

**Infrastructure Services Report to
Infrastructure and Planning Committee
2023 September 13**

**ISC: CONFIDENTIAL
IP2023-0988**

Proposed Real Estate Strategy – (Sunnyside) – Ward 07 (787 3 ST NW)

PURPOSE

The purpose of this report is to seek Council authorization to proceed with a direct negotiation with Sunnyhill Housing Co-operative Ltd. (“SHC”) for a below market sale and a below market lease extension of City-owned land located at 787 3 ST NW (the “Property”).

PREVIOUS COUNCIL DIRECTION

- On 1979 September 24, Council approved the cancellation of an Agreement for Sale and instead, approved a new 60-year lease (the “Lease”) with SHC because SHC had been unable to secure the remaining \$255,610.72 of the total \$462,000.00 sale price. The Lease required SHC to pay a one-time lease rate of \$330,000.00 plus the interest that had accumulated on the previously approved Agreement for Sale. Outstanding amounts on the Lease and the Agreement of Sale were to accumulate interest at prime plus 1% which amounted to 15.76%.
- On 1986 January 27, Council authorized the reduction of the interest rate to a fixed rate of 10% (the prime rate at the time).
- On 2001 May 1, SHC paid in full all outstanding rent for the 60-year lease term.

RECOMMENDATIONS:

Review By: 2025 August 01

That the Infrastructure and Planning Committee recommends that Council:

1. Authorize Option 1 as outlined in Attachment 3; and
2. Direct that the Recommendations, Report and Attachments remain confidential pursuant to Sections 23 (Local public body confidences), 24 (Advice from officials), and 25 (Disclosure harmful to economic and other interests of a public body) of the *Freedom of Information and Protection of Privacy Act* until the transaction has been completed.

**RECOMMENDATION OF THE INFRASTRUCTURE AND PLANNING COMMITTEE,
2023 SEPTEMBER 13:**

That Council:

1. Authorize Option 1 as outlined in Attachment 3; and
2. Direct that the Recommendations, Report and Attachments remain confidential pursuant to Sections 23 (Local public body confidences), 24 (Advice from officials), and 25 (Disclosure harmful to economic and other interests of a public body) of the *Freedom of Information and Protection of Privacy Act* until the transaction has been completed.

Opposition to Recommendation 1: Councillor Chabot and Councillor McLean

CITY MANAGER/GENERAL MANAGER COMMENTS

Michael Thompson, GM of Infrastructure Services, concurs with this report.

HIGHLIGHTS

- SHC has held a 60-year ground Lease on the Property since 1979 which is set to expire in 2039. They would like to demolish 4 units and construct 15 new efficient and accessible units and retrofit the 62 remaining units to improve energy efficiency and to meet new code requirements. Total estimated project cost is \$6,650,000.00.

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- SHC is seeking a nominal lease extension and approval for The City to negotiate a potential below market sale of the land. The lease extension will allow SHC to take advantage of Canada Mortgage and Housing Corporation ("CMHC") grants that are currently available while a potential sale is being negotiated. For the project to be viable, SHC has determined that the lease extension or sale would have to be at below market value.
- What does this mean to Calgarians? A below market sale or nominal lease extension to SHC will enable the redevelopment of the Property which will increase density on the site and make much needed repairs and improvements to the existing units.
- Why does this matter? SHC has been a valued member of the Sunnyside community. A below market sale or nominal lease extension will allow them to improve the site by constructing new universally accessible units to enable aging in place and to increase the energy efficiency of existing units. It will provide much needed additional affordable housing in Sunnyside and increase property tax revenue to The City of Calgary ("The City").

DISCUSSION

Sunnyhill Housing Co-operative is located on a leased and City-owned 3.63-acre parcel of land in the community of Sunnyside across from the Prince's Island pedestrian bridge, southwest of McHugh Bluff and below Crescent Heights. The Co-op is comprised of eight row home clusters totaling 66 single-storey and two-storey, 1 to 3 bedroom units constructed in 1978.

Sunnyhill is a mixed income, cross-generational, housing cooperative that has provided affordable housing in Calgary's inner city for more than 40 years.

SHC offers a housing model that is not currently provided by the City. At present, 100% of the Co-op's units are below market rent by at least 20% when compared to units in the same area of the city. SHC has a unique internal subsidy system by which low-income members receive discounts supported by surcharges on the other members' housing charges. SHC has maintained a zero-vacancy rate from the outset in 1978 and keep a waiting list of prospective members.

Admittance to SHC is not based solely on income. Potential members are also considered based on history of volunteerism, knowledge of co-operative living, composition of the Co-operative, housing fit, desire to live in a community, ability to participate in governance, and capacity to act co-operatively.

On 1976 November 8, Council approved the sale of the Property to SHC at a rate of \$7,000.00/unit (\$462,000.00) effective 1977 August 24. On 1979 September 24, SHC had made payments totaling \$206,389.28 (plus interest charges), however they were unable to secure sufficient funding to complete the purchase and instead proposed a long-term lease with The City. Council approved the proposal to cancel the sale and alternatively, enter into a 60-year ground Lease at a one-time rate of \$5,000.00/unit (\$330,000.00) plus interest owing. Payments already received would be credited to the Lease. On 2001 May 1, SHC paid in full all outstanding rent for the 60-year term.

