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NEST

HOUSING
SOCIETY



FEASIBILITY REPORT

**NORTH SHORE ALLIANCE CHURCH
AFFORDABLE HOUSING DEVELOPMENT PROJECT**

MARCH 2022

Submission Information

Attention to:

Lead Pastor and Board of Elders, North Shore Alliance Church.

District Superintendent and District Executive Committee, Canadian Pacific District of the Christian and Missionary Alliance in Canada

Prepared by:

The Nest Housing Society

Critical development support provided by:

Alice Sundberg, Alice Sundberg Housing and Community Development Services
Steven Bartok, Keystone Architecture

The Nest Housing Society would like to acknowledge Vancity Community Foundation for their generous financial support toward the completion of this study.

Vancity
Community Foundation

March 14, 2022

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1. Executive Summary

North Shore Alliance Church (“NSAC” or “Church”) is a Christian community with a long and vibrant history in the City of North Vancouver. Its care and outreach to the city’s marginalized and new immigrant population have expanded dramatically in recent years. Hundreds of the North Shore’s vulnerable population look to the Church for support, food and even housing through its innovative “Lazarus Community Society” which houses 13 individuals in 4 rental homes.

Located at the corner of 23rd Street and St. Georges Avenue, the Church is now considering expanding its housing activity by seeing an affordable housing apartment developed on a section of its parking lot in a partnership with The Nest Housing Society (“Nest”). The timing of such a development aligns well with its current ministry trajectory and the significant need for affordable housing in the city.

The recently released City of North Vancouver “Housing Needs Report” paints a sobering picture:

4,500 households (31%) experienced core housing need in 2016, a number that is expected to grow by 863 new households by 2031.

768 households are currently on the BC Housing waitlist.

Rents continue to climb, rising from between 50% and 132% over the past decade alone.

The NSAC property presents a profound opportunity to respond to this need. The location is ideal: steps away from transit, shopping, and the new Harry Jerome Recreation facility, residents will have easy access to life essentials. And, with a vibrant Christian community next door, the potential for care and compassionate community engagement abounds. In addition, and critical to the project’s

viability, the City has indicated their willingness to amend the Official Community Plan to allow multi-family housing at this location.

Feasibility Study Description

While a number of potential concepts have been examined for the site, this Feasibility Study will focus on one site plan concept which Nest believes is most suited to the site. Concept PD- 7.1 proposes 65,050 sq ft of floor area over four stories, creating 82 affordable housing units, a ground floor amenity space of 4,000 sq ft to be rented by the Church and 21 stalls for resident parking. Total costs for the development are estimated at \$30M, which will be funded through a combination of low-interest financing, grants and donations, and the contribution of land.

Decision

The desired outcome of this Feasibility Report is that the Church Board of NSAC approves the concept as presented in the Report and approves Nest to submit the concept to the City of North Vancouver for Pre-Consultation review (6-8 months).

A New Hope for Lot 2, Block 208

During the preparation of this Feasibility Study, Nest retrieved and reviewed the property titles and covenants to determine if any restrictive covenants were still in effect. While it was determined there are no current active covenants on the site, what was sorrowfully discovered was the original land registration. The document included multiple original restrictions, with the following being listed as article (1):

No person of Asiatic, Negro or Indigenous extraction shall have the right or be allowed to own become tenant of or occupy any of the said lots described in the "Schedule A" hereto mentioned.

Perhaps in this undertaking, the LORD is opening the door for another of these past wrongs to be redeemed. If so, may we together sense his leading and provision as we courageously move forward to make way for people of all backgrounds to find home and shelter and the blessing of God at "Lot 2, Block 208, North Vancouver, City."

Our sincere belief is that the pages ahead begin to tell a story that is both measured and hope-filled. There is a genuine opportunity before us that represents a profound opportunity to serve and bless the City of North Vancouver. May we move forward together with vision and trust in God's good redemptive plan for our world.

No. 35106



RECEIVED 35106



LAND REGISTRY ACT.

FORM C. SEP 10 1925
(Section 126.)

Date September 2nd, 1925

I, WILLIAM ALAN RIDDELL, solemnly declare

that I am [or Solicitor for or the duly authorized Agent of Columbia Estate Company Limited

and that he is] entitled to a

Charge by way of building restrictions.

over the land hereunder described, and hereby make application under the provisions of the "Land Registry Act" and claim registration of a charge accordingly.

The full name, address, and occupation of the owner is Columbia Estate Company, Limited, 425 Carrall Street, Vancouver, B. C.

The fee-simple is registered in Vol. _____, Fol. _____, of the Register.

DESCRIPTION OF LAND.

MUNICIPALITY OR ASSESSMENT DISTRICT.	LOT OR SECTION.	ADMEASUREMENT OR ACREAGE.
North Vancouver City,	Lots 1 to 24 inclusive in Block 207, Lots 1 to 52 inclusive in Block 206 All in D.L. 545 & 546, Group 1, N.W.D.	2.60

LIST OF INSTRUMENTS.

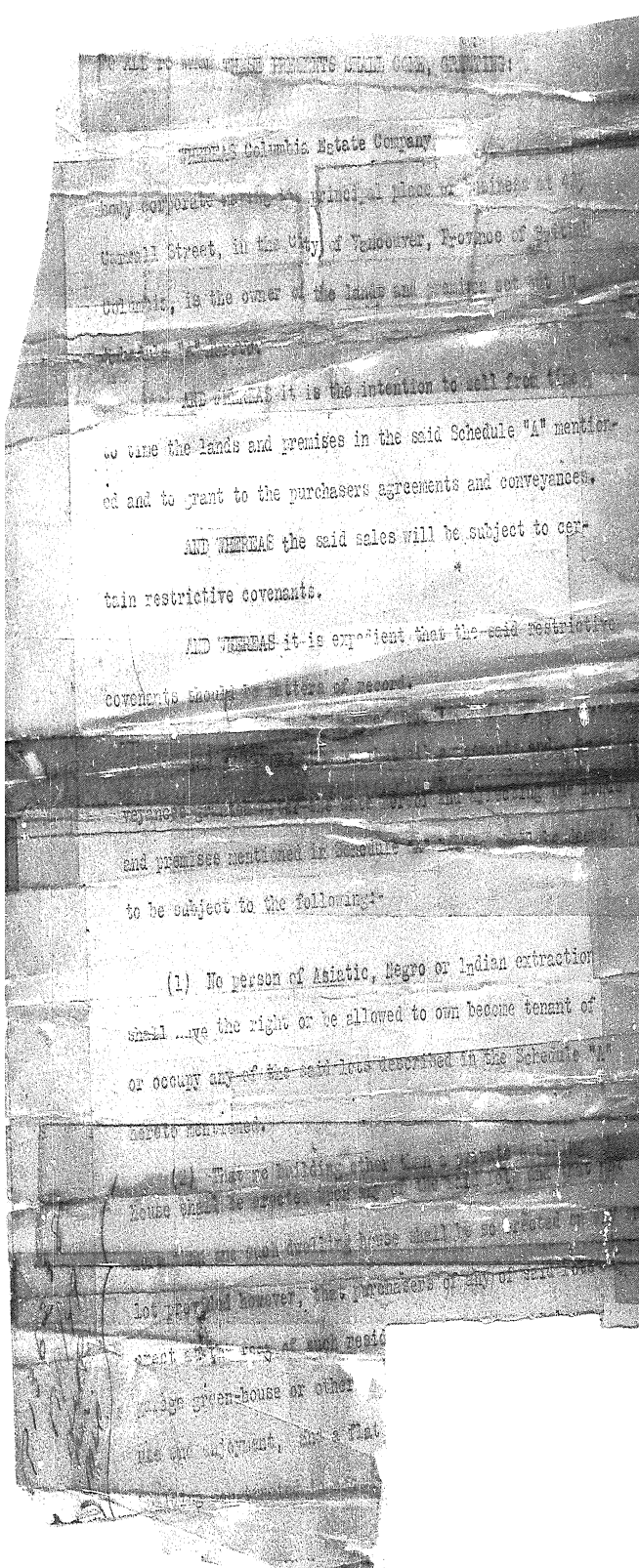
DATE.	PARTIES.	CHARACTER OF INSTRUMENT.
28th Aug. 1925,	Columbia Estate Company, Limited	Building Restrictions.

And I solemnly declare that I have investigated and ascertained the value of the interest covered by the charge, registration of which is hereby applied for, and that the true value thereof at the date of this application is _____ dollars: (in the case of a Solicitor or Agent, add) and I am duly authorized by the owner to make this application, (in the case of an Agent, add) and I reside in the Province of British Columbia, and am of the full age of twenty-one years.

And I make this solemn declaration conscientiously believing it to be true, and knowing that it is of the same force and effect as if made under oath and by virtue of the "Canada Evidence Act."

DECLARED before me this 2nd day of September, 1925, at Vancouver, British Columbia. (Signature) W. Whissell, 425 Carrall Street, VANCOUVER, B.C.

*NOTE.—If the estate less than the fee-simple, or encumbrance, or equitable interest claimed in, over, or upon the land. Eg. fee-simple for \$500, estate for life, its pendants (according to circumstances, upon, in, over).





2. Proponent Information

2.1 North Shore Alliance Church

NSAC is a diverse congregation of approximately 600 regular attendees. With over sixty years of ministry presence on the North Shore, the last decade has seen the Church intentionally expand its outreach and care for the communities marginalized and new immigrant community. It has garnered a reputation as a Church that is doing important work among the city's more vulnerable population.

The Church vision is to “glorify God, reach people and see them transformed.” As it pursues this vision, its values include shaping a “mosaic mentality” where they “celebrate an expression of the Church that is multi-generational, multi-ethnic, and economically diverse.” And it values a “kingdom focus” caring about “God’s plan for, and needs of, our Church family, neighbours, city, and world.”

2.2 The Nest Housing Society

Nest is a nonprofit developer and operator of affordable housing. We work with local churches who want to develop affordable housing.

Our Vision

To mobilize the local church to become a key provider in affordable housing as a demonstration of God’s love for all peoples.

Our Mission

To envision, empower, and equip local churches to purposely engage in social care and community building through the development and operation of affordable housing where people are loved, supported, and accepted.

Our Objectives

- Partner with local churches to develop and operate contextually appropriate non-market housing and to shape project-specific objectives that align well with their mission and goals.
- Provide an “alternative vision” for churches considering the sale or subdivision of their land.
- Enable local churches to better steward and leverage their land by retaining it for the benefit of the community, for fair financial return, and for future use.
- Share development expertise, society infrastructure, management, and operational costs across multiple projects thereby creating an economy of scale and a non-profit development society that churches can trust.

Nest’s convictions about church owned land

Founded by pastors and ministry leaders, Nest holds certain convictions about church lands that direct our development approach. Those convictions include:

Churches should aim to retain land whenever possible. Real Estate values have risen dramatically across British Columbia and subsequently, many churches have considered the sale of their land to fund ministry or church construction. While the short-term injection of capital can be helpful, our concern is for the long-term ministry implications. Will the church be able to repurchase land in the future? What about the needs of future generations? Will the sale of land now limit future opportunities?

The church needs to adopt a generational mindset in terms of its land. Therefore, Nest’s development model focuses on long-term ground leases. With long-term leases, the church retains land ownership and gains financial returns via lease payments while utilizing the land for Kingdom purposes.

