



Committee of the Whole Report

For the Meeting of March 26, 2020

To: Committee of the Whole **Date:** March 12, 2020

From: Karen Hoes, Director, Sustainable Planning and Community Development

Subject: **Revised Victoria Housing Reserve Fund Grant Application for 330-336 Michigan Street (Michigan Square)**

RECOMMENDATIONS

That Council:

1. Revise the Victoria Housing Reserve Fund (VHRF) grant, approved on February 27, 2020, to the Capital Region Housing Corporation for the Michigan Square project located at 330-336 Michigan Street from \$990,000 to \$1,020,000 to reflect a shift from market to moderate (affordable) income rent for two of the eight proposed 3-bedroom units.
2. Issue the VHRF grant funding subject to the applicant executing a Housing Grant Agreement and a Housing Agreement to the satisfaction of the City Solicitor and Director of Sustainable Planning and Community Development to secure the provision of the affordable units pursuant to the VHRF Guidelines as of March 21, 2019 on terms consistent with BC Housing's operating funding:
 - a. 7 studio units for very low income level;
 - b. 12 one-bedroom units for very low income level;
 - c. 1 two-bedroom unit for very low income level;
 - d. 9 one-bedroom units for low income level;
 - e. 11 two-bedroom units for low income level;
 - f. 2 three-bedroom units for low income level;
 - g. 12 one-bedroom units for moderate income levels
 - h. 4 two-bedroom units for moderate income levels;
 - i. 11 two-bedroom units for moderate income levels;
 - j. 20 two-bedroom units for moderate income levels; and
 - k. 2 three-bedroom units for moderate income levels.

EXECUTIVE SUMMARY

The purpose of this report is to present Council with updated recommendations related to a Victoria Housing Reserve Fund (VHRF) grant application in the amount of \$990,000 that was approved by Council on February 27, 2020 to support the construction of a 97-unit housing development at 330-336 Michigan Street by the Capital Region Housing Corporation (CRHC).

As part of the approval, Council directed staff to consult with the CRHC to explore the ability to adjust the unit mix to provide more 3-bedroom affordable units and to reduce the overall rent for 3-bedroom units. The CRHC has confirmed that they are only able to shift two of the eight 3-

bedroom units from market rent to moderate income rent without impacting the project feasibility. The two moderate income 3-bedroom units are proposed to have a monthly rent of \$2000 that is below the threshold for moderate income. These units are also eligible for additional grant funding of \$15,000 per unit. Therefore, staff are seeking approval of a revised grant in the amount of \$1,020,000.

PURPOSE

The purpose of this report is to present Council with updated recommendations related to a previously approved Victoria Housing Reserve Fund grant application for a below-market housing project at 330-336 Michigan Street, proposed by the Capital Region Housing Corporation (CRHC).

BACKGROUND

On February 27, 2020, Council considered a revised Victoria Housing Reserve Fund grant application from the Capital Region Housing Corporation seeking Council approval to reduce a previously approved grant of \$1,395,000 to \$990,000 based on the provision of fewer units and revised income targets, as outlined in a related Development Permit with Variance application that was also considered by Council on February 27, 2020. As a result, Council approved the following motion:

That Council:

1. Reduce the grant, approved on March 21, 2019, from the Victoria Housing Reserve Fund to the Capital Region Housing Corporation for the Michigan Square project located at 330-336 Michigan Street from \$1,395,000 to \$990,000 to reflect changes to the project, specifically reduction in number and composition of eligible units.
2. Confirm that all other terms and conditions of the grant approval continue to apply in accordance with the March 21, 2019 approval, except for the number and composition of proposed units.
3. Direct staff to discuss with the CRHC options to adjust the unit mix to include more affordable 3-bedroom units.
4. And explore options to reduce rents specifically for 3-bedroom units if the previous approved grant funding was offered.

ISSUES AND ANALYSIS

Increased Provision of 3-Bedroom Units

Staff met with the CRHC to discuss the ability for the project to provide more 'affordable' 3-bedroom units based on adjustments to the proposed unit mix. CRHC has confirmed that they are only able to shift two of the eight 3-bedroom units from market to 'moderate' income levels without compromising the overall project viability. As a result, the project is now eligible for an additional \$30,000 in grant funding, based on \$15,000 for 3-bedroom moderate income affordable units as outlined in the original VHRF guidelines. This adjustment will also ensure that the project provides a greater level of affordability for family-oriented housing. Therefore, staff are seeking Council's approval to increase the approved grant amount from \$990,000 to \$1,020,000.

Although the CRHC has proposed adjustments to the existing unit mix, the CRHC concluded that it would not be feasible to increase the overall unit count by providing additional 3-bedroom affordable units, as this would require the CRHC to redesign the overall project and resubmit updated building plans. The process to redesign the project would further extend the approval

process, incur the CRHC with additional design costs, and may impact the funding agreements between the CRHC and BC Housing.

