assist in improving the overall livability and integration of the existing project into the surrounding community.

4.0 EXISTING AND FUTURE RENTAL AGREEMENTS

4.1 Existing Rental Agreements

Currently, four units in the complex are vacant. The Society has agreed to keep these units vacant pending transfer of the property to the City in order to allow for the repair of these units and establishment of future City rental agreements. On transfer of the property to the City, the sixteen existing rental agreements, including the three with households above the HIL threshold, would be maintained, under terms of the Residential Tenancy Act, at existing rent levels with annual adjustments. It is noted that the Tenancy Agreements that are in existence at the Irmin Street complex contain an Addendum that provides for market rents up to 30% of family income for those households over the HIL. As new tenants enter the complex, new City tenancy agreements would be established. As well, existing tenants would be presented with standard

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City rental agreements based on the established terms of their existing rental agreements. The receipt of copies of the existing rental agreements by the City from the Society is necessary in order to provide for the effective transfer of existing tenancies to the City.

On this basis, it is proposed that, as part of the terms and conditions to dissolve the lease, the Society provide the signed Tenancy Agreements, including the Addendums, for all sixteen units currently being rented, to the City, prior to the City assuming management of the complex.

4.2 Future Rental Agreements

As mentioned above, the existing improvements have a remaining economic lifespan. This generally corresponds with the remainder of the existing lease term associated with the property. Also, as noted above, the existing rental agreements would be maintained, under terms of the Residential Tenancy Act, at existing rent levels with annual adjustments. To assist, however, in ensuring the ongoing financial viability of the project, a review of expected income and expense information based on various rental scenarios was completed. The results of this review have assisted in determining a model approach for a target mix of tenancies to help guide selection of future tenancies, with associated rent levels. The targeted mix of tenancies is expected to assist in the ongoing financial viability of the project to ensure that issues of future maintenance and integration of this project within the surrounding community can be addressed.

Based on this review, it is proposed that, through the application of existing, and new tenant rental agreements when tenant changes occur, a mix of income levels and associated differing rent levels be established with the objective of achieving a model target of 7 of the units (35 percent) for low income rentals (households with annual incomes below the CMHC Housing Income Limits (HIL) for the Vancouver area (currently \$53,900 for 3 bedroom units), 7 units (35 percent) being at 20 percent below market rent (for incomes between \$53,901 and \$66,000) and 6 units (30 percent) of the units at market rent levels (for households with incomes over \$66,000), with the rates and incomes to be reviewed and adjusted annually.

As noted above, this approach will provide for a blend of social and economic objectives by providing a mix of household income levels and improve rental returns to provide for the financial viability of the project under City management. This model will take some time to fully implement and would be used as rental agreements with new tenants are completed. Staff will also undertake to review the feasibility of other potential models for future consideration by Committee and Council.

To initiate this model, on transfer of the property to the City, it is proposed that two of the existing four vacant units be rented as market rental units (with no income restriction) and the remaining two at 20 percent below market rent (within appropriate income levels).

Following implementation of this proposal, based on 2011 rates, the existing complex would have 13 units (65%) rented at below HIL levels at 733.49 per month, 5 units (25%) at market levels of \$1,650 per month, and 2 units (10%) at 20 percent below market at \$1,350 per month.

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4.3 City Property Administration

On transfer of the property, its management is proposed to reside with the City's property administration staff within the Licence Office. It is noted that the transfer of the management responsibilities from Action Line Housing to the City would take some time to implement as there are number of items that would need to be addressed including providing notification of the change to each of the existing tenants, development of internal City policies and procedures for management of the complex, and completion of the overall process for the transfer of records and other matters with the Action Line Housing Society. Following transfer to the City, staff will also undertake to report to Committee and Council on the merit of having a non-profit housing provider operate the complex under a new agreement with the City.

To provide for the appropriate time to complete these and other processes associated with the transfer of the operation of the complex to the City, it is proposed that the City assume management of the project within three months of Council's adoption of the recommendations of this report, and subject to the receipt of Tenancy Agreements and related Addendums for all sixteen existing rentals.

4.4 Notification of Existing Tenants

With Council approval of the recommendations of this report, there will arise a need to inform residents within the complex of the future change in ownership and management of this rental complex.

As such, it is proposed that staff proceed to notify and meet with current residents of the Irmin Street complex, as appropriate, to advise of the expected transfer of the operation, management and ownership of the complex from the Action Line Housing Society to the City.

4.5 Annual Property Management Report

To help track the City's future management experience for the property, staff would prepare an annual report to Council for submission through the Community Development Committee. The first such report would be provided following completion of the first full calendar year of operation of the property by the City.

It is proposed that staff prepare an annual report for the consideration of the Community Development Committee and Council summarizing the City's management experiences at the complex along with associated recommendations for improvements to management policies, updates to maintenance schedules, adjustments to rental structures and updated projected time frames for continued operation of the complex.

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5.0 CONCLUSION

Action Line Housing Society no longer wishes to retain its existing 60-year lease with City for the lands accommodating a 20-unit, non-market rental family housing project at 5706 Irmin Street. As a result, it has requested that the City agree to dissolve the existing lease that has 18 years remaining.

