



**STAFF REPORT
ACTION REQUIRED**

**Alexandra Park Housing Co-operative Lease
Amendment – 25 Eden Place**

Date:	March 20, 2013
To:	Government Management Committee
From:	Chief Corporate Officer and Director, Affordable Housing Office
Wards:	Ward 20 – Trinity-Spadina
Reference Number:	P:\2013\Internal Services\RE\Gm13001re (AFS #16965)

SUMMARY

Government Management Committee, at its meeting of November 15, 2012, directed the Chief Corporate Officer to report back to the Committee on the feasibility of amending the existing lease between the City and Alexandra Park Co-operative (the "Co-operative").

This report recommends that the rent escalation clause in the lease which will become effective February 1, 2014, be suspended, provided the Co-operative preserves the fifteen units of affordable housing that the rent suspension will support. The fifteen rent geared to income homes are currently subsidized by the Canada Mortgage and Housing Corporation ("CMHC"), which subsidy will be discontinued at the end of the Co-operative's mortgage on January 31, 2014.

While the City of Toronto has no financial obligation to the Alexandra Park Co-operative, the circumstances of the rent escalation provision within the lease are unique and would not set a precedent in future matters with other co-operative housing groups concerning the withdrawal of federal housing subsidies.

City staff are establishing an inter-divisional working group to develop a consistent long-term approach to the issues of the expiry of city leases on city own property and the potential service impacts associated with the loss of federal funding to co-operative housing groups.

RECOMMENDATIONS

The Chief Corporate Officer and the Director of Affordable Housing Office recommend that:

1. City Council authorize an amendment to the lease with Alexandra Park Co-operative located at 25 Eden to suspend the operation of clause 4.06 (the escalation clause), which provides for an increase in rent upon the expiry of the CMCH mortgage, on the condition that the Co-operative is not in default under a Contribution Agreement with the City which will require the Co-operative to continue to provide the existing fifteen rent geared to income units until the lease expires.
2. City Council authorize the Director of Affordable Housing Office to negotiate a Contribution Agreement with Alexandra Park Co-operative, to secure the continued provision of fifteen rent geared to income units for a 10 year period expiring at the end of the lease term, on such terms and conditions as are satisfactory to the Director and in a form approved by the City Solicitor.
3. City Council authorize and direct the Director of Affordable Housing Office to enter into and execute the Contribution Agreement, with Alexandra Park Co-operative, and any other documents required to secure the provisions of that Agreement, on behalf of the City.
4. City Council authorize the Chief Corporate Officer, her successor or designate, to administer and manage the lease, as amended including the provision of any consents, approvals, notices and notices of termination provided that the Chief Corporate Officer may, at any time, refer consideration of such matters (including their consent) to City Council for its determination and direction.

Financial Impact

The recommended amendment to the lease between the City and the Co-operative, to suspend the rent escalation clause in the lease effective February 1, 2014, would result in a reduction of anticipated new revenue to the City of \$129,916 per annum for each of the ten years remaining in the lease. Without the recommended suspension of the rent escalation clause, the Co-operative would have to eliminate 15 rent geared to income units for lower income households. CMCH is currently subsidizing these units by paying the Co-operative \$120,000 per year, but that subsidy terminates with the expiration of the Co-operative's mortgage with CMHC on January 31, 2014.

The Alexandra Park Co-operative is funded through the Agency for Co-operative Housing (<http://www.agency.coop/pages/en/index.asp>). The City of Toronto has no financial obligation to the Alexandra Park Co-operative, as this is a federally administered co-operative that is outside the auspices of the Housing Services Act 2011.

There are similar properties across the City that receive subsidy directly from CMHC that will be similarly impacted as the federal government steps-out of the existing funding obligations. The service level impacts of the loss of this funding will be reported by a city inter-divisional working group once the impacts on these properties have been identified.

The Deputy City Manager and Chief Financial Officer has reviewed this report and agrees with the financial impact information.

Decision History

On March 17, 1971, City Council adopted Report No.11 Clause 8 of the Executive Committee which approved a lease with Alexandra Park Co-operative in Alexandra Park for 50 years.

On April 1, 1972 the Corporation of the City of Toronto entered into the lease with the Co-operative effective February 1, 1974. The lease stipulated the annual rent be reviewed in the tenth year of the lease and thereafter every subsequent five year period.

In accordance with the rent review provisions of the lease, on May 6, 1985, Council authorized an increase in rent for the subject property from \$2,575 to \$13,956.25 per annum for the period from February 1, 1983 to January 31, 1989.

On May 30, 1994, Council determined the annual rents for the period from February 1, 1989 to January 31, 1994 to be \$23,511 per annum and the rent for the period from February 1, 1994 to January 31, 1999 to be \$17,478 per annum.

On July 22, 23 and 24, 2003, City Council adopted Report 4 Clause 12b of the Administration Committee authorizing an amendment of the lease setting the rent at \$8,100.00 per annum for the five year period starting February 1, 1999 and establishing that the rent be adjusted every five years thereafter in accordance with the Consumer Price Index as calculated by Statistics Canada for the Toronto Area.

On November 15, 2012, Government Management Committee referred the request from Councillor Adam Vaughan to the Chief Corporate officer to report back on the item related to the Alexandra Park Housing Co-operative Lease Amendment - 25 Eden Place (Bathurst and Queen Street West) and submit a recommendation on this matter.

<http://app.toronto.ca/tmmis/viewPublishedReport.do?function=getDecisionDocumentReport&meetingId=5710>

ISSUE BACKGROUND

On April 1, 1972, the Alexandra Park Co-operative entered into a fifty-year lease with the City of Toronto to build in the Alexandra Park redevelopment area with the building being substantially completed on February 1, 1974. The Co-operative is made up of 104 units in four low rise buildings and 39 townhouses.

At that time, the Co-operative received mortgage financing at a below market rate of interest and sufficient funding to subsidize fifteen rent geared to income units for the term of the mortgage, from CMHC. While the term of the mortgage originally coincided with the term of the lease, the terms of the mortgage were amended several times and the term of the mortgage now expires on January 31, 2014, leaving the Co-operative with a ten year gap with no subsidy to assist in its operation.

The Co-operative's lease sets out rent review periods starting after the first ten years and for each succeeding five year period. During each review of the rent, the approach taken by the City to determine the rent for the succeeding five year period has been to ensure that the Co-operative could continue to provide affordable housing for working families.

In addition, however, the lease stipulates that the annual rent payable shall be increased by an amount equal to the annual principal and interest payments made by the Co-operative during first five years of its mortgage from CMCH, following the expiry of that mortgage. Accordingly, the annual rental payment is set to increase by \$129,916.00 commencing February 1, 2014. Although the Co-operative will no longer have mortgage payments to make, for which it had always been subsidized, it will have a corresponding increase in rent, for which there is no subsidy.

On November 15, 2012, the Government Management Committee adopted a motion requesting the Chief Corporate Officer report to the first meeting of the Government Management Committee in 2013 on the feasibility of amending the lease to suspend the rent escalation clause tied to the expiration of the CMHC mortgage, to allow the Co-operative to internally subsidize the fifteen rent geared to income units.

COMMENTS

The lease between the City and the Alexandra Park Co-operative expires January 31, 2024; however the Co-operative's mortgage with CMHC ends January 31, 2014. The end of the mortgage impacts on the Co-operative's ability to continue to provide the fifteen of its twenty-five rent geared to income units, which are currently subsidized by CMHC. The Co-operative will continue to subsidize the other ten rent geared to income units with its own resources.

The annual rent payable would increase by \$129,916.00 per year to approximately \$140,000.00. The Affordable Housing Office has reviewed the financial documentation of the Co-operative and determined that it will not be able to internally subsidize the fifteen units if the rent increases in accordance with the terms of its lease. Nor would it be in a financial position to allow it to make capital repairs to the forty year old buildings or to renovate to make the buildings accessible to seniors and the disabled.

While the City of Toronto has no financial obligation to the Alexandra Park Co-operative, the circumstance of the rent escalation provision within a lease is unique and would therefore not set a precedent in future matters with other co-operative housing

groups concerning the withdrawal of federal housing subsidies. The benefit to the city in approving the recommended course of action would be to preserve fifteen rent geared to income housing units for lower income households for the next 10 years.

In order to secure the continued subsidizing units, staff propose to condition any changes to the lease by requiring the Co-operative to enter into an Contribution Agreement with the City. This Agreement would require the Co-operative to provide the existing fifteen rent geared to income units for the balance of the current term of the lease, and that if it fails to do so, rent, in accordance with the lease would become payable.

The Co-operative has also requested that the term of their lease be extended from 50 years to 99 years, to ensure the continued provision of affordable housing. This report does not address that request as this Co-operative is one of several co-operatives, non-profit and home ownership affordable housing projects operating under leases with the City, the terms of which expire within the next decade. Staff in Real Estate Services, Shelter, Support and Housing Administration and the Affordable Housing Office are establishing an inter-divisional working group to develop a consistent long-term approach to the issues of lease renewals on expiring long-term affordable housing leases and determining the potential service impacts of the loss of federal funding to co-operative housing groups. This working group will report in the future to the Government Management Committee on a recommended strategy to address these issues.

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SIGNATURE

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ATTACHMENTS

Appendix “A” – Location Map