Reduced Rents for 3-Bedroom Units

The CRHC has confirmed that the monthly rents for the two 'moderate' income 3-bedroom units will be reduced from \$2480 to \$2,000, which is below the \$2,125 threshold for 'moderate' income units as outlined in the VHRF guidelines. CRHC has confirmed that the reduced rents for the two units would result in a decrease to the project's annual operating revenue of \$11,520, which over the course of 10 years would amount to a loss of \$115,200, which exceeds the value of any further contributions from the VHRF program. The decreased operating revenue resulting from the two units would be offset by an increased operating subsidy from BC Housing. However, BC Housing does not have the capacity to provide further operating subsidies for other additional units. Therefore, CRHC is not able to reduce the rents for any other units.

Additionally, CRHC is not able to provide further reduced rents due to the financial parameters set out by the BC Housing funding programs as well as the overall economics of developing an affordable housing project. For example, the BC Housing – Community Housing First program provides a grant of \$100,000 per unit regardless of the unit size and requires 70% of the units to be subsidized. This provides little incentive to create affordable family units because the grant of \$100,000 per unit does not offset the loss in revenue resulting from having low rents in subsidized units, especially with the current high cost of construction. Therefore, the City of Victoria's grant of up to \$30,000 for three-bedroom units would not offset the loss in revenue resulting from having further reduced rents.

Summary of Adjusted Unit Mix and Rents

Unit Type	Target Income Level	Updated Unit Count	Monthly Rent	Eligible VHRF grant per Unit (as per VHRF Guidelines dated March 21, 2019)	Updated VHRF Contribution
Studio	Very Low	7	\$375	\$10,000	\$70,000
One-bedroom	Very Low	12	\$375	\$10,000	\$120,000
Two-bedroom	Very Low	1	\$570	\$20,000	\$20,000
Three-bedroom	Very Low	0	\$660	\$30,000	\$0
One-bedroom	Low	9	\$739	\$10,000	\$90,000
Two-bedroom	Low	11	\$960	\$20,000	\$220,000
Three-bedroom	Low	2	\$1,380	\$30,000	\$60,000
One-bedroom	Moderate	12	\$1,250	\$5,000	\$60,000
Two-bedroom	Moderate	4	\$1,800	\$10,000	\$40,000
Two-bedroom	Moderate	11	\$1,950	\$10,000	\$110,000
Two-bedroom	Moderate	20	\$2,000	\$10,000	\$200,000
Three-bedroom	Moderate	2	\$2,000	\$15,000	\$30,000
Three-bedroom	Market	6	\$2,480	N/A	N/A
Total		97 units			\$1,020,000

Capacity of the Victoria Housing Reserve Fund

If approved, the proposed VHRF grant for 330-336 Michigan Street would be revised from \$990,000 to \$1,020,000. This means that the VHRF would have an unallocated balance of \$2,447,942 to support other affordable housing projects.

OPTIONS AND IMPACTS

Option 1 - Increase the Grant Amount (Recommended)

Approval of an increased VHRF grant of \$1,020,000 will continue to support the Capital Region Housing Corporation's proposal to construct a project that will supply much-needed affordable and below market housing for seniors, adults with disabilities, working singles and small families with very low, low and moderate incomes.

Option 2 – Do Not Approve a Reduced Grant Amount

If Council does not approve an increased grant amount, the project would continue based on the \$990,000 grant amount and unit composition that was approved by Council on February 20, 2020.

Accessibility Impact Statement

Council's consideration of a revised VHRF grant does not have any accessibility impacts. However, the project will provide seven accessible units comprised of studio and one-bedroom units.

2019 - 2022 Strategic Plan

Providing grants to support the development of affordable rental housing supports multiple actions described within Strategic Objective Three: Affordable Housing as well as Strategic Objective Eight: Strong, Liveable Neighbourhoods.

Impacts to Financial Plan

A revised grant to the Capital Region Housing Corporation in the amount of \$1,020,000 will result in the VHRF having an overall unallocated balance of \$2,447,942, which is comprised of \$705,000 available for seniors' housing and \$1,742,942 for all other applications.

Official Community Plan Consistency Statement

This project supports Official Community Plan policies related to working with coordinated community and regional efforts to enable stable, affordable housing within the region.

CONCLUSIONS

Approval of a revised Victoria Housing Reserve Fund grant to the Capital Region Housing Corporation will better support the provision of more affordable 3-bedroom family units as part of the Michigan Square project at 330-336 Michigan Street.

Respectfully submitted,



Robert Batallas,
Senior Planner
Community Planning Division

Att.



Karen Hoese, Director
Sustainable Planning and Community
Development Department

Report accepted and recommended by the City Manager.



Date:

March 19, 2020