A review of the existing improvements reveals that the buildings on this site are in average condition for their age and building type, although it is evident that there are a number of maintenance deficiencies that need immediate attention. With these improvements, it is considered that the buildings have a remaining economic life of about 20 years. As a result, it represents a tangible asset providing an otherwise scarce housing resource for its occupants, and future tenants. From this perspective, the City has undertaken a review of the facility to determine the viability of the City stepping in and assisting Action Line Housing Society by dissolving the lease and assuming the management responsibilities.

Based on a review of various rental structure scenarios and related operating expenses, and the selection of the proposed rental mix for future tenancies, the continued operation of this rental housing is considered to be both viable and self-sustaining. Recommendations with terms and conditions for the dissolution of the lease agreement with Action Line Housing Society, and for the transfer of the subject property and housing complex to the City for its management are presented in this report for Council approval. It is noted that this proposal represents a significant action on the part of the City to further contribute to the maintenance and ongoing management of this important existing rental housing stock in the City.

With Council approval of the recommendations of this report, staff would proceed to implement the proposal for dissolution of the lease agreement with the Action Line Housing Society, subject to the terms and conditions presented in this report, and to prepare the necessary policies and procedures to provide for the City's future management of this rental housing resource.

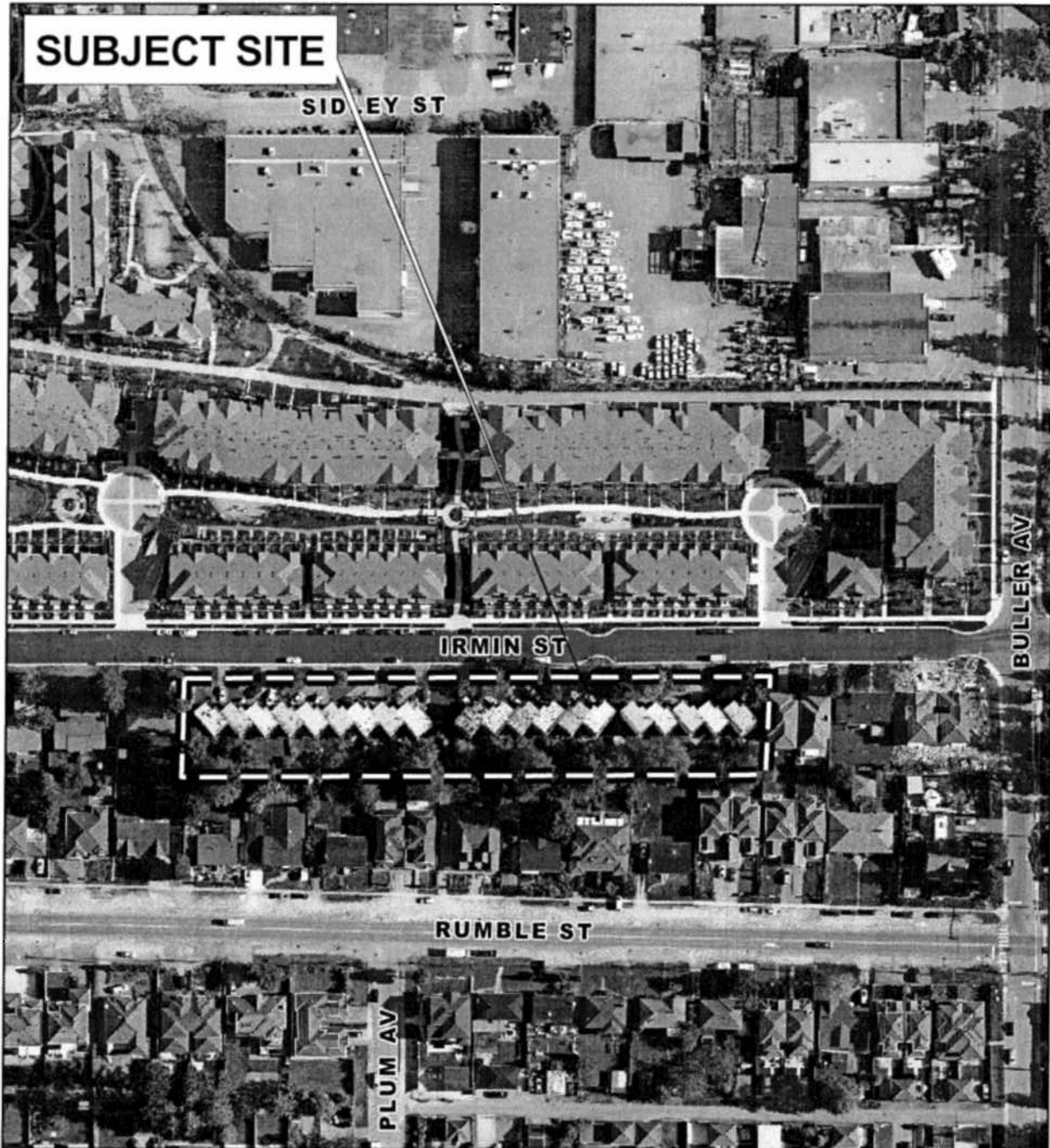


B. Luksun, Director
PLANNING AND BUILDING

LP:tn

Attachment

cc: Deputy City Managers	Director Engineering
Director Finance	Director Parks, Recreation and Cultural Services
Chief Licence Inspector	Deputy Chief Building Inspector
Property Rental Coordinator	Asst Director, Facilities Mgmt
City Solicitor	City Clerk



City of
Burnaby

PLANNING & BUILDING DEPARTMENT



DATE:
APRIL 14 2011

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