



Date: June 21, 2018

Report to: Board of Directors
CityHousing Hamilton Corporation

Submitted by: Tom Hunter,
Chief Executive
Officer/Secretary

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Subject: Roxborough Park Development Opportunity (Report #17029(b))

RECOMMENDATION:

Discussion of the entirety of this Report and Appendices in closed session is subject to the following requirement(s) of the City of Hamilton's Procedural By-Law and the *Ontario Municipal Act, 2001*;

- A proposed or pending acquisition or disposition of land by CityHousing Hamilton.

That the Board of Directors approve the following resolution:

That CityHousing Hamilton (CHH) and City of Hamilton staff be directed to negotiate with Roxborough Park Inc. (RPI), and present back to the Board of Directors for approval a final and agreed fair market value cost for the sale of the lands and delivery of a turnkey 95-unit building consistent with previous approved CHH Board Recommendations.

A handwritten signature in blue ink that reads "Tom Hunter".

Tom Hunter
Chief Executive Officer/Secretary

EXECUTIVE SUMMARY:

CHH and City of Hamilton staff has been working with RPI on a mixed income, mixed tenure housing demonstration project in a portion of the McQuesten neighbourhood intended to stimulate neighbourhood renewal and revitalize a CHH site. The focus of collaboration and negotiation has been determining the number of social and affordable housing units that can be accommodated in the development while maintaining a viable operating budget for CHH.

This Report seeks to provide an update on two components of the process, namely the review of construction costs associated with the 95 unit multiple dwelling to be sold to CHH and the land appraisal conducted to ensure fair market value is received for the lands to be sold to RPI.

A number of items remain under discussion, most notably the balance of affordability to be developed throughout the site and the transition plan required for the resident relocation. It is anticipated that all these matters will be presented comprehensively within a future report once finalized.

BACKGROUND:

At the CHH Board of Directors meeting on October 24, 2017 the development of the CHH Lang-Hayes-Reid property in conjunction with the former Roxborough Park School lands was discussed in detail. A recommendation was subsequently approved which clearly established a number of required conditions to be satisfied in order to proceed with the sale of the CHH lands to Roxborough Inc and for the purchase of a 95-unit multiple dwelling. The Recommendation was as follows:

- (i) The Board of Directors approve in principle the sale and purchase of the Lang-Hayes-Reid site to RPI, contingent on continued negotiations with RPI towards finalizing the proposed development opportunity as described in this Report, provided it is confirmed to be in alignment with the goals and mission of the organization and accompanied with detailed legal and financial commitments including but not limited to the following:
 - a. Companion agreements securing housing affordability is achieved throughout the balance of the site to the satisfaction of the CHH Board of Directors and the City of Hamilton;
 - b. That an independent appraisal, sourced and selected by the City of Hamilton, and paid for by RPI, is provided for the lands to be sold to ensure fair market value is received;

- c. That a purchase and sale agreement be prepared, including, but not limited to construction costs and construction details regarding the 95-unit CHH building to be developed, all to the satisfaction of the CHH Board of Directors;
 - d. That a Transition Plan and Communication Plan be submitted and approved to ensure that all residents are appropriately engaged and provided with current information, to the satisfaction of CHH Board of Directors and the City of Hamilton; and,
 - e. That innovative design and construction measures are incorporated within the proposed 95-unit CHH building to ensure the ongoing commitment of CHH to secure economic and social sustainability;
- (ii) The Board of Directors approve CHH staff to request of Housing Services, that for any operational shortfall from negative cash flow of the proposed development over the 35 year financing term, additional annual subsidy be provided from the City of Hamilton to mitigate the financial impact to CHH;
 - (iii) The Board of Directors approve CHH staff to request of Housing Services, permission for 27 of the existing 91 RGI units to be transferred to a market rate building or buildings within the CHH portfolio, and for 31 market rentals at 125% AMR to be created in their place, and for the 16 market rentals at 80% AMR to be eliminated;
 - (iv) The Board of Directors approve CHH staff to request of Housing Services and the City of Hamilton as Shareholder, provide consent to the sale of the Lang-Hayes-Reid site, the repurchase of 41 Reid Ave S, the taking on of debt to finance the construction of a new building at 41 Reid Ave S, the guarantee of such debt, and a 35 year amortization on the financing;
 - (v) That the Board of Directors approve RPI to submit the requisite *Planning Act* applications concerning the zoning and subdivision of the CHH Lang-Hayes-Reid site;
 - (vi) That Report #17029 - Roxborough Park Development Opportunity and its appendices remain confidential and not be released as a public document until final completion of the real estate transaction.

This Report seeks to provide an update with respect to the land appraisal and review of construction costs as detailed in the recommendation as items i) b. and i) c.

DISCUSSION:

In the proposed development, CHH would sell the entire Lang-Hayes-Reid 3.3 ha (8.2 ac) site to RPI and buy back the 0.6 ha (1.4 ac) 41 Reid Ave S portion with a completed social and affordable housing building in a turn-key process. There would be a premium associated with outsourcing development, but also a reduction in administrative time by CHH during construction and a fixed price for the acquisition of the building.

The proposed development would consolidate 107 grade related units into one 95-unit mid-rise building on the 41 Reid Ave S portion of the site (see Appendix "A"). The Lang and Hayes portions of the site and the former Roxborough Park School lands would be built out for private market residential rental and ownership options.

Construction Costs

The financial terms of the proposed development were detailed in the previously provided pro forma prepared on behalf of RPI by Darwood Jones Barkwell & Company LLP. CHH and City of Hamilton staff has negotiated extensively for affordability and financial benefit, and the pro forma represents the offer RPI is providing.

The estimated development cost of the building for CHH is \$29,225,000, or \$307,632 per unit, which results in a cost of \$3,277/m² (\$304/ft²). All development costs detailed in the pro forma have been included in this figure except for the cost of land.

Contributing factors to the development cost include: building related factors such as numbers of bedrooms and proportions of the spaces, as well as design factors including the design approach and goals, and the contextual factor of this being a non-competitive selection process.

In order to ensure fair and reasonable costs were provided, and in line with Recommendation i) b. staff retained the services of Altus Group to review the associated costs. As detailed in Appendix "B" not only do the hard construction costs represent good value but a number of items itemized fell below expected and current market values. Given the fluctuation in the cost of materials and other matters, a fixed cost approach in this matter appears prudent.

A breakdown of the proposed development margin was also provided and which represents a contingency of 7% and cost of developer equity financing of 5%. These values are present given the decision for the developer to provide a turnkey building at a fixed price, and as such, would ensure any cost overruns would be the responsibility of the developer and not borne by CHH.

Land Appraisal

In the pro forma the value to be paid for the CHH lands is proposed at \$7,150,000, which works out as approximately \$872,000 per acre. In conformity with purchase and sale policies of City of Hamilton assets, confirmation that this represents fair market value was verified through an independent appraisal.

Pocnic Realty Advisors Inc (PRA) was retained to appraise the lands based on the current market valuation and including a number of considerations. A number of assumptions and limiting factors were negotiated to ensure a fair balance was struck in the appraisal process. While the report is yet to be finalised it would appear that the per acre value determined from the analysis is between \$925,000 and \$1,025,000 Per Acre which would represent an increase from the earlier offer of \$7,150,000 by Roxborough Inc (\$872,000 per acre). This increase is largely a factor of the increased land values that have occurred since the original offer was made and due to the consideration of 'highest and best use' of the lands which were based on the yet to be approved zoning and Official Plan Amendment applications.

Staff are now currently in negotiation with RPI concerning this value and the assumptions and considerations that resulted in the valuation and will seek to present the final offer to CHH Board of Directors for approval and ratification under separate notice. It is noted that given these increased values, positive changes will occur to the required financing of the 95-unit multiple dwelling will occur.

Once a fair and agreed to price has been negotiated with RPI, staff will provide a full review and confirmation of the economic impact of the proposed transaction including but not limited to amortization period and operational costs.

CONCLUSION:

The proposed development is intended to balance a number of competing, as well as, complimentary planning and housing policy and strategic goals. In particular, the development provides the potential to secure a comprehensive approach to residential intensification, achieving a mixed income, mixed tenure community, one that represents a significant section of the affordable and market housing spectrum, and which is ideally suited to take advantage of existing and future physical and social infrastructure.

The development would also provide for the opportunity to co-ordinate significant community revitalization. Understanding that this project will be respectful of our residents, every effort will be made to provide support and guidance. For many of our residents, they will be provided with the opportunity to be relocated into contemporary, well designed and socially integrated housing located within the same site.

The development would also assist in the modernization of the existing CHH portfolio, allowing the transition away from grade related units, and introducing moderately affordable market rate rents that would assist in delivering the economic sustainability of the proposed 95-unit building.

Financial impacts would be realised in order to achieve this, most notably in the identified cash flow implications. Although capital and maintenance savings are created for CHH, and tax assessment increases for the City of Hamilton, the cash flow shortfall would be required to be subsidized by the City of Hamilton through increased subsidy.

The proposal to date has been the result of direct collaboration and negotiation, and although refinements can still occur, it is not expected that fundamental or substantial changes are to be made to the proposed offering. On this basis, this particular opportunity for revitalization may set a precedent for future development opportunities and as such, careful consideration of all impacts have been considered and secured through the recommendation provided.

ALIGNMENT TO THE 2017-2021 STRATEGIC PLAN:

This report implements:

Healthy and Strong Communities

CityHousing Hamilton believes that housing is a key influential determinant of health and is strongly tied to the quality of life as it impacts the physical, social, emotional and mental health of all persons.

Built Environment and Social Infrastructure

CityHousing Hamilton is committed to finding new ways to be innovative that will contribute a dynamic City characterized by unique infrastructure, buildings, and public spaces. The maintenance, renewal and new development of our housing stock will ensure that the quality of life, well-being and enjoyment of our residents', influences the design and planning of our homes.

APPENDICES:

Appendix "A"

Development Concept

Appendix "B"

Altus Group Cost Review

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Mission: We provide affordable housing that is safe, well maintained and cost effective and that supports the diverse needs of our many communities.