Church land is a gift that should be stewarded well. Stewarding land implies retaining land, but it also means putting it to maximum use for Kingdom purposes. Historically, church lands have been used for “traditional” Christian activities - worship and disciple making. But churches are being reminded that these traditional activities are only one part of our Kingdom mission. Following the example of Christ, we are also called to compassionately act for the well-being of people and creation. One of the ways we can do this is by using under-utilized land for creative mission endeavours like affordable housing.

Nest’s Business Model

Nest will be the lessee of the land and will have responsibility for all aspects of the development, financing, and subsequent operation of the affordable housing project. The church will help create the vision, be the lessor of the land, and contribute missional love, care, and helpful services (e.g. refugee supports, single mother ministries, etc.) to the residents when the building is occupied.

Nest Team

Please see Appendix A for a listing of the Nest board and advisory team..

3. Development Vision and Priorities

3.1 Development Vision

As an outflow of its vision and values; in support of a vibrant mission to North Vancouver's marginalized community; and in an expression of love and care for the many members of this community who are active adherents and members of the Church:

North Shore Alliance Church desires to build a multi-purpose facility that prioritizes mixed generation affordable housing and includes community gathering space where both Church and housing residents can connect, serve and be served.

3.2 Development Priorities

Generationally and Economically Diverse Affordable Housing The housing will provide affordable rental homes for a mixture of families, seniors and singles ranging from deep-subsidy to below-market rates. Housing will be inclusive and open to all qualifying residents, but the operator will prioritize housing for people the Church is already in relationship with.

Community Gathering Space In addition to housing, the project will include 4,000 sq.ft. of amenity space to be rented by the Church. The amenity space will include a large community hall and kitchen. The space will be used for Church functions, connecting and care ministries for the building residents, outreach to North Vancouver marginalized community and other kingdom purposes that the Church may envision.

Financially Supported and Viable The project will be geared to available government funding programs. In addition, the Church is prepared to engage in a meaningful capital campaign contributing to the viability of the entire project.

Site Ownership The Church desires to retain site ownership but has determined that development and management of the project is best undertaken by a separate and qualified nonprofit housing society. Therefore, the project will be structured as a long-term ground lease between the Church and Nest.

Management The development and management of the housing will be undertaken by Nest. The use of the community amenity space will be established via a Memorandum of Understanding between the Church and Nest.

Housing Support While the housing will be managed by Nest, the Church will create and sustain an active ministry plan that helps to establish a vibrant community, cares for residents' practical needs, and builds relational links between the Church and the housing residents.

Parking Critical to the project's viability will be parking that sufficiently satisfies the Church, housing and the city. The Church understands that the development of housing will necessarily reduce its current level of onsite parking. As the Church shifts to a more "urban" mentality regarding onsite parking, the project will aim to find a concept that balances parking needs, while maximizing housing impact.



4. Need Assessment

For projects of this nature, the proponents must have clear, data-based information addressing current and future needs. In 2019, the Government of British Columbia mandated that municipalities complete a Housing Needs Report by April 2022 and every five years after that. The City of North Vancouver released their 206-page report in December 2021. Of interest, Pastor Dave Sattler was a contributor to the report, serving on a stakeholder engagement panel.

Key highlights from the report are as follows¹:

Housing Demographics

The City is rapidly growing. Between 2006 and 2016 it added 7,500 new residents (17.1% growth to 52,900) and 3,300 new households. This growth was faster than regional and provincial growth rates and was the fastest-growing North Shore community (Housing Needs Report, p. 5). It also has a high proportion of renter households (47%) compared to its neighbours in the District of North Vancouver (21%) and the District of West Vancouver (25%) (p.16).

As of 2016, 38% of the City's residents were immigrants, with nearly one in three residents (31%) identifying as a visible minority (outlined in figure 1.) (p. 5).

Current Housing Stock

As of 2016, there were 26,426 dwelling units in the city (p. 26). Notably:

● West Asian ● Filipino ● Chinese ● Other

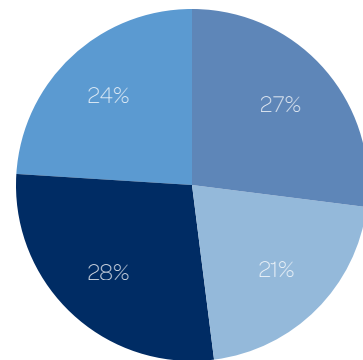


Fig. 1 - Identity of Visible Minorities

¹ City of North Vancouver Housing Needs Report: <https://www.cnv.org/city-services/planning-and-policies/housing/housing-needs-report>

- More than half of all units were at least 40 years old (p. 29).
- One-quarter of current new builds were purpose-built rental (1,169); however, the report notes that this may not be sufficient to meet ongoing rental demand. (p. 28)
- Housing in the city tends to be smaller due to the significant number of apartment units (64% of all units are in apartments). This, in turn, supports smaller household sizes and corresponds with the high proportion of rentals. (p. 29)
- Over half (51%) of the city's renter housing stock was comprised of 1-bedroom units, with one in three units being two bedrooms (33%). (p. 31)

Regarding Non-Market housing in the city, the following table summarizes the current data (p. 35):

Table 1: Non Market Rental in the City					
	Non-Market Rental	Mid-Market Rental	Housing Co-Op	Other Affordable Ownership	Total
Total Projects	20	16	4	2	42
Total Units	840	38	177	12	1067

* Non-market rental housing is affordable housing owned or subsidized by the government, a non-profit society, or a housing cooperative, whereby it is not solely market-driven.

* Mid-market rental (MMR) housing is a form of below-market rental housing delivered within secured rental developments, where 10% of units have rents set at 10% below average market rents (p. 34)

Current Housing Need

For context, there are three primary housing indicators used by Statistics Canada and Canada Mortgage and Housing Corporation (CMHC) to understand housing need and vulnerability in Canada. Core Housing Need and Extreme Core Housing Need, are terms applied when a household is experiencing one or more of the following housing issues:

- **Affordability:** Is a household paying more than 30% of its before-tax income on shelter costs (Including rent, mortgage, property tax, utilities, etc.)?
- **Adequacy:** Is the home in good repair?
- **Suitability:** Does a household have enough bedrooms to meet the needs of household members? (p. 39)

In the City of North Vancouver 31.5% of all households were determined to be in Core Housing Need - spending 30% or more of their income on shelter costs (p. 39). Additionally, those in need were overwhelmingly represented by renters who were three times as likely to be in this category. Renters

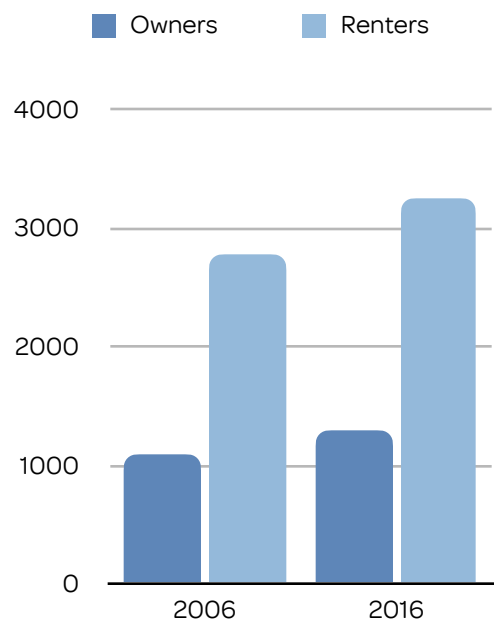


Fig 2. - Households in Core Housing Need 11

experience higher rates of core housing need due to generally lower incomes, which makes them more vulnerable to increasing rental costs and other market pressures (e.g. low vacancy rates) as they have fewer choices in the market. (p. 40)

Digging deeper into those experiencing “Core Housing Need”:

- Seniors aged 65+ made up the highest proportion of renters that fell within Core Housing Need. (p. 41)
- Single income earners faced significant challenges in an expensive rental market. Lone-parent and one-person households made up the highest percentages of renter households in Core Housing Need due to being single-income earners and the resulting affordability gaps. (p. 41)
- There was a greater likelihood of recent immigrants being in Core Housing Need and households where one person had an activity limitation, which may impact their performance of daily activities. (p. 41)

BC Housing’s Registry waitlist corroborates this growing need. **In 2021 there were 768 households on the City and District of North Vancouver waitlist. The largest share of these households (46%) were senior households, followed by families (28%), and people with disabilities (17%)** (p. 56).

Finally, a primary contributing factor in households being in Core Housing Need is the discrepancy between income and rental costs. **Between 2006 and 2016 incomes for renters grew by 12%, while median rents increased by 50% from \$830 (2006) to \$1,200 (2016)**. pg. 43 Median rents for 3+ Bedroom units in the City experienced the most significant increase from \$2,000 to \$3,000 between 2017 and 2020, an increase of 50% in that three-year period, and an increase of 132% since 2005. (p. 51)

Future Housing Needs

Between 2021 and 2031, projections indicate the population could grow by 14%, with 67,930 people living in the City. Assuming historic household tenure trends remain consistent, the City could see an increase of 8,100 people or 2,761 owner households and 1,894 renter households between 2021 and 2031. It is further estimated that those households in Core Housing Need could grow from 5,573 to 6,579 in the same time period (p. 65, 71).

If the City follows historical growth patterns, households will continue to trend smaller. Families and couples without children will see the most significant increases over the next decade (2,100 households and 1,076 households respectively); couples with children will grow by 848 households, lone-parent families by 427 households, and other Census families by 204 households. (p. 62)

Because the growth is projected to take place primarily in smaller households (couples without children and non-census family households), this means that between 51% and 63% of new units will need to be studio or one-bedroom units. To accommodate larger households and households with children, between 17% and 29% of new units by 2031 will need to be two-bedroom units, and a projected 20% will need to be three-or-more bedroom units. (p. 62)



5. Site Details and Development Concept

Project architect Steven Bartok of Keystone Architecture considered multiple site plans during the Feasibility Study. Ultimately, it was determined that two concepts maximized the site potential. Both concepts are restricted to “Lot 2” and are variations on a theme.² Lot 1, where the Church and half the parking lot is currently located, remains largely untouched in both concepts.³

The study report will focus on the more advantageous of the two options, concept PD-7.1 (See Appendix B)

5.1 Concept PD- 7.1 Details

The Gross Area of Lot 2 is 31,563 sq ft. Concept 7.1 proposes an FAR⁴ of 2.1 which provides 65,050 sqft of floor area over four-stories. This translates into 82 affordable housing units and a ground floor amenity space of 4,000 sq ft to be rented by the Church. Each floor has additional utility space, which can be used for common areas or common laundry services. The concept proposes 21 stalls of parking.

The unit makeup is as follows:

² The current Church site is comprised of two distinct lots of roughly equal size.

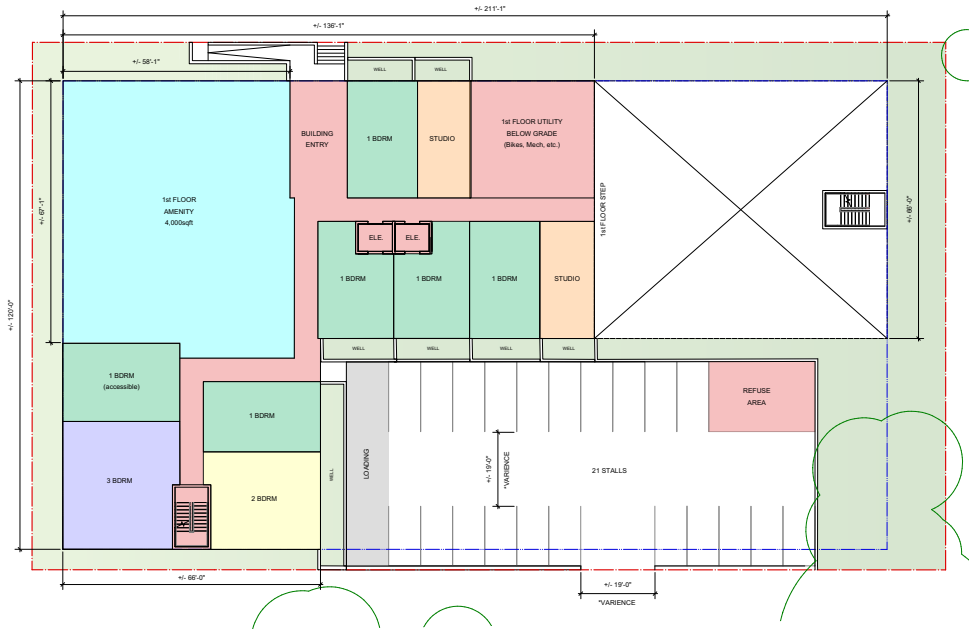
³ To create additional parking stalls, minor adjustments to the parking configuration are outlined in section 5.6.

⁴ FAR stands for “Floor Area Ratio.” This ratio provides the maximum floor area the municipality will allow on a given site. The equation is Gross Area x FAR = maximum gross floor area. For example, most residential lots allow an FAR of .5. On an 8,000 sqft city lot, this would allow a home with up to 4,000 sqft floor area.

Table 2: Unit Makeup

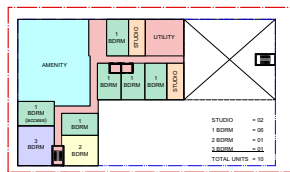
Type	Number	Average Size	% of Total
Studio	17	415	21%
1 Bedroom	29	535	35%
1 Bedroom (Accessible)	10	605	12%
2 Bedroom	13	745	16%
3 Bedroom	13	945	16%
Totals/Averages	82		100%

Based on a preliminary meeting with city planners in the early summer of 2021, it is believed the concept chosen respects the parameters provided by the City and the known bylaws for projects of this nature. However, the City of North Vancouver will only confirm these assumptions through its "Pre-Consultation" process and, ultimately, through the Development Permit process, which will require an amendment to the existing Official Community Plan and the rezoning of the project site.

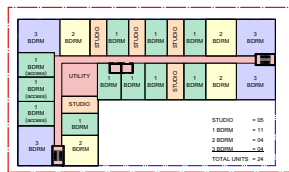


DEVELOPMENT DATA

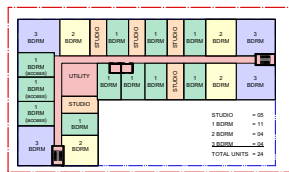
- SITE AREAS**
- GROSS AREA (GA) = +/- 31,563sqft
- FLOOR AREAS**
- GROSS FLOOR = +/- 12,550sqft 1st
- = +/- 17,500sqft 2nd - 4th
- = +/- 65,050sqft
- EFFICIENCY = +/- 84
- FAR = +/- 2.1 TBC w/ Planning
- SC = +/- 55%
- UNITS**
- = 17 - Studio (+/- 415sqft Avg)
- = 29 - 1 Bedroom (+/- 535sqft Avg)
- = 10 - 1 Bedroom (+/- 605sqft Avg) Accessible
- = 13 - 2 Bedroom (+/- 745sqft Avg)
- = 13 - 3 Bedroom (+/- 945sqft Avg)
- = 82 UNITS
- PARKING STALLS**
- STALLS REQUIRED (.3 per BDRM)
- 17 - Studio = 00.0 stalls
- 29 - 1 Bedroom = 11.7 stalls
- 13 - 2 Bedroom = 07.8 stalls
- 13 - 3 Bedroom = 11.7 stalls
- = 31.2 Stalls
- STALLS PROVIDED = 21.0 Stalls
- PARKING LOT AREA**
- = +/- 6,500sqft
- BIKE STALLS**
- SHORT TERM = +/- 7
- LONG TERM = +/- 123 (1.5 per Unit)
- RECYCLING & GARBAGE**
- = +/- 429sqft (5.23sqft per Unit)
- LOADING ZONE**
- = TBC
- AMENITY SPACE (shared indoor)**
- = +/- 4,000sqft



1st FLOOR PLAN



2nd FLOOR PLAN



3rd FLOOR PLAN



4th FLOOR PLAN

5.2 Residential Parking

Parking presents one of the most significant challenges in any development. This challenge is multiplied in affordable housing projects as the cost of construction and the reduction in the revenue-generating area creates a considerable drain on the project viability. Underground parking is pursued as the usual solution; however, given the exorbitant cost (\$40,000/stall), the Feasibility Study determined this was not a viable option and therefore the site plan is oriented toward surface parking.⁵

Regarding the number of stalls provided, the city by-laws currently require 0.6 stalls/unit for rental projects. A "market" rental project of the size contemplated would thus require approximately 49 stalls. The concept being proposed for development, which includes 21 stalls, represents just 0.25 stalls/unit. However, part of the city's incentives to affordable housing developments is a reduction in this requirement. The logic to the decrease is that: 1. many residents of an affordable project do not own automobiles and 2. The projects are close to city transit services which the city wants to encourage to reduce automobile usage.

At this stage of a project, the challenge is determining the level of reduction the city will provide. Clear direction is not given apart from the pre-consultation process, and even then, the city will not make ultimate decisions outside of a Development Permit. Thus, at this stage, the developer needs to approximate what will be required using precedents provided via recently approved projects.

To support this approximation, we completed a full audit of recently approved rental projects and projects under review in the city. Most projects are market rental and therefore propose parking at the required 0.6/unit. However, two recently approved projects provided more relevant data which helped guide our thinking:

133 East 4th Street - Market Rental⁶

Description

Six-storey market rental apartment building consisting of 23 at market rental apartment units and a private childcare space on the lower level with access off of the rear lane.

Parking

The project was approved for **zero parking** stalls based on Action #9 of the Housing Action Plan.

North Shore Neighbourhood House - Affordable Rental⁷

Description

⁵ In early concept development the architect did explore underground parking as an option, however, given the site configuration the concepts failed to demonstrate that underground parking would achieve the needed additional housing units to warrant the expense.

⁶ (<https://www.cnv.org/-/media/City-of-North-Vancouver/Documents/Council-Meeting-Agenda/2021/2021-07-12-Regular-Agenda-Package-for-July-12-2021.ashx>)

⁷ (<https://www.cnv.org/-/media/City-of-North-Vancouver/Documents/Council-Meeting-Agenda/2021-10-25-Regular-Agenda-Package-for-October-25-2021.ashx>)

The North Shore Neighbourhood House redevelopment includes one five story affordable tower (89 units) and one 15 story affordable tower (179 units).

Parking

The city's approval report noted a Transportation Study, that indicated "below-market housing experiences considerably lower vehicle ownership rates resulting in lower parking demands. Rates as low as 0.3 stalls per bedroom have been supported..."

Based on these two recently approved projects, the architect proposed a concept with 21 stalls, 10 less than the 31 required at 0.3/bedroom⁸. This more aggressive approach is based on two points of rationale:

1. The precedent at 133 East 4th Street for the city approving no parking.
2. The North Shore Neighbourhood House is below market; however the rates approved are 80% of the market for the entire project. The NSAC project proposes much deeper levels of affordability for 70% of its concept, and it is safe to assume, given economic realities, that the vast majority of these residents will not be automobile owners.

5.3 Building Height and Location

Though many neighbouring projects achieve six-stories, it was determined for the following reasons that four-stories were most appropriate for the site:

- City officials hinted that four-stories would be the preferred height for a project East of St. Georges Avenue.
- The lot size and potential FAR suggested by the city, suggested that achieving more than four stories would be difficult.
- Additional stories would almost certainly result in the need for underground parking.

Regarding location, the building massing has been located as far north as possible to restrict impact on neighbouring houses. Additionally, the bank of mature cedar trees along the eastern exposure will be preserved to provide a natural break from adjacent homes.

5.4 Unit Mix and Size

The mixture of studio to three-bedroom units are based on the following rationale:

1. **Project Vision** - The project vision proposes a generationally and economically diverse community. Thus, housing types of all varieties are included, with 11-12% of the units being fully accessible as required by BC Housing and CMHC.
2. **Comparable Audit** - In the previously mentioned city-wide project audit, the unit mix of approved and proposed projects in the city was also measured. The proportion of each type of unit for both concepts took into account the market assessment of these other projects.
3. **Housing Needs Report** - The findings point toward a growing need for Seniors and smaller households (including persons with disabilities), which suggests a higher number of studio, one-bedroom (51-63%) units will be required. In addition, on the other end of the spectrum, it's proposed that 17%-29% of new units by 2031 will need to be two-bedroom units, and a

⁸ The other concept, PD-8.1, which is not explored in detail here, provides more parking but this is achieved by extending the parking under the second level of the housing. While not as costly as underground parking, this design would add cost to the building, while also reducing residential units and the size of the amenity space for the Church.

projected 20% will need to be three-or-more bedroom units. The current unit mix aligns roughly with these projections.

The unit sizes are based on BC Housing size benchmarks and are in keeping with the other approved and proposed projects in the city.

5.5 Residential Make-up

Housing in Canada is viewed across a spectrum, from crisis level “Homelessness” to “Market-Level Home Ownership”.

The NSAC project is positioned to align with the BC Housing Community Housing Fund in order to take advantage of significant development grants that are typically available under the Fund. The Fund is oriented toward the middle of the housing continuum, from the upper end of “Social Housing” through to the upper end of the “Affordable Rental”. The program is not intended for housing with support services or residential care components (i.e. persons with known addictions, severe mental health challenges, or persons needing acute residential care).

THE HOUSING CONTINUUM



Within its intended range, there are three required tiers of affordable rents that need to be provided. These tiers align well with the development vision and priorities (section 2) and include:

- **Average Market** - Determined as being rent at 80-90% of regional market rents, this tier will serve households who earn about \$70,000 to \$105,000 annually. 30% of the units need to be provided within this range.
- **Rent Geared to Income (RGI or Non-Market)** - Determined using a BC Housing metric (Housing Income Limits, or HILs) this tier is based on a maximum gross household income limit for an eligible family. For instance, in the case of the current project, a family applying for a 2-bed unit can currently earn a maximum annual gross household income of \$69,000. Rent is then set at 70% of BC Housing HILs x 30% to get annual RGI rents (\$14,490/a or \$1208/m).
- **Deep Subsidy** - Based on income assistance allowable rates and would often include refugees, seniors and single-mothers who receive some form of income assistance. 20% of the units need to be provided within this range.

Together the mix of the present model looks as follows:

Table 3: Unit Mix			
Unit Mix	Deep Subsidy	Rent Geared to Income	Average Market
Studio	4	9	4
1 Bedroom	7	19	13
2 Bedroom	3	6	4
3 Bedroom	2	7	4
Total	16	41	25

Of further note, the housing will be:

- inclusive of all persons regardless of their religious background, sexual orientation, or cultural heritage.
- available for Church staff and congregants that meet financial or operational requirements that may be outlined in the operational agreement.

5.6 Church Parking

Currently, the Church owns the second largest surface parking site that remains in the city.⁹ While important for peak Sunday morning hours, for most of the week the lot is under-utilized. As has been noted, by reprising this space, the opportunity for community good and for Church mission advancement is immense. However, it is also essential to the project’s success that adequate parking for Church members be provided, especially during peak Sunday morning service times.

In its current configuration, the Church has approximately 106 parking stalls. According to city regulations, with CD-102 zoning, the Church requires 55 stalls. With Church parking isolated to just “Lot 1” the architect has demonstrated that by adding extra stalls next to the Church building and along the lane, and by removing the front drive under the canopy to allow for parking across the entire front of the Church, a minimum of 66 stalls could be achieved. (See Appendix C).

Obviously, the construction of a residential project on “Lot 2” will necessarily reduce the number of stalls available to the Church. Reduction in onsite parking will be part of the concession the Church will need to make to see the project flourish. The move toward a residential development on Lot 2, and the subsequent loss of some on-site parking, will therefore be communicating two important realities::

1. The Church, in the heart of the City of North Vancouver, is choosing to embrace an urban identity. People will determine to bike, walk and transit to Church. And, those who need to

⁹ Presentation House is the largest surface lot in the city

drive will opt to carpool and commit to a short walk from on-street parking in the neighbourhood¹⁰.

2. The Church has chosen to value its mission to the needs of vulnerable persons, over the need to provide onsite parking for all its Sunday morning attendees


Undoubtedly, for some these will be harder transitions to make than for others. Onsite parking will need to be ensured for seniors and those with mobility challenges. But for the vast majority, the reduction in parking will be easily navigated, especially in the light of what the concession has produced.

Finally, as the project progresses, additional mitigating measures will need to be pursued:

- As affordable housing is in the city's interest, and as "parking" is part of the stated incentives of the city, a parking agreement with the city could be established that will allow for Sunday morning overflow in the new Harry Jerome Recreation facility.
- As the Provincial Courthouse uses the Church parking throughout the week, a formal parking agreement could be established to allow for Sunday morning parking.

¹⁰ Tenth Church, a sister church and one of the largest churches in Vancouver made this transition many years ago. A congregation of over 1200 people, it has less than 40 onsite stalls.

82



**Households sheltered
& served as a gift of
love by the church.**

6. Development and Operational Plan

As outlined in Section 2, Nest's business model involves Nest leasing land from churches wherein it develops and operates affordable housing as an outworking of the Church's vision. Along with ensuring the land remains in the long-term ownership of the Church, this also allows the Church to focus its energies on the ministry and care of the tenants, whereas the Nest provides the development and operational oversight required to run a project of this nature.

Details for the development and operational plan will be clarified in the full business plan which will be next phase of the project work. However, the following information can be provided:

6.1 Development Plan

There are two options the Nest will explore for moving the project through development:

Contract a Non-Profit Developer - There are a handful of qualified non-profit developers in Vancouver with whom Nest has a relationship who would be capable of leading the project through development and construction under the guidance of Nest..

Hire a Development Manager - With funding from CMHC and Vancity, combined with construction financing, this may be the more advantageous route. This route would likely depend on multiple Nest projects being development ready within the same timeframe.

6.2 Operational Plan

In a project of this nature, operations will include three important arms:

1. Tenant placement, care and rent collection
2. Building and ground maintenance
3. Ministry and spiritual care.

For the first two arms, the Nest will contract a seasoned rental operator to ensure the tenants and building alike are well cared for. The intention will be to pursue one of a handful of Christian Non-Profit operational entities with whom Nest has a relationship.

For the third arm, this will be the work of the Church. Some questions it may want to begin pursuing:

- What ministry does the Church desire to develop? How will its current ministries expand and adapt?
- How does the church envision using the additional amenity space?
- How might an integration between residents and congregation be established? What could be done to facilitate a stronger bridge?
- What staffing roles need to shift?
- Are there design elements of the building that could be pursued to better facilitate ministry and residential care?



STRUCTURE & FINANCE

7. Project Structure and Financial Assessment

7.1 Project Structure

In general, a registered charitable organization such as the Church is unable to directly undertake or operate a mixed-use development, such as contemplated in this project, that contains both units that are rented by individuals who would qualify as eligible charitable beneficiaries and units that are rented to individuals at or near market rents. It may, however, sell or lease land to a non-charity to complete and operate the development, provided that it receives fair market value (“FMV”) for the land. The inclusion of the full FMV of the land in the project costs creates a significant challenge for the economics of the project, essentially rendering it un-financeable. Since the Church is not motivated by the potential financial benefits from undertaking this project, Nest has sought, with the help of experienced legal counsel, to find a structure that addresses this challenge.

After a careful review of possible structures, it is proposed that the project be structured such that a portion containing only deep subsidy and RGI units is leased to a registered charity (the “Operating Charity”) and a portion containing market units and amenity space is leased to a non-charity (the “Operating Non-Charity”). Both lessees would be single purpose entities formed by the Nest. The two building components would be physically integrated; and the Nest would provide unified property management for both components under separate agreements. This will allow for the charitable component of the land lease to be gifted to the Operating Charity such that no rent is payable under the lease for that component and ground rent for the market component will be paid by the Operating Non-Charity at FMV. This structure is essential to helping fund the development, through the contribution of the charitable component of the land, and demonstrating “skin in the game” to lenders.

The proposed structure has been reviewed by legal counsel and their memo confirming their agreement with the structure along with an organization chart is attached in Appendix D.

7.2 Ground Lease

The ground lease between the Church and the Nest will provide that the Nest will undertake, oversee and manage the construction and subsequent operations of the project. Key terms to be included in the ground lease will consist of such things as:

- Initial term and what happens on completion of the initial term; e.g. options to renew; the church takes back the project.
- Rent payable by the Operating Non-Charity that equates to the FMV of that component of the land.
- The Nest will be solely responsible for all costs, expenses, taxes, fees, utilities, capital expenses, liabilities and obligations in respect of the leased land during the term and any renewal thereof.
- Default provisions and the rights of the Church to protect its interest in the land.

7.3 Financial Assessment

A preliminary detailed financial model of concept PD-7.1 has been finalized based on the best information available to date. The financial viability of the project is dependent on the level of funding required as outlined below. Key highlights of the model are as follows (A cashflow extraction is included in Appendix E):

Development Costs

- Total development costs, including land, construction costs, soft costs, interim financing costs and contingency, are estimated to be \$30.0M.
- Land costs are estimated to be \$4.94M. these are comprised of the estimated FMV of the charitable portion of the land contributed to the project (\$4.63M), the ground rent for the non-charitable portion of the land during the construction period (\$0.27M) and the land transfer tax payable on the FMV of the non-charitable portion of the land (\$0.04M).
- Construction costs are estimated to be \$18.3M and are based on \$280 per sq.ft. for the building and \$16.5 per sq.ft. for surface parking. Amounts have been verified for reasonableness by development consultants.
- Soft costs, which include various fees such as municipal, utilities, development, consulting and servicing, are estimated at \$4.4M and represent 24% of construction costs. These are consistent with guidelines established by BC Housing.
- Project contingencies of \$1.8M are based on 10% of construction costs.
- Interim financing costs of \$0.5M are comprised of estimated interest on interim construction financing and a fee for establishing the construction financing.

Funding

- Funding of development costs is assumed to come from a combination of low-interest long-term mortgage, grants, donations and the contribution of the charitable portion of the land.
- The model has been geared towards CMHC's National Housing Co-Investment Fund and mortgage financing available under that Fund, ensuring that the make-up of units and the rents assumed meets the qualification requirements of the Fund. Based on the Fund's Viability Assessment Calculator and Scoring Grid, the project should qualify for a \$13.1M long-

term repayable mortgage and a \$1.5M forgivable loan. The mortgage will have an amortization period of 50 years and interest is assumed to be 3% throughout the term.

- The model has been similarly geared towards BC Housing's Community Housing Fund, ensuring it also meets the qualification requirements of that Fund. Based on the last time the Fund opened for new projects in 2021, the project would qualify for \$8.75M of grants.
- The model assumes \$2.0M of donations contributed to the charitable portion of the project. This amount represents a potential target that demonstrates to lenders the high level of commitment of the Church, its members and adherents to the project. The model estimates that the minimum level of donations to ensure there is no likelihood of an operating cash flow shortage of any amount is \$0.75M.
- The FMV of the charitable portion of the land contributed to the project is \$4.63M.

Operating Cash Flow

- The model projects a positive cash flow throughout the term of the ground lease, which is assumed to be 65 years. Cash flow is comprised of rents, less operating expenses, ground lease rent and mortgage interest expense.
- Rents for residential units have been set based on BC Housing's guidelines for deep subsidy units and rents geared to income (RGI) units, and based on 90% of average market rents included in CMHC's Rental Market Report - 2020 for North Vancouver for market units. Deep subsidy unit rents are held constant throughout the term; RGI unit rents are escalated at 1% p.a.; average market unit rents are escalated at 2% p.a. Rent for the amenities room has been set at \$5,510 per month, plus share of operating costs, escalating at 1% p.a. such that the present value of future rent payments discounted at 4% equals the costs of construction of the space.
- Operating costs represent 47% of gross revenue, which is at the top end of the typical range of 35% - 45% for residential apartment buildings and is reflective of the low rents for deep subsidy and rent geared to income units. The costs have been reviewed by an experienced consultant for reasonableness. Operating costs are escalated at 2% p.a.
- Ground lease rent for market component of the project has been set at \$88,970 p.a., escalating at 1% p.a. such that the present value of future lease payments, discounted at 10% for the first three years of construction and 4% for the remaining 61 years of operation, equals the estimated FMV of that portion of the land. The ground lease rent to be received by the church will almost fully offset the rent payable for the amenities room.
- Mortgage interest expense is based on an assumed 3% interest rate applied to the repayable portion of the CMHC mortgage.



8. Decisions & Next Steps

8.1 Decisions

Based on the preceding report, the Nest proposes the following decisions:

NSAC Church Board

DECISION: Church Board approves the concept as presented and approves Nest to submit the concept to the City of North Vancouver for Pre-Consultation review (6-8 Months)

BACKGROUND: The city has an established a pre-screening process that allows early feedback on concept development. The current study meets most of the requirement of the pre-screening application however, basic elevation drawings will also be required. Due to municipal backlogs, the City has advised their feedback will take a minimum of six months.

Canadian Pacific District Executive Committee

DECISION: No decisions are required at this phase. The report has been addressed to the District Superintendent, the District Executive Committee and the District Finance Committee for their information.

BACKGROUND: According to Article 12.1 of the Local Church Constitution, District Executive Committee approvals are only required in the event that real property is "acquired, disposed of, improved or encumbered". As all decisions by the Church are only exploratory at this stage, no approving decisions by the CPD are required.

8.2 Next Steps

Regarding future decisions and next steps, Nest proposes the following as likely:

Prepare for Business Planning (3-4 Months)

After feedback from the City Pre-Consultation process is received Nest will:

- Prepare a Business Plan budget
- Sign an MOU with the Church to complete the Business Planning - contingent on securing financing
- Apply for CMHC Seed Funding - Current grants provide up to \$150,000 for business planning purposes.

Execute Business Plan (8 Months)

With grant funds secured, Nest and contracted development partners will complete a full business plan positioned for a BC Housing Application.

Church Members Meeting

Church members will be eager for a project update. This will need to be a mixture of vision casting, communication of relevant details, questions and answers, and outlining the development process. It is likely the format should be a "Town-hall" members meeting collaboratively led by Church leaders and Nest. The Church board and the Nest can determine the best timing for this event to occur.

Appendix A - Nest Board, Consultants & Professional Supports

DEVELOPMENT & CONSTRUCTION

GRAHAM CANVIN (Nest Board Member)

Global Facilities, Senior Director, Nutrien

Graham is a Senior Director, responsible for Global Facilities and Travel for the world's largest fertilizer corporation, Nutrien. He oversees Nutrien's current facilities and the construction of substantial new sites around the globe.

ANDY LAMBKIN (Nest Board Member)

Church Pastor and Development Manager for CPD

Andy has served as a pastor in the CPD for 21 years. In addition, he also helps provide direction for CPD churches with respect to land use and development aspirations.

NICHOLAS LAI

Retired, former Senior Planner, City of Surrey

Nicholas is a city planner with extensive experience in current policy and long-range planning. Before his retirement in 2016, his title was Manager, Area Planning and Development – South Division and Subdivision Approving Officer for the City of Surrey. Currently, he consults with several local development companies moving projects through critical development phases.

YVETTE LUKE

Retired, former Planner, City of Delta

Like Nicholas, Yvette has extensive experience in current policy and long-range planning. A fantastic eye for detail, Yvette also enjoys "swinging a hammer" as she volunteers her time with Habitat for Humanity.

SCOTT STREET

Principal, Summit Pacific

Together with his partner Nick Derksen, Scott has developed, constructed and operated a substantial portfolio of purpose-built rental properties, primarily in the Chilliwack area. With approximately 10 years in the field, they have constructed 55 homes and have recently completed a 4 story, 55-unit rental apartment complex in the Fraser Valley.

ALICE SUNDBERG

Development Consultant, Alice Sundberg Housing and Community Development Services

Supporting the development of multiple Metro-Vancouver affordable housing projects, Alice brings years of experience to Nest projects.

STEVEN BARTOK

Principal, Keystone Architecture

With extensive experience in multi-family and affordable projects, Steven will serve as the lead architect for the NSAC project.

NOVACOM BUILDING PARTNERS

The team at Novacom Building Partners provided preliminary design and construction costs review for the current study.

FINANCE

LAWRENCE NEILSON

Retired, Senior Vice President and Chief Financial Officer, Bentall Kennedy

Lawrence has extensive experience in finance and accounting for commercial and multi-family properties. Before his retirement in 2016, Lawrence worked for 25 years at Bentall Kennedy, one of the largest global real estate investment advisors and one of North America's foremost providers of real estate development and property management services.

LEGAL

MILLER THOMSON LLP

Mike Walker (Partner, Real Estate Law) and Sarah Fitzpatrick (Charitable Law) serve as the Nest's legal team. They provided their expertise toward the financial and legal structure.

MARKETING

BRIAN HO (Nest Board Member)

Principal, Flowmarq

Brian is the founder and Principal of Flowmarq, a Vancouver marketing agency with a diverse portfolio, including an extensive real estate development client base.

BEN TAYLOR

Director, Sales, and Marketing

Ben has 12 years' experience in marketing, leasing and selling pre-construction townhomes, 4 and 6 story wood frame condominiums, and concrete high-rise buildings throughout the Lower Mainland. Combined he has been directly involved in marketing over 10,000 homes for both sale and lease.

DEVELOPMENT SUPPORTS

VanCity Community Foundation

One of Vancity's two objectives is to support the development of social purpose real estate throughout the province. More than just financial partners (Vancity has provided \$14,000 in project financing for this study), their team has been critical in bringing to fruition multiple projects in the last number of years.

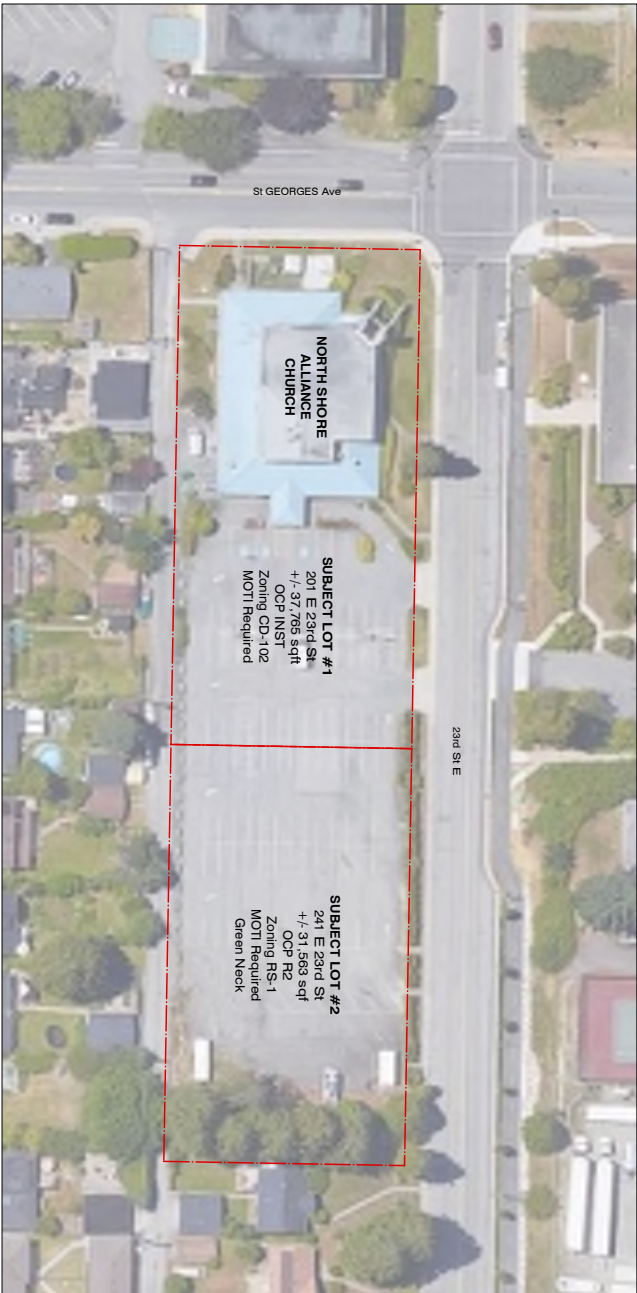
Appendix B - Concept PD-7.1, Architectural Report



LOCATION KEY



CONTEXT KEY



EXISTING SITE PLAN



KEYSTONE
NORTH SHORE

NEST - AFFORDABLE HOUSING APARTMENT

North Shore, LLC

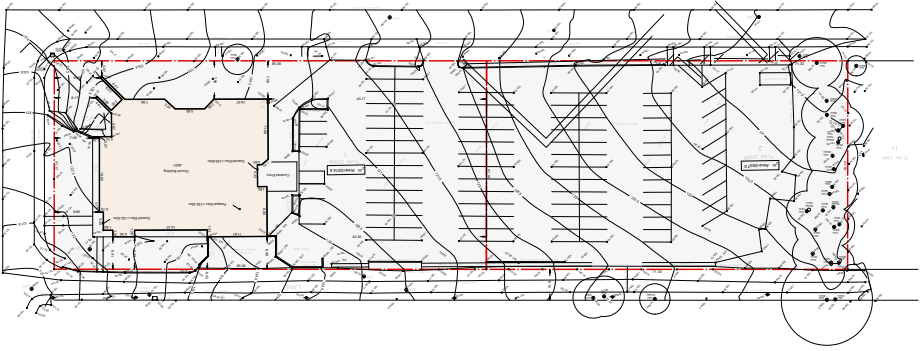
EXISTING SITE INFORMATION



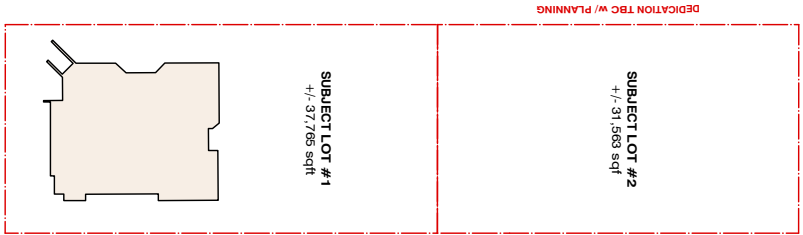
PD-1.1
21-11-01

DEVELOPMENT DATA

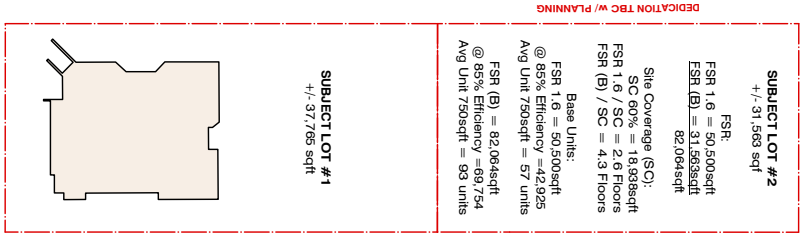
SITE AREAS	
GROSS AREA (GA)	= +/- 37,766sqft
LOT #1	= +/- 31,563sqft
LOT #2	= +/- 31,563sqft
ZONING	
CURRENT	= INSTRS-1
PURPOSED	= RM-2
DENSITY	
ALLOWABLE	= 1.6 FSR w/ Rezoning
PROPOSED	Bonus TBC
HEIGHT	
PROPOSED	= 15M (49 ZFT) Max
SITE COVERAGE (SC)	
PROPOSED	= 60% Max
SETBACKS (proposed)	
FRONT	= 3M
REAR	= 1.6M
SIDE	= 2.4M



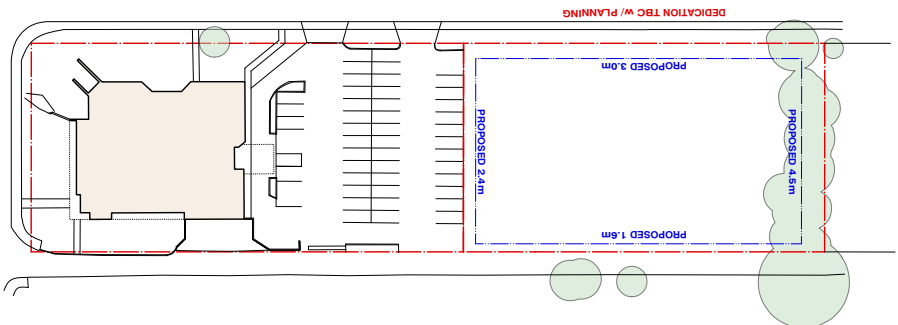
SURVEY



SITE GROSS AREAS



FAR



SETBACKS

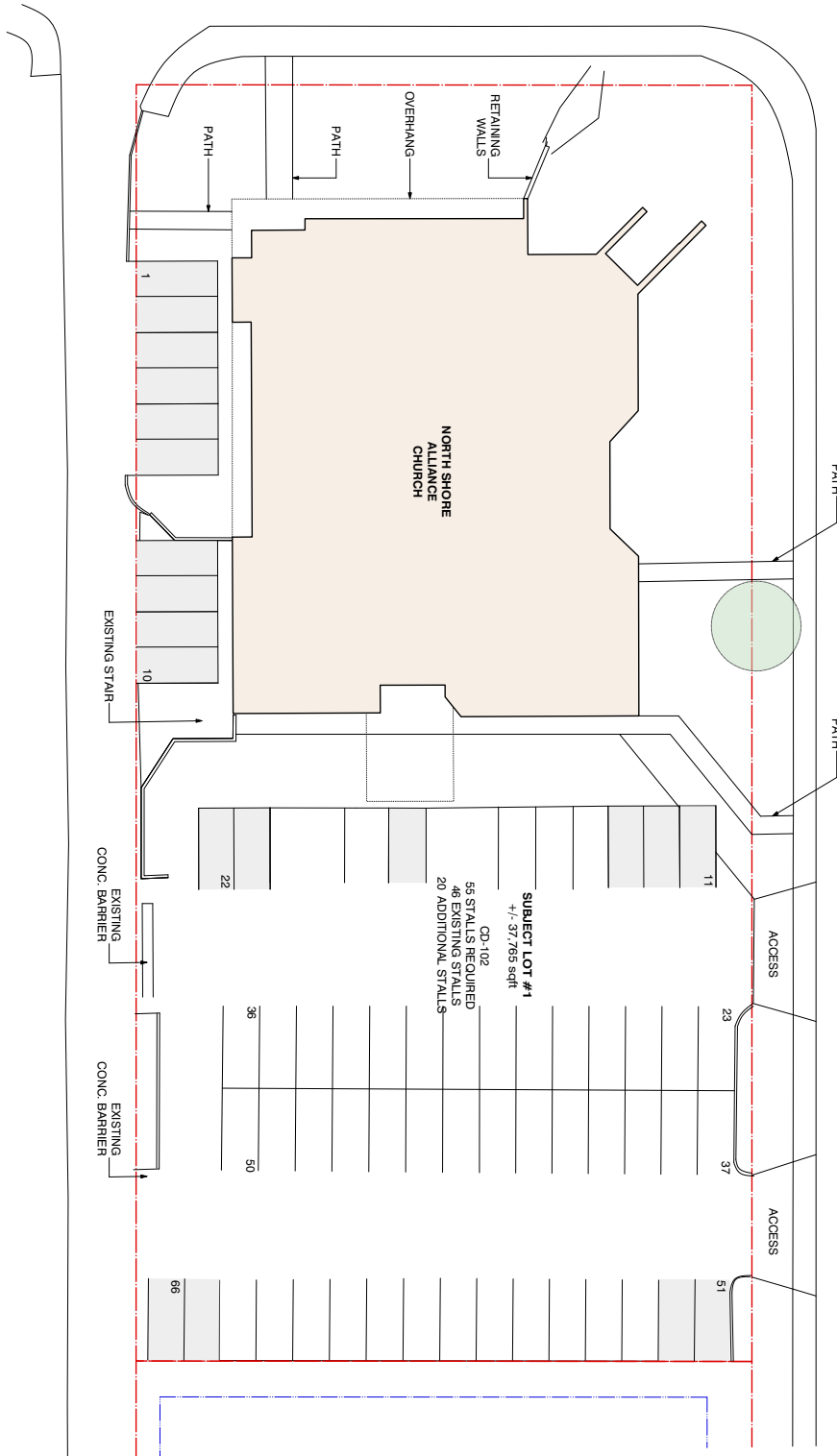


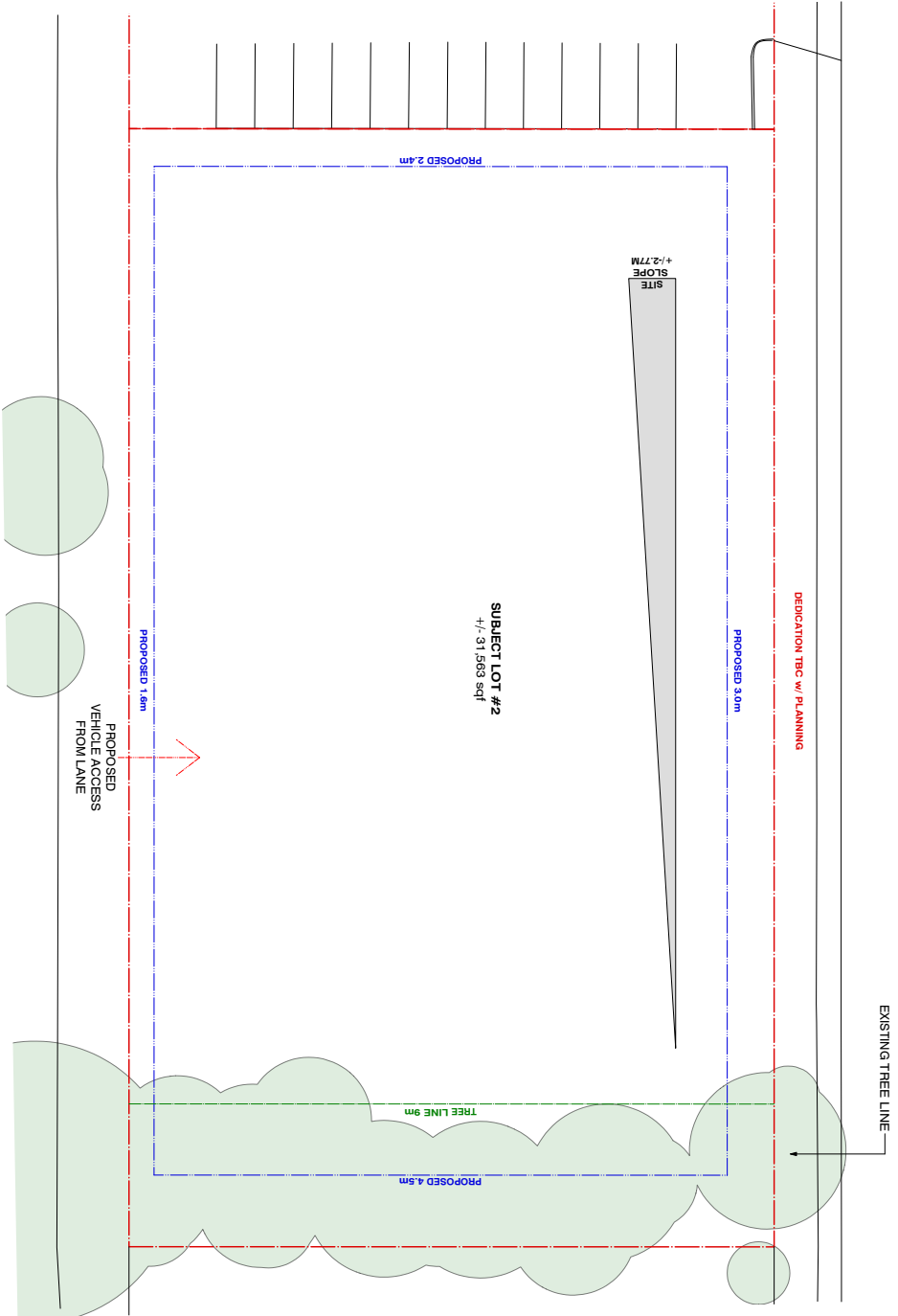
NEST - AFFORDABLE HOUSING APARTMENT
North Vancouver, B.C.

SITE DIAGRAMS



PD-1.2
2-11-01





DEVELOPMENT DATA

SITE AREAS
 GROSS AREA (GA) = 4,31,563sqft

FLOOR AREAS
 GROSS FLOOR = 4,12,561sqft 1st
 = 4,17,500sqft 2nd-4th

EFFICIENCY
 FAR = 4.2 (TBC w/ Planning)
 SC = 4.4 (55%)

UNITS
 = 17 - Studio (+4,415sqft Avg)
 = 29 - 1 Bedroom (+4,535sqft Avg)
 = 10 - 1 Bedroom (+4,505sqft Avg) Accessible
 = 13 - 2 Bedroom (+7,465sqft Avg)
 = 13 - 3 Bedroom (+7,945sqft Avg)
 = 82 UNITS

PARKING STALLS
 STALLS REQUIRED (3 per BDRM)
 17 - Studio = 60.0 stalls
 39 - 1 Bedroom = 117 stalls
 13 - 2 Bedroom = 67.8 stalls
 13 - 3 Bedroom = 117.2 stalls
 = 312 Stalls

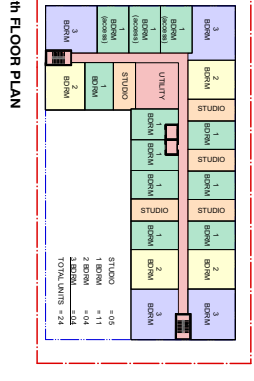
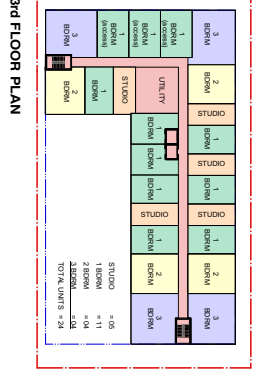
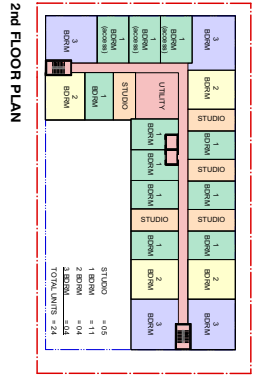
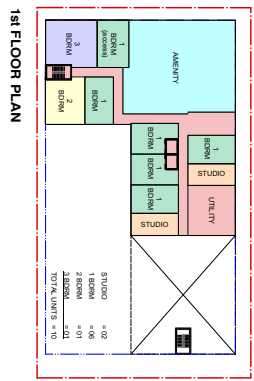
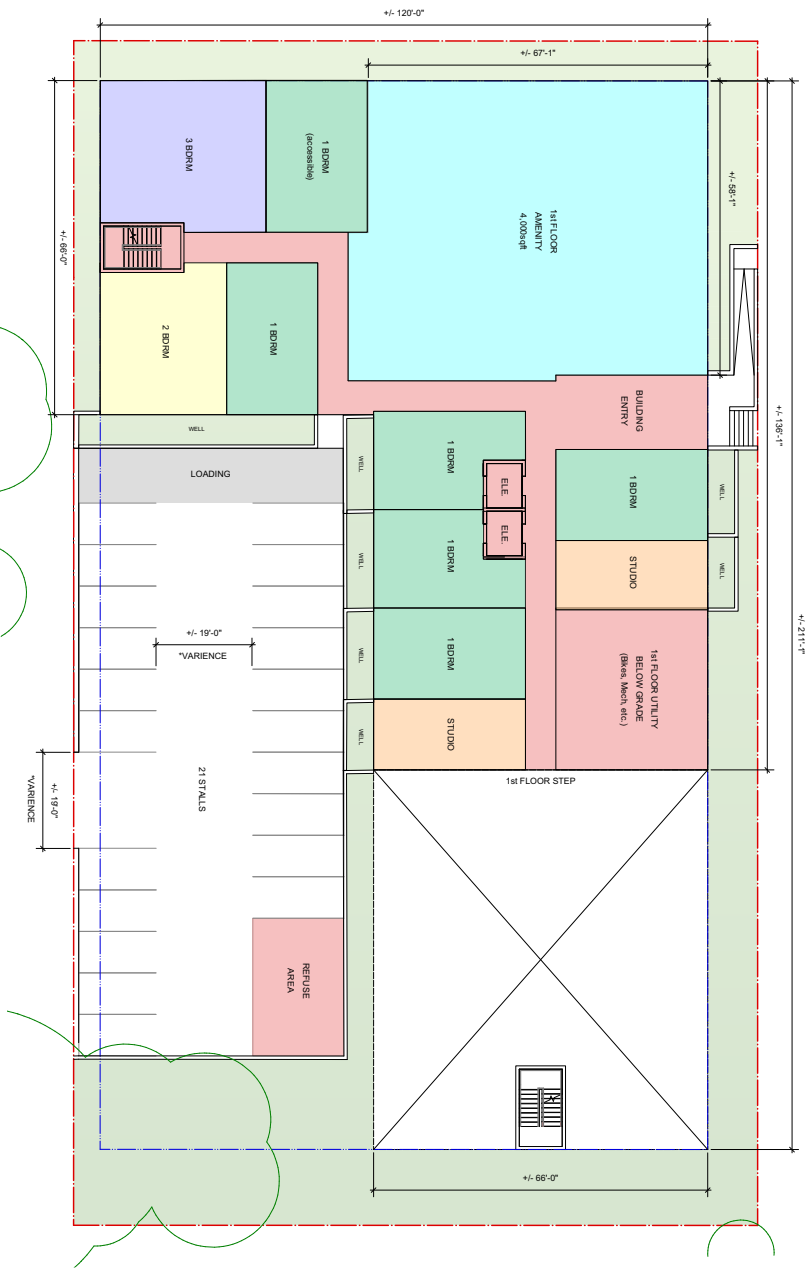
STALLS PROVIDED
 = 21.0 Stalls

PARKING LOT AREA
 = 4,650sqft

BIKE STALLS
 SHORT TERM = 4 - 7
 LONG TERM = 4 - 123 (1.5 per Unit)

RECYCLING & GARBAGE
 = 4 - 423sqft (5.23sqft per Unit)

LOADING ZONE
 = TBC
AMENITY SPACE (shared indoor)
 = 4 - 4,000sqft



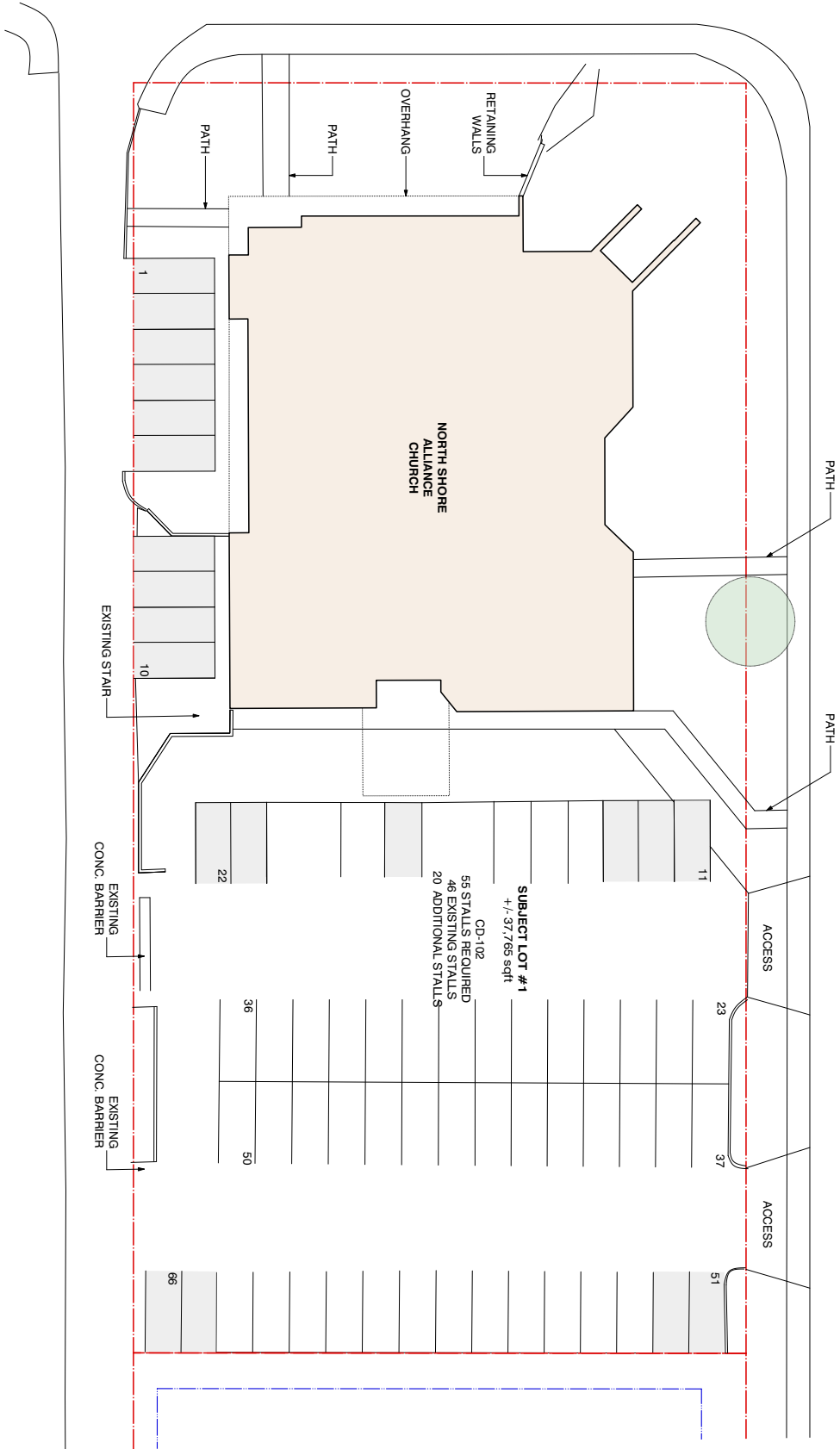
NEST - AFFORDABLE HOUSING APARTMENT
 North Vancouver, B.C.

CONCEPT 1



22-01-07

Appendix C - Revised Church Parking Concept



Appendix D - Legal Review





MEMORANDUM **Vancouver**

Sent via E-mail

To: The Nest Housing Society
From: Mike Walker
604.643.1288
Date: February 28, 2022
Subject: North Shore Alliance Church housing development
File: 267101.1

You have asked us to review and advise on the ownership and operating model contemplated for an affordable rental housing project under discussion between The Nest Housing Society (the “**Nest**”), a non-charitable not for profit organization, and North Shore Alliance Church of the Christian and Missionary Alliance in Canada (the “**Church**”), a registered charity, for a Church-owned site in North Vancouver.

The model is intended to meet both BC Housing and CMHC’s affordable housing requirements such that the project can take advantage of any grants, forgivable loans and low interest financing that might be available from either or both organizations. As a result, it includes a mix of deep subsidy units, units with rents geared to income, units with rents near the market average, and potentially revenue-generating amenity space.

The model is based on a ground lease from the Church to the Nest, currently contemplated to have a 65-year term to allow for a 60-year operating period following completion of construction. The Church does not require any ground rent payment, but as a registered charity, the Church must receive fair value for property it sells or leases to a non-charity.

The model proposes to structure the project such that a portion containing only deep subsidy and rent geared to income (“**RGI**”) units (both of which categories would be subject to income caps) is leased to a registered charity (the “**Operating Charity**”), and a portion containing market units and amenity space is leased to a non-charity (the “**Operating Non-Charity**”). Both lessees would be single purpose entities formed by the Nest. The two building components would be physically integrated to a significant degree; and the Nest would provide unified property management for both components under separate agreements.

It is contemplated that the charitable component of the land lease will be gifted to the Operating Charity such that no rent is payable under the lease for that component and

ground rent for the market component will be paid by the Operating Non-Charity at fair market value.

During the operating phase, separate accounts will be maintained for the charitable and non-charitable components of the building, so that all revenue associated with the deep subsidy and RGI units goes into the charitable cash flow and accrues to the Operating Charity, and all revenue associated with the market component goes into the non-charitable cash flow and accrued to the Operating Non-Charity. Operating costs will be allocated between the two entities based on square footage, except for debt service which will be allocated based on need to cover the capital costs of each component. The model currently shows a need for cash advances from the non-charitable cash flow to the charitable cash flow to cover operating expense shortfalls, to be repaid from positive cash flow from the charitable component expected later in the operating phase.

It is expected that a long-term lender (at this point CMHC, which offers 50-year amortization on loans for qualifying projects) will require security in the form of a freehold mortgage granted by the Church, though the actual debt service may be segmented into separate loans for the charitable component and the market component.

Community members are expected to make donations to the project in return for donation receipts.

Please note the following further assumptions on which this analysis is based:

(a) The Church property is already subdivided to create separate titles for the existing church facilities and the site for the new housing development.

(b) The new development is designed to function as an integrated building so that it is not possible to subdivide the building into strata lots or air space parcels housing the charitable and market housing components from each other following completion of construction.

(c) The RGI units will be operated as a charitable activity. The purpose of these units will be to relieve poverty by providing housing to low income individuals or households. The income caps (for instance, tracking the provincial "Housing Income Limits" published by BC Housing) placed on these units will be low enough to ensure that the residents of those units will qualify as eligible charitable beneficiaries. Currently, the Housing Income Limits are generally accepted as a threshold for determining what households qualify for housing that relieves poverty.

(d) The allocation of operating costs between the Operating Charity and the Operating Non-Charity on a square footage basis reasonably reflects the operating costs attributable to each of the two entities, and the Operating Charity would not be subsidizing the operating costs of the Operating Non-Charity.

ANALYSIS

Based on the foregoing analysis, we see several issues that require consideration from a charitable compliance standpoint.

1. Development Phase



- (a) Is the development of a mixed use development on Church lands by the Nest permitted under charity law?

Generally, a charity cannot directly undertake a project intended to deliver both charitable and non-charitable components. However, it may transfer a real estate asset to a non-charity on condition that the transferee carry out a mixed-use project and transfer back a charitable component on completion of construction, provided (a) the development of the project is entirely carried out by the non-charity, and (b) the transaction represents fair market value to the charity (or for the benefit of another charity) in all respects. In particular, the value of the assets moving in both directions (in this case, bare land to the non-charity at T=0, charitable component back to the charity at T=5y, non-charitable component back to the charity at T=65y) must be balanced and must reflect the discounted present value of future payments, and the charity must be fairly compensated for any risk it assumes.

In the case of the project as you have described it to us, the first condition – development entirely carried out by the non-charity – is satisfied. Satisfaction of the equivalencies in relation to the second condition is dependent on valuation. Provided the overall transaction provides fair market value (including compensation for risk), the Church will be complying with its obligations as a charity by leasing the land to Nest to undertake the development.

- (b) Can the Church forego payment for the portion of the ground lease related to the charitable component, and still be paid for the portion related to the market component? How can this be structured?

A charity may make both money and in-kind donations to another charity, but must obtain fair market value when transferring assets to a non-charity. If the charitable and non-charitable components of the proposed development already existed as distinct assets, the Church could donate the charitable asset to the Operating Charity, and sell the non-charitable asset to the Operating Non-Charity for an appraised fair market value. If the two components are part of an integrated development not yet constructed, they cannot be separated until construction is completed. However, in our view it is permissible for a ground lease from the Church to the Nest to include an option for the Church to obtain a sublease back of the charitable component on completion, and for the rent under the ground lease to be for fair market value of the non-charitable component only. As noted above, the valuation should reflect the risk assumed by the Church in placing the entire asset in the hands of the Nest during construction.

In order to simplify the lines of the transaction, we recommend that the option to sublease the charitable component be granted to the Church, then assigned by the Church to the Operating Charity at or prior to completion of the project.



The obligation of the Church to grant the ground lease, and the Nest's obligations in respect of design, permitting, financing and construction, subleasing the charitable component, and long-term operation of the market component, can all be structured by a development agreement during the planning and construction phase, and by the ground lease during the operating phase.

- (c) Can the Church accept liability for the construction loan and mortgage the freehold in support of that liability?

By mortgaging the freehold, the Church will be placing its land asset at risk in a potential foreclosure by a construction lender. This risk can be attenuated by rigorous underwriting and generous contingency allowances in the construction budget. The risk is reduced because the Church will have the option to enter into a sublease for the charitable component. The risk can also be mitigated by giving the Church the ability to push Nest out through robust default provisions and take control of the development or replace Nest with another developer. Further, there should be certain milestone or triggering events that must be met before Nest can register the lease, as is typical in a project of this sort. While risk can be mitigated, it cannot be altogether eliminated, so to the extent any material risk remains, it should be reflected in the valuations and priced into the transaction. One way to reflect the risk in the valuation would be to have a higher interest on the ground rent during the development phase than in the operating phase, to reflect increased risk during development.

- (d) Can the Church raise funds for the development?

Members of the community may make donations for the development. If the Church receives donations for the development, it can provide those funds for the development to Nest provided they are allocated to the development costs of the charitable component which is being sub-leased back to the Church.

If businesses make donations to the development, they may not require donation receipts for the donation. In that case, the donation could be made directly to Nest for the development costs and allocated to either the charitable or non-charitable component.

2. Operating Phase

- (a) What controls does the Church require over the market component during the operating phase?

The Church should not be involved in the management of, or exercise control over, the market component of the project, except to ensure that the Nest complies with all applicable laws in its operation. The Church should enter into the ground lease on the basis that the market component is an investment, from which it will derive a fair market return on its investment.



There are no effective limits on the amount of investment activities that a charity may undertake, as long as the investment meets a prudent investment standard. The defining features of investment income or a return on investment are: (i) the income or return is derived primarily from ownership of an asset, rather than active trading or exploitation of the asset, (ii) the risk to the charity is limited to the purchase price of the asset, and (iii) the income or return is passive in nature, and the charity does not take on an active role in operating the underlying business that generates the income or return.¹

As the ground rent for the market component is fixed and reflects fair market value for a ground lease of this nature, no operating oversight by the Church would be required.

- (b) Can the Church accept liability for permanent financing of the market component, and mortgage the freehold in support of that liability?

This is essentially the same question as 1(c) above, except that the risk profile of the project during the operating phase may be significantly lower than during the construction phase, as environmental, regulatory, and construction risks will have passed. There will be continuing non-trivial risks associated with interest rates on mortgage renewal, and ongoing obligations to funders in respect of occupancy of the market component which would be binding on the Church should it terminate the Nest's operating lease; these risks must be accounted for in the project analysis from the Church's standpoint.

- (c) Structure of Operating Charity

The Nest will incorporate both the Operating Charity and the Operating Non-Charity. It is important that the Operating Charity be operated as a distinct entity from Nest and the Operating Non-Charity in order to avoid confusion about which entity is carrying out what activities and arguments that charitable resources are being used for the benefit of non-charitable entities. We recommend that a majority of the directors of the Operating Charity not overlap with the directors of Nest or the Operating Non-Charity. Further, the Operating Charity is responsible for having separate books and records, though Nest could assist in maintaining those records. The Operating Charity should not provide resources to Nest or the Operating Non-Charity, unless it receives fair market value in return for those resources.

Assuming the Operating Charity is established as a BC society or a federal non-share capital corporation, its members will elect its directors, receive the financial statements, and approve fundamental decisions; and its directors will oversee the operation of the entity. There are different ways to structure the governance of the Operating Charity, these include:

¹ Canada Revenue Agency, CPS-019, *What is a related business?* (March 31, 2003)



- (i) Nest or Church Control: The Operating Charity could be structured so that Nest or the Church controls the Operating Charity. It is possible that either the Church/Nest could be the sole member of the Operating Charity, meaning they would have total control. However, there is a risk that a sole-member charity will be designated as a private foundation rather than a charitable organization under the *Income Tax Act* (Canada). This would entail certain restrictions on its activities, including a prohibition against any business activity. In order for the charity to be designated as a charitable organization and not subject to these restrictions, a majority of its directors must be at arm's length from each other; this is best facilitated by having multiple members appoint or elect the directors.

A better way to structure the Operating Charity to give another organization control, but not total control, is to use a two-class membership structure, with a founding member class and an ordinary member class. The founding member, which could be Nest/Church, is given limited control and can appoint a minority of the directors. The ordinary members would be the members of the board of directors of the Operating Charity from time to time. The ordinary members and the founding member would together elect the remaining seats on the board of directors.

- (ii) Both Nest and Church are Members: Another option would be to have Nest and the Church be the members of the Operating Charity with rights to elect directors. However, in order to fit within the rules for charitable organization, they could only have the right to elect an equal number of directors, unless the board also included external directors (perhaps elected by the entire board acting in concert).

The options described above for structuring the governance of the Operating Charity assume that the Church will be involved in the governance. If this is the case, the Operating Charity would likely need to be a single-project entity, and additional operating charities would be established for future projects to allow for the governance to be adjusted for each project.

CONCLUSIONS

The following summarizes our opinions:

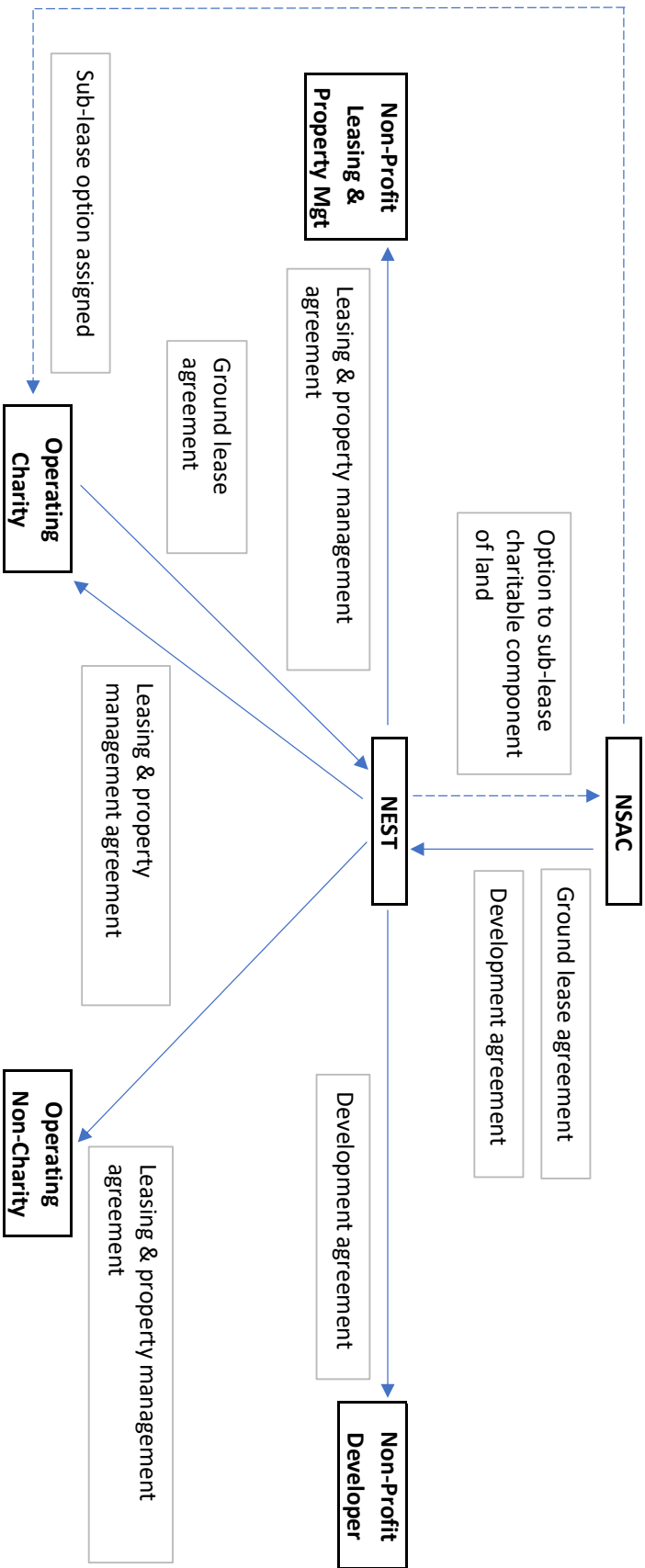
1. The development of the project by the Nest on Church lands is permitted under charity law.
2. It is permissible for a ground lease from the Church to the Nest to provide for sublease of the charitable housing component back to the Church on completion, and on that basis to provide for rent under the ground lease at fair market value of the market component only.
3. It is permissible for the Church to mortgage the freehold title of the project lands to secure construction and/or long term financing for a mixed use project on its lands,



provided that steps are taken to mitigate the Church's risk and any remaining material risk is priced in the transaction as described in section 1(c) above, which is reflected in the model.



NORTH SHORE ALLIANCE AFFORDABLE HOUSING PROJECT PROPOSED STRUCTURE CHART



Appendix E - Cash Flow Extraction

NORTH SHORE ALLIANCE AFFORDABLE HOUSING PROJECT - CONCEPT 1 (PD-7) BC HOUSING & CMHC JOINT FUNDING
CASH FLOW (TOTAL)

Revenues / Cash Receipts

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Deep Subsidy	-	-	-	83,628	83,628	83,628	83,628	83,628	83,628	83,628
RGI	-	-	-	528,485	533,789	539,107	544,498	549,943	555,443	560,997
Average Market	-	-	-	459,731	468,926	478,304	487,870	497,628	507,580	517,732
Gross rents	-	-	-	1,071,843	1,086,323	1,101,039	1,115,996	1,131,199	1,146,651	1,162,357
Amenities room base rent	-	-	-	66,120	66,781	67,449	68,124	68,805	69,493	70,188
Amenities room operating costs	-	-	-	32,723	33,377	34,045	34,726	35,420	36,129	36,851
Parking revenue	-	-	-	12,886	12,886	12,886	12,886	12,886	12,886	12,886

Total Revenues / Cash Receipts

	-	-	-	1,183,572	1,199,367	1,215,419	1,231,731	1,248,310	1,265,158	1,282,282
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Expenses / Payments

Operating expenses				381,625	389,258	397,043	404,984	413,083	421,345	429,772
Property management & leasing fees				115,085	116,599	118,137	119,701	121,289	122,903	124,543
Replacement reserve provision				46,034	46,640	47,255	47,880	48,516	49,161	49,817
Land lease				91,666	92,583	93,508	94,443	95,388	96,342	97,305
Interest expense				389,458	385,967	382,370	378,665	374,848	370,915	366,863

Total Revenues / Cash Receipts

	-	-	-	1,023,868	1,031,046	1,038,314	1,045,673	1,053,123	1,060,666	1,068,301
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Annual Excess (Shortfall) in Receipts over Payments

	-	-	-	159,704	168,322	177,105	186,059	195,186	204,492	213,981
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Capital Costs

Grants / Donations	(3,382,596)	(7,367,404)								
Land lease	88,970	89,860	90,758							
Property transfer tax	42,853									
Financing fee	136,160									
Soft costs	3,114,613	3,114,613								
Construction costs		9,160,625	9,160,625							
Construction financing interest expense		74,965	290,960							
Construction financing		(5,072,658)	(9,542,334)							
Forgivable loan				14,614,992	(1,499,496)					
Take-out mortgage financing				(12,999,992)	118,995	122,592	126,297	130,115	134,047	138,099

Total Capital Costs

	-	-	-	115,504	118,995	122,592	126,297	130,115	134,047	138,099
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ANNUAL NET CASH FLOW

	-	-	-	44,200	49,326	54,513	59,761	65,072	70,445	75,882
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REPORT END