The Lease commenced on 1979 September 24 and expires on 2039 September 23. The Lease provides SHC with the option to purchase the Property at fair market value, which option must be exercised by no later than 2036 August 23.

SHC has approached The City seeking to purchase the Property, however SHC cannot afford to pay the market value estimated at \$20,800,000.00 as determined by an external appraisal. Alternatively, SHC considered an early lease extension, however the annual market lease rate

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of \$1,065,000.00 as determined by an external appraisal makes their proposed development project unviable.

SHC would like to undertake a development project which would entail demolishing 4 units, constructing 15 new units and retrofitting the remaining 62 units for a total of 77 new or significantly upgraded residential units: 12 x 1-bedroom units; 33 x 2-bedroom units; 32 x 3-bedroom units. This project is estimated to cost \$6,650,000.00. Funding for this project is available from CMHC in 2023.

City Administration has reviewed the SHC submitted household income and rent charge data against City defined measures of affordability to assess the degree to which SHC provides affordable housing to residents. Historically, SHC has measured affordability against the CMHC accepted criteria which is aligned with the Government of Alberta's Community Housing Program "Core Needs Income Thresholds", under which 100% of units are currently aligned. This differs from the City's definition: A household is in need of affordable housing when it earns less than 65% of the Calgary Area Median Income and spends more than 30% of its gross income on shelter costs. Based on The City's criteria, 36.4% of SHC households are currently being housed affordably. SHC has committed to increasing this proportion with rental adjustments and ensuring the proposed 15 new units will fulfill The City's affordability criteria bringing the total to 45%.

After much analysis, it has been determined by the SHC, that they will require, at minimum, an early lease extension at nominal to help accommodate their ability to apply for CMHC grants available this year. Additionally, SHC would like to also explore negotiations for a below market sale. Administration has conducted an analysis of four options which are included in Attachment 2. The four options are as follows:

Option 1: Authorization to extend the current lease term for an additional 35 years beyond the current term on the same terms and conditions and to negotiate the sale of the Property to SHC at book value of \$648,008.18 plus Transaction Fees and any other Council requirements.

Option 2: Authorization to amend and extend the existing Lease for an additional 50 years at a nominal lease rate.

Option 3: Authorization to amend and extend the Lease for 50 years at nominal, subject to annual review of SHC's financials and evaluate potential to increase rent over time based on what SHC can afford.

Option 4: Direct Administration to do nothing for the remainder of the lease term and following lease expiry, to publicly market the Property and negotiate a market sale to a successful applicant.

In light of current economic conditions and Calgary's housing crisis, Administration is recommending Option 1 with the expectation that SHC will be better positioned with the early lease extension to apply for necessary CMHC grants and the potential sale could, over time, allow SHC to increase density and affordability in the Sunnyside community. Perpetual control will enable greater flexibility for SHC to access grant funding. The City will ensure effective controls are in place through a sale agreement and option to repurchase to ensure that the Co-op continues to offer 100% affordability under CMHC's accepted criteria. Should the Co-op ever seek to dispose of any portion of the Property or its interest in the Property or fundamentally change its operating model of a housing co-operative, The City will have the option to repurchase the entire Property at or below the sale price at which The City sold the Property to

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SHC for a period of 99 years. For clarity, SHC will need to always operate as a co-operative, otherwise The City may repurchase. Administration also recommends an extension to the current lease term to enable SHC to access favourable CMHC financing and grant funding which is only available to SHC if they hold minimum 50 years of control of the Property from the end of 2023. The sale transaction cannot be completed prior to end of 2023 which places SHC at risk of losing their financing unless a lease extension is provided.

Valuation

The market value for the land as determined by an external appraisal completed in May 2020 is \$20,800,000.00. The market lease rate range for the land as determined by an external appraisal completed in June 2021 is \$1,065,000.00 per annum. These valuations were not taken to Valuation Review Committee as this transaction will be completed at below-market value.

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EXTERNAL ENGAGEMENT AND COMMUNICATION

- Public engagement was undertaken
- Dialogue with interested parties was undertaken
- Public/interested parties were informed
- Public communication or engagement was not required

IMPLICATIONS

Social

If a below market sale is approved, the Co-op will be able to complete its proposed project, which will increase affordable housing inventory within the community and will improve existing housing which is nearing the end of its lifecycle and is in need of upgrades and repairs.

Environmental

Environmental implications are provided in Attachment 4.

Economic

SHC's development plans for the Property will improve the site and increase density of residents in the area which will result in an increase to the annual tax base. SHC's 2023 Tax Levy is \$58,949.04.

Service and Financial Implications

Existing operating funding – base in Prg #488 and Self-supported funding in the Revolving Fund Reserve for General Land Purchases

If option 1 is approved, the sale will be recorded to RE&DS operating budget program #488 and net proceeds transferred to the Revolving Fund for General Land Purchases. No budget impact is expected for the current lease or a nominal lease extension.

RISK

The risks of each option are provided in Attachment 2.

ATTACHMENTS

1. Previous Council Direction
2. Options Analysis
3. Recommendations
4. Environmental Implications
5. Site Map and Context Map
6. Summary of Additional Property Information
7. Alberta Corporation/Non-Profit Search
8. Presentation

Department Circulation

General Manager/Director	Department	Approve/Consult/Inform
Michael Thompson, General Manager	Infrastructure Services	Approve
Campbell Berry, Director	Real Estate & Development Services	Approve

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