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Report to: Board of Directors,
CityHousing Hamilton Corporation

Submitted by: Tom Hunter
Chief Executive
Officer/Secretary

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Subject: **Development Strategy Update (Report # 17021(a))**

RECOMMENDATION:

That Report # 17021(a) be received for information.

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Tom Hunter
Chief Executive Officer/Secretary

EXECUTIVE SUMMARY:

Focused work on the redevelopment of CityHousing Hamilton's (CHH) portfolio has recently been initiated as a direct result of Board direction on a number of revitalization initiatives, including redevelopment and restoration of West Harbour properties, the sale of singles and semis, and the related build-out of new development to assist with the relocation of residents and the replacement of units. In addition, a comprehensive asset management strategy has also been initiated to guide future development work. The following updates provide an outline of current development work in progress and detail current analysis which is informing the trajectory of development work.

BACKGROUND:

Historical Context

CHH seeks to have a viable portfolio that best meets the needs of residents.

For many years CHH has been preparing for the redevelopment of its properties as the need for portfolio revitalization has arisen from an unfunded capital repair need from aging buildings. As well the opportunity exists to reconfigure the portfolio to maximize social impact through improved financial sustainability and demographic realignment.

In considering the strategic approaches to the CHH portfolio, the following options have been assessed:

- Replacement and/or renovation of the existing units on the existing site.
- Replacement of the existing units and/or the addition to these units on alternative sites, including the infill capacity of City-owned assets.
- Replacement of the existing units and/or the addition to these units on a combination of existing and alternative sites.

For approaching redevelopment in general, the following aspirational goals have provided guidance for the development strategy:

- Significantly intensify the lands
- Achieve an income mix
- Achieve a tenure mix
- Express quality design
- Provide a mix of unit sizes
- Provide accessibility
- Ensure affordability
- Build community support capacity
- Optimize the number of affordable housing units

Recent Progress

Specific development projects that are in progress to respond to urgent current priorities of the Board and immediate needs include:

- 500 MacNab St N (repair)
- Jamesville (redevelopment)
- Sale of the singles and semis (portfolio realignment)
- Asset Management Strategy (planning)

With 500 MacNab St N, funding is being pursued for an enhanced retrofit to the Passive House performance standard. CHH's business case has already been vetted and recommended for investment by a potential major funder, Canada

Mortgage and Housing Corporation (CMHC), who CHH is now entering into formal negotiations with regarding an amount that could provide the financial feasibility for the project to move forward.

For Jamesville, CHH is pursuing a development partner to maximize the social benefit and financial sustainability of this redevelopment opportunity. A Request for Expressions of Interest (RFEOI) went out in May, 2017 and will close at the end of July. The RFEOI process will allow CHH to identify development concepts that can inform the competitive procurement process that will begin in the fall.

The sale of 100 singles and semis identified as in need of major reinvestment and which are currently vacant has begun. Properties are being readied for sale and a few select sites have been marketed while the disposition strategy is finalized. To date 7 properties have sold with an average sale price of \$365,000. The remaining 93 properties will be marketed through contracts with real estate companies to provide the maximum financial benefit to CHH.

The first steps in creating an Asset Management Strategy have been taken. Through coordination with Housing Services, building condition assessments (BCAs) are to be completed and an asset planning software loaded with this information. The basic building data being collected will be one of the key data-sets that will inform the Asset Management Strategy, which will guide the approach CHH takes to reinvestment, divestment, reconfiguration and growth of the CHH portfolio through the broad lenses of social and financial strategies.

These development activities have created the need to assess the associated development opportunities. Working with City staff (i.e. Planning and Economic Development, Housing Services and Finance) CHH has identified sites which could be utilized to complement current development activities. These include three locations: Bay/Cannon, Macassa and Wellington/King William. These sites, along with Jamesville and 500 MacNab are the current focus of CHH development work on portfolio revitalization.

There are other sites that are in various stages of consideration for development and include: Roxborough, 191 York, Riverdale and the Motor City site. The concepts for these projects will be reviewed in this Report.

DISCUSSION:

To proceed further with its development work, CHH staff would like to confirm the financial modelling concepts align with the direction the Board would like to take. The presentation of this information will provide the Board with a financial roadmap of how staff intends to proceed.

Strategic Considerations

Informed by the guiding principles, staff is considering the following approaches to maximizing social benefit and financial sustainability:

- The financial analysis of each building to ensure individual models contribute to the overall financial health of the portfolio;
- Demographic changes to building type to best align the composition of residents;
- The incorporation of market units into RGI developments to increase the spectrum of affordability provided and provide an element of mixed-income;
- The adjustment of all new market units to being 100AMR, to ensure they are providing adequate cash flow to the portfolio while still providing affordability;
- The construction of cost-effective buildings that have a minimal up-front premium but provide better buildings that have lower operational costs and features to improve quality of life for residents.

Work on a comprehensive Asset Management Strategy that will incorporate these considerations and many others has been initiated. Ultimately this strategy will guide not just how and where new development happens, but also how existing buildings and land are best configured and utilized to maximize the latent potential of the CHH portfolio and the current operational framework. This strategy is a major undertaking and has begun with work on basic building data collection through BCAs and a new software platform to collect data into and allow for continuous updates. Both of these first steps have been in cooperation with Housing Services to ensure key building data is able to be shared amongst all housing providers in Hamilton.

Development Overview

Six potential sources of funding have been identified to assist with the redevelopment of the CHH portfolio, including the Sold Unit Fund, Annual Capital Allocation, Development Charges, Block Funding, 50 Million Poverty Reduction Fund, and the Refinancing of Market Properties. In addition, there is periodically new build specific funding such as the Investment in Affordable Housing (IAH) which CHH will compete for as possible.

The following Cash Flow Analysis provides an overview of the specific dollars available for development work and the approximate timing for when they can be allocated:

New Development Cash Flow Analysis						
Year	Sold Unit Fund	Annual Capital Allocation	Development Charges	Block Funding	50 Million Poverty Reduction Fund	Refinancing of Market Properties
2016-17	1,300,000	1,800,000	800,000		1,000,000	2,100,000
2018	7,000,000	1,000,000	800,000		1,000,000	1,200,000
2019	7,000,000	1,100,000	800,000	500,000	1,000,000	
2020	7,000,000	900,000		500,000	1,000,000	
2021	7,000,000	1,000,000		500,000	1,000,000	
2022		1,000,000		500,000	1,000,000	
2023		1,000,000		500,000	1,000,000	
	29,300,000	7,800,000	2,400,000	2,500,000	7,000,000	3,300,000

* IAH and similar funding is not accounted for in the cash flow analysis due to unpredictability of acquiring it, but it will be pursued.

** The specific allocation for the 50 Million Poverty Reduction Fund will be decided at a future GIC meeting.

In total it is anticipated there is approximately \$49 million in capital to be available over a seven year period to fund development work, along with over \$3M in potential refinancing opportunities currently identified. To leverage this capital, additional funds may be borrowed to assist with the breadth of development under consideration.

The redevelopment of Jamesville and the sale of singles and semis will require the replacement of existing units. For an overall picture of the units required to be replaced, the following Unit Replacement Analysis outlines the locations identified to provide replacement through new development, as well as detailing additional market units that are proposed to be incorporated:

Unit Replacement Analysis		
Current Units		
Singles and Semis to be Sold	100	Additional Market Units
Jamesville	91	
	191	
Replacement Units		
Development at Bay/Cannon	-46	19
Development at Jamesville	-45	Unknown
Development at Macassa	-45	20
Development at Wellington/King William	-14	6
	-150	45+
Unidentified Units		
Units yet to develop	41	
	41	

Of the 191 units to be replaced, the locations for 150 have been identified and 41 remain to be allocated. The incorporation of an additional 45 market units helps diversify income mixes by providing a broader spectrum of affordability that will enhance these new communities.

The financial sustainability of each individual development is essential for its success. Therefore, a detailed analysis of each development opportunity has been completed. CHH staff will be vetting necessary financial modelling with City of Hamilton finance staff to ensure debt covenants of the City are not adversely affected by refinancing. The following Operating Model table provides a summary of total revenue, expenses and profit/loss for each of the developments under consideration:

Operating Model					
Project Name	500 MacNab	500 MacNab-PH	Bay/Cannon	Macassa	Wellington/KW
# of Units	146	146	65	65	20
Bedroom Type	Bachelor/1-Bed	Bachelor/1-Bed	3-4-Bed/1-Bed	1-Bed	3-Bed
Revenue	\$1,001,585	\$1,053,069	\$669,806	\$548,716	\$181,645
Expenses	\$894,759	\$1,018,506	\$635,701	\$480,125	\$159,272
Profit/Loss	\$106,826	\$34,563	\$34,106	\$68,591	\$22,373

* Although the 500 MacNab Passive House approach has less profit than the traditional basic BCA model, it provides a significantly enhanced building with numerous benefits for residents while having a larger cash flow to use for financing payments that will be available following the end of the term.

** Downloading electricity cost to tenants is not factored in for Passive House, which would create additional current cash flow.

Financial Analysis

Reasonable estimates were used for unit pricing, but it should be noted that since the following analysis is preliminary, the data quality can continue to be improved. Areas of focus for refinement include the cost factors for additional bedrooms and square footage, as well as the premium for the Passive House approach.

Funding Analysis	
Project Overview	
Site	500 MacNab St N
Description	Standard BCA Referbishment
Cost	\$ 6,500,000
Building Profile	
Unit Composition	146 units (114 bachelor, 32 1-bed, all RGI)
Demographic	Seniors
Rationale	The move to seniors provides a better demographic fit for a large building without a mixed demographic

Funding Analysis	
Project Overview	
Site	500 MacNab St N
Description	Enhanced Passive House Referbishment
Cost	\$ 12,006,000 (after \$3,650,000 grant)
Building Profile	
Unit Composition	146 units (114 bachelor, 32 1-bed, all RGI-equivalent rent supplement)
Demographic	Seniors
Rationale	The rent supplement model allows for access to the grant funding while preserving the same affordability profile, while the move to seniors provides a better demographic fit for a large building without a mixed demographic

Funding Analysis	
Project Overview	
Site	Bay/Cannon
Description	New Build Passive House
Cost	\$ 14,840,000
Building Profile	
Unit Composition	65 units (46 3-4-bed RGI, 19 1-bed Market)
Demographic	Families and Singles
Rationale	The RGI units assist with the temporary relocation of Jamesville residents and permanent replacement of units, while the market units broaden the spectrum of affordability

Funding Analysis	
Project Overview	
Site	Macassa
Description	New Build Passive House
Cost	\$ 13,000,000
Building Profile	
Unit Composition	65 units (45 1-bed RGI, 20 1-bed Market)
Demographic	Seniors
Rationale	The RGI units replace sold units, while the market units broaden the spectrum of affordability

Funding Analysis	
Project Overview	
Site	Wellington/King William
Description	New Build Passive House
Cost	\$ 4,800,000
Building Profile	
Unit Composition	20 units (14 3-bed RGI, 6 3-bed Market)
Demographic	Families
Rationale	The RGI units replace sold units, while the market units broaden the spectrum of affordability

A summary of the proposed development budgets and annual allocations is presented below:

Development Budgets - 3 year projections

	Expensed \$'s	Allocated \$'s	Unallocated \$'s
Year 2017		\$ 4,900,000	
Sold Unit Fund	-\$ 1,300,000		
Annual Capital Allocation-2016	-\$ 1,800,000		
Development Charges-2017	-\$ 800,000		
50M Poverty Reduction Fund-2017	-\$ 1,000,000		\$ -

	Expensed \$'s	Allocated \$'s	Unallocated \$'s
Year 2018		\$ 9,800,000	
Annual Capital Allocation-2018	-\$ 1,000,000		
Development Charges-2018	-\$ 800,000		
Sold Unit Fund-2018	-\$ 7,000,000		
50M Poverty Reduction Fund-2018	-\$ 1,000,000		\$ -

	Expensed \$'s	Allocated \$'s	Unallocated \$'s
Year 2019		\$ 10,400,000	
Annual Capital Allocation-2019	-\$ 1,006,510		
Block Funding -2019	-\$ 500,000		
Development Charges-2019	-\$ 800,000		
Sold Unit Fund-2019	-\$ 5,360,000		
50M Poverty Reduction Fund-2019	-\$ 1,000,000		\$ 1,733,490

*Unallocated \$'s are Allocated \$'s less Expensed \$'s

Other Development Opportunities

Roxborough – CHH and City Staff have been working with Roxborough Development Inc. on a “Demonstration Project” in a portion of the McQueston neighbourhood consisting of a mixed income housing development intended to stimulate neighbourhood renewal.

Currently, the focus of the project has been determining the number of social housing units that can be accommodated in the development while maintaining a viable operating budget for CHH. On the lands that are owned by CHH, there are 91 townhouse units (RGI) and 16 one bedroom apartments (Market). It is required that the 91 RGI units be maintained to ensure the housing service levels are preserved across the City.

191 York - The City of Hamilton has issued an Expression of Interest to design and construct on the lands owned by the City at this location. It is anticipated that this site will be developed with a dual objective of providing facilities to serve the existing Community Living Hamilton tenant with office and ancillary space, while also meeting the City’s mixed income housing development objective of delivering a high density, mixed use and mixed income development.

The Developer will take title to the developable lands, or portions thereof, upon which the Market Housing and Commercial Space, and related underground parking facilities are constructed. The City will retain title to those developable lands, or portions thereof, upon which Social Housing and Office Space related to the Community Living Hamilton use and related parking facilities, if applicable, have been built. CHH could play a role in the operation of the social housing units.

Riverdale - There is the possibility of constructing new affordable housing units for seniors, as part of the Riverdale Recreation Expansion project. At a meeting of May 9, 2017 City-HWDSB Liaison Committee, City staff were directed to prepare a Business Case to submit to the Ministry of Education to allow for a housing development to proceed on board property. The Business Case will be appended to a report to GIC/ECS Committee in October detailing the potential for a multi-stakeholder/community hub development.

City Motor Hotel Site (55 Queenston Road) – CHH has been approached about purchasing this site for a social/affordable housing development. This site is approximately 2 acres in size and has already received planning approval for both an eight storey residential building with a three-storey townhouse podium and five-storey residential tower, as well as a six-storey mixed use building with ground floor commercial uses and residential above. CHH has just recently learned of this opportunity and there is a timing sensitivity to moving this project forward.

CONCLUSION:

A key focus in the strategic plan for CityHousing Hamilton is the revitalization of the housing portfolio. There has been a concentrated effort by the Board and staff to move this work forward. The specific projects identified in this Report respond to the priority needs within the building portfolio and are supported by a detailed financial analysis of how the project will be funded and the future operating viability of the buildings. The next steps for staff will be to formulate more detailed plans and secure funding (i.e. confirming amortization lengths, allocation from the \$50M Poverty Reduction Fund) for the respective projects. Once this information has been solidified, it will be brought to the Board as a recommendation for approval.

OPERATIONAL PLAN:

This report implements:

Goal 1. Create Financial Sustainability – *Ensure that CityHousing Hamilton has sufficient capital to invest in buildings to minimize the impact on City of Hamilton taxpayers.*

Goal 2. Maintain and Improve Building Conditions - *Ensure that the CityHousing Hamilton portfolio is managed effectively and sensitively and is in a good state of repair to meet the affordable housing requirements of Hamilton residents now and in the future.*

Goal 3. Create Healthy, Secure Communities - *Ensure that Hamilton residents have access to affordable housing opportunities and support initiatives that will enhance quality-of-life, increase client empowerment and decrease dependency.*

Goal 4. Reinvest in communities and increase affordable housing - *Expand the supply of affordable housing in Hamilton through new development, redevelopment and partnerships with the private sector and community housing stakeholders that will lever additional funding and resources.*

Goal 5. Leadership: Influence and adapt Social Housing Reform - *Advocate to the community, City Council, the Provincial Government and the Federal Government on policy, program and legislative solutions to affordable housing issues in Hamilton and issues affecting CityHousing Hamilton and other social housing providers in Hamilton.*

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