

**REPORT TO HOSPITALS AND HOUSING COMMITTEE
MEETING OF WEDNESDAY, APRIL 07, 2021**

SUBJECT **2780 Spencer Road Mortgage Registration and Final Budget Approval**

ISSUE SUMMARY

BC Housing Management Commission (BCHMC) requires a resolution from the Capital Region Housing Corporation (CRHC) Board of Directors to authorize the execution of the 2780 Spencer Road mortgage documents. The CRHC Procurement Policy requires that all procurement transactions must be within the scope of the Board-approved Five-Year Major Capital Plan (2021-2025). Staff therefore seek authorization to continue pursuing this project with an increase of \$406,254 to the budget.

BACKGROUND

In June 2020, the Capital Regional District (CRD) Board and CRHC Board authorized staff to enter into a letter of intent with Triway Seniors Housing (TSH) to complete the transfer of land to the CRD and for the CRHC to enter into a contract with TSH to act as general contractor for the construction of the 58 unit affordable housing project located at 2780 Spencer Road.

The CRD would assume ownership of the development parcel, in consideration of a nominal fee, and issue a tax receipt for the fair market value determined by third party appraisal, as required by the Canada Revenue Agency. The CRD would then enter into a 60-year lease with CRHC prior to the start of construction.

In December 2020, the CRHC Board approved the Major Capital Plan (2021-2025) which included a project budget of \$19,476,955. In early 2021, a joint review of the 50% design package has resulted in a budget revision.

Mortgage registration requires that a Section 219 Covenant granted in favour of BCHMC be registered on title. A Section 219 Covenant is a means of preserving a property's special attribute; in this case, the use of the building for affordable housing. The conditions of the Section 219 Covenant are set out in the Community Housing Fund (CHF) Operating Agreement, which states that the CRHC will provide affordable housing to households with low-to-moderate incomes.

ALTERNATIVES

Alternative 1

The Hospitals and Housing Committee recommends to the Capital Region Housing Corporation Board:

- 1) That the Major Capital Plan (2021-2025) be amended, and the final project budget for 2780 Spencer Road be approved at a value of \$19,883,209;
- 2) That the resolutions, attached as Appendix A and Appendix B and required by BC Housing Management Commission to authorize the execution of the Section 219 Covenant and the Loan and Mortgage documents for 2780 Spencer Road (PID 031-284-914) be approved; and,
- 3) That duly authorized staff or executive officer(s) be authorized to do all things necessary to effect the project and take such steps as are required to conclude the purchase and construction, as set out in the letter of intent.

Alternative 2

That the 2780 Spencer Road Mortgage Registration and Final Budget Approval report be referred back to staff for additional information.

IMPLICATIONS

Financial Implications

In September 2020, 2780 Spencer Road was selected to receive grant funding through the CHF and in February 2021, BCHMC approved the final project budget of \$19,883,209. This represents an increase of 2.1% or \$406,254 to the projected cost contained in the Major Capital Plan (2021-2025). The final project budget includes a repayable \$13,983,209 first mortgage, and a \$5,900,000 forgivable mortgage. Both mortgages will have 35 year amortization periods and are accompanied by terms set out in the Loan Commitment Letter and Operating Agreement.

At closing, the repayable mortgage will be charged initially as short-term financing and will convert to take-out financing at project completion. Interest rate assumptions through BC Housing financing include 0.8% for interim financing in 2021, increasing to 1% in 2022. Current projections for take-out financing include 2.4% in 2022. At the time of take-out financing, the mortgage documents will be modified to reflect the final amount, term and interest rate. The actual rate for take-out financing may end up lower than the estimate given current market rates and recent issues (i.e., Spencer Close at 1.519%).

The Major Capital Plan (2021-2015) included \$11,983,338 in approved expenditures in 2021 and \$7,493,617 in 2022. As the project has been slightly delayed, staff anticipate the expenditures for 2021 will be lower than initial estimates, with more of the cost being allocated to close out the project in 2022. If the recommendations contained within this report are approved, staff will update the Major Capital Plan (2021-2025) as part of the quarterly plan amendment process. This will allow for a higher degree of accuracy on the actual costs for 2021 and the projected costs for 2022.

Table 1: Capital Budget

Budget Description	Amount
Soft Costs	\$ 370,000
Construction Contract	\$ 19,094,220
Financing Costs	\$ 218,989
Contingency	\$ 200,000
Total Project Cost	\$ 19,883,209
CHF Equity Contribution	\$ 5,900,000
Mortgage Principal	\$ 13,983,209

Operating Proforma

The CHF program will facilitate a mixed income, affordable rental housing project at 2780 Spencer Road. BCHMC, through the CHF program, is committed to providing an ongoing operating subsidy to ensure the property maintains a debt coverage ratio of 1:1 through the duration of the mortgage. In the first year of operation the subsidy is estimated to total \$267,640, or \$384.54 per unit, per month.

The value of the ongoing subsidy is based on an annual operating budget approved by BC Housing and will be provided directly to the Provider as set out in the terms of the Operating Agreement. Table 2 outlines the residential unit mix and the proposed rents.

Table 2: Unit Composition and Proposed Rents

Unit Type	Est. Rent	# of Units
20% of Units: RGI Deep Subsidy Units		
Studio	\$ 375	1
1 Bedroom Accessible	\$ 375	5
1 Bedroom	\$ 375	5
50% of Units: Rent Geared to Income		
1 Bedroom Accessible	\$ 744	5
1 Bedroom	\$ 744	22
2 Bedroom	\$ 980	3
30% of Units: Affordable		
1 Bedroom	\$1,495	10
1 Bedroom + Den	\$1,550	5
2 Bedroom	\$1,900	2
Total		58

Alignment with Existing Plans & Strategies

This report is in alignment with the CRHC Major Capital Plan (2021-2025).

CONCLUSION

The proposed budget of \$19,833,209 for the project has been approved by BCHMC. CRHC must secure construction and take-out financing to complete the development of 2780 Spencer Road. A joint review of the 50% design package took place in early 2021 and resulted in a projected increase of \$406,254 to the total project cost, which increases initial budget of \$19,476,955 as detailed in the approved Major Capital Plan (2021-2025) to \$19,883,209. Staff therefore are requesting authorization to continue pursuing this project at the increased budget total. If approved, staff will revise the Major Capital Plan (2021-2025) as part of the quarterly plan amendment process to more accurately reflect the actual expenditures in 2021 and the anticipated costs in 2022 to close out the development of this 58 unit affordable housing project located at 2780 Spencer Road.

RECOMMENDATION

The Hospitals and Housing Committee recommends to the Capital Region Housing Corporation Board:

- 1) That the Major Capital Plan (2021-2025) be amended, and the final project budget for 2780 Spencer Road be approved at a value of \$19,883,209;
- 2) That the resolutions, attached as Appendix A and Appendix B and required by BC Housing Management Commission to authorize the execution of the Section 219 Covenant and the Loan and Mortgage documents for 2780 Spencer Road (PID 031-284-914) be approved; and,
- 3) That duly authorized staff or executive officer(s) be authorized to do all things necessary to effect the project and take such steps as are required to conclude the purchase and construction, as set out in the letter of intent.

Submitted by:	Don Elliott, MUP, Senior Manager, Regional Housing
Concurrence:	Kevin Lorette, P. Eng., MBA, General Manager, Planning & Protective Services
Concurrence:	Nelson Chan, MBA, FCPA, FCMA, Chief Financial Officer
Concurrence:	Robert Lapham, MCIP, RPP, Chief Administrative Officer

ATTACHMENTS:

Appendix A: 2780 Spencer Road Resolution of Directors - Repayable
 Appendix B: 2780 Spencer Road Resolution of Directors - Forgivable