



	REPORT No.: 2020-48
MEETING DATE: OCTOBER 15, 2020	DATE PREPARED: SEPTEMBER 1, 2020
SUBJECT: BERTRAND COURT REGENERATION STRATEGY UPDATE	

RECOMMENDATION

THAT with respect to Report No. 2020-48 (Corporate Services/ Integrated Social Services Divisions) we, The District of Thunder Bay Social Services Administration Board, approve the Phase 1 redevelopment of the Bertrand Court property;

AND THAT the Board direct Administration to proceed with the redevelopment plans, as required.

REPORT SUMMARY

To provide The District of Thunder Bay Social Services Administration Board (TBDSSAB or the Board) with an update on the Bertrand Court regeneration strategy and confirm proposed development plans and actions.

BACKGROUND

At the February 23, 2017 Board Meeting, Administration presented Report No. 2017-07 that recommended a consultant be engaged to determine the current market value of the Bertrand Court property and the 'best use' of the property. Housing Services Corporation (HSC) was the successful proponent for this project and studied the property.

HSC prepared a report on the Highest and Best Use of the Bertrand Court property. Results of this review indicate that the Highest and Best Use for the Bertrand Court property is for TBDSSAB to retain ownership and to embark upon an incremental regeneration of this site.

At the July 18, 2019 Board Meeting, the Board received Report No. 2019-33 and approved the development direction for Bertrand Court, recommending that an architect be engaged to prepare a plan for the regeneration opportunities for this property.

At the November 21, 2019 Board Meeting, the Board received Report No. 2019-54 proposing the construction of a 4-story, wood-framed, 43-unit apartment building within the existing footprint of the Bertrand Court II site. The Board accepted the proposed development direction of the Bertrand Court property, and directed Administration to develop a final budget, funding and finance options and a construction plan for the regeneration of the Bertrand Court property, and provide reports to the Board as appropriate.

COMMENTS

Based on the direction provided by the Board, Administration began further refinements to the redevelopment strategy for the Bertrand Court property, specifically, the financial implications. The following are the considerations based on financial analysis, funding opportunities, and property analysis.

Funding Opportunities

Capital Regeneration Reserve Fund. The Capital Regeneration Reserve Fund was established in 2016 to retain the proceeds from selling certain properties as identified in the Portfolio Action Plan. The funds are to be used to rehabilitate or regenerate existing properties. The estimated balance of the Reserve Fund by the start of construction will be \$6.1 million. When evaluating new build options, Administration considered the prudence of utilizing the entire Reserve Fund on a single building structure, as the remaining Bertrand Court property (three buildings) also requires regeneration.

National Housing Co-Investment Fund. The National Housing Co-Investment Fund (NHCIF) supports new and revitalization construction of affordable housing. There are two streams; New Construction and Revitalization.

Administration has reviewed the program and application and started initial discussions with NHCIF staff. Based on the scope of the project, and considering TBDSSAB applying as a not for profit housing provider using its wholly owned subsidiary, Thunder Bay District Housing Corporation, to apply under the program, TBDSSAB could be eligible for a low-interest loan for up to 95% of the project cost, and a forgivable loan up to 30% of eligible costs. The forgivable loan portion is determined on a case-by-case basis, and generally is between 2.5% and 7.5%, depending on the level of certain conditions being met.

Those conditions are:

- 50% of the units must be rented at less than 80% of market rent;
- 20% of the units must be fully accessible;
- 25% reduction in operating energy consumption and greenhouse gas emissions.

CMHC requires a fully vetted approved plan in order to determine eligibility under this program.

Ontario Priorities Housing Initiative (OPHI). OPHI is a federal/provincial program established to address local housing priorities, including affordability, repair, and new construction. There is a Rental Housing component under OPHI, designed to increase the supply of community rental housing. This could be used to fund up to 75% of the pro-rated share of the capital costs of affordable housing units. TBDSSAB's year 3 (2021/22) OPHI allocation is \$900,500 and is not yet allocated to any specific project.

Housing Partnership Canada (HPC) Housing Investment Corporation (HI-C) loan program. HI-C provides long-term, low-interest loans to non-profit housing providers to build more affordable housing and regenerate community housing portfolios.

Market Conditions

In addition to the financial analysis below, an external review of the current market conditions was also completed to confirm market rental conditions. Per Canada Mortgage and Housing Corporation (CMHC) housing reports, the vacancy rates for the most recent available data for the City of Thunder Bay is provided in the table below, and indicates that the vacancy rate for 1 bedroom units has decreased 0.5% from 2018 to 2019, and for 2 bedroom units increased 2.0% from 2.4% to 4.4%:

Bedroom Size	Vacancy Rate – 2019 (%)	Vacancy Rate – 2018 (%)	Change (%)
1 Bedroom	4.6	5.1	(0.5)
2 Bedroom	4.4	2.4	2.0
3 Bedroom+	8.0	4.4	3.6

In addition, at July, 2020, there was an increase in apartment construction in the Thunder Bay Census Metropolitan Area (CