

Highest and Best Use Study: Bertrand Court I and II

Presentation to the District of Thunder Bay Social Services
Administration Board (TBDSSAB)

June 28, 2018



Context

- TBDSSAB's Strategic Plan identifies need to ensure financial sustainable assets
 - Current social housing resources are maximized
 - Opportunities for growth are considered and pursued
- Following the completion of the building conditional assessments for all sites in 2014 ; Bertrand Court I and II identified for further study

Scope of Work

- Following a public expression of interest ; HSC engaged to undertake a Highest and Best Use Study for Bertrand Court I (520, 532, and 540 North Court Street) and Bertrand Court II (514 North Court Street)
- Determine feasibility of potential revitalization, repurposing, replacement or disposal of asset



Objectives

- Identify future financial viability of the properties through modelling a range of financial scenarios
- Determine future opportunity costs
- Consider broader community and housing needs of the City of Thunder Bay
- Consider how to address shifting demographics
- Demonstrate the highest financial return in the long term

Study forms important component of Property Portfolio Action Plan and Capital Strategy

Methodology

Study considered a number of options and reviewed each against :

- Legal Permissibility
- Physical Possibility
- Financial Feasibility
- Maximum Productivity

Key Findings

- New housing market demand has been stagnant and trending downward
- Interest rates are projected to increase
- A number of potential development sites currently available in Thunder Bay
- FCI ratings of Bertrand Court suggest need for significant capital investment both short and mid term
- Bertrand Court operations are running at a deficit
- Growing waitlist demand for one bedroom units

Study Results

Status Quo

Poses long term financial risks to the TBDSSAB as stock ages & capital needs increase

**May be option
if financing
not available**

Market Sale

3 Options considered:
- Sale for Market Ownership Development
- Sale for Market Rental Development
- Sale for Commercial/Industrial Use
Modelling suggests not financial attractive to private developers

**Weak Market
Conditions
makes these
options not
viable**

Regeneration

-TBDSSAB retain ownership and regenerate in phases to mix of social and market
- Allows TBDSSAB to meet many core objective & provide greatest net return

**Recommended
Option**

Recommendation

Using a phased approach, TBDSSAB to demolish current buildings and build new :

- Retention of current stock
- Intensify the site/increase number of units
- Maximize use of available land
- Add market or market affordable units
- Maintain/grow current stock of social housing units
- Increase additional revenues to support subsidized units

Community Impact

Redevelopment of the Bertrand Court Site can have significant impact on the residents and community:

- Improve quality of housing for current residents
- Improve accessibility for seniors; a growing demographic in Thunder Bay
- Introduce mixed tenure to the community
- Through additional phases, consider adding commercial or community space to the site

Financial Considerations

- Financial modelling done on different building forms, density, rental mix (market & social)
 - Increase height/density on site
 - Phased approach assumed
 - Capital grants and/or cost of borrowing included in financial modelling

Financial Considerations

- Increased financial opportunities are presented by a new build:
 - Energy efficiency = lower operating costs
 - Mixed tenure = increased rental revenue
 - New build = reduced capital costs
 - Increased unit count (from 16 to approx. 58) units = increased rental revenue and potentially lower subsidy costs to TBDSSAB if internal subsidy can be generated
- Goal is to reduce reliance on TBDSSAB subsidies

Illustration of Potential Return



Assumptions

- Construction will be phased, with first building to be 5 stories, 58 units.
- Construction to be Steel Frame with Hollow Core Precast floor slabs.
- Funding for first building to be sought from Federal and Provincial Programs
- Current 16 RGI units will continue to be rented at 46% of CMHC Average Market Rent (AMR) - \$354/unit
- Remainder of new units to be rented at 80% of CMHC AMR

Potential Financial Impact

- Excluding debt service and capital reserve contributions, the initial financial analysis suggests the overall impact would be net positive
 - Greater net revenue through increased units + incorporating new market units
 - New building with less capital and maintenance needs
- This positive financial impact is illustrated through impacts on both expenses and revenues

Comparison of Key Operating Figures

Annual Operating Revenue (\$/Unit)			
	New Model Estimates	Current Building	Variance
Rental Revenue	\$6,700	\$4,249	\$2,451
Parking Revenue (based on 29 units for new building)	\$150	\$80	\$70
Laundry Revenue	\$260	\$0	\$260

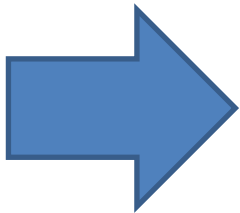
Comparison of Key Operating Figures

Annual Operating Expenses (\$/unit)

	New Model Estimate	Current Building	Variance
Hydro	\$720	\$1,144	(\$424)
Gas	\$720	\$358	\$362
Water/Sewer	\$480	\$375	\$105
Maintenance and Services	\$2,813	\$3,290	(\$477)




Other Financial Considerations

- Bertrand Court Phase I & II immediate capital needs are estimated at \$1.7M and continue to grow
 - FCI ratings suggest buildings in need of considerable capital expenditures
- Bertrand Court also operating in a continuing deficit position



- Findings from the Study indicate that a significant and ongoing investment is required to Bertrand Court as buildings age
- Up front investment in regeneration will offer reduced financial reliance on the TBDSSAB in the future

Potential Bottom Line Impacts

	New Proposed Model		Current Model	
		<u>5 Year Trend</u>		<u>5 Year Trend</u>
Annual Operating Expenses	\$302,643		\$310,522	
Annual Revenue	\$400,468		\$255,346	

Financial Considerations

- Financial viability is possible but only with a significant capital investment either via:
 - capital grant
 - securing financing
- Extent of capital investment needed dependent on:
 - Rents to be charged/rate of affordability
 - Number of units built
 - Additional funding available from the TBDSSAB

Possible Financing Options

Capital Grant Programs:

- Investment in Affordable Housing (IAH) funds
 - New F/P program
- CMHC delivered Co-investment Funds
 - Requirement to have rents at 80% CMHC Average Market Rents
 - Applications/Business case direct to CMHC; no provincial allocation

Possible Financing Options

Lending Programs:

- Infrastructure Ontario
- CMHC Rental Housing Construction Financing
- Private lenders
- HPC Housing Investment Corporation
 - 30 year funding
 - Not tied to federal/provincial priorities

Next Steps

- Further analysis is necessary to identify a model that achieves the best possible financial return
 - Develop preliminary design
 - Undertake further financial analysis to determine optimum units, affordability and financing levels
 - Explore funding opportunities
 - Secure necessary planning and studies
- TBDSSAB will lead these next steps

Thank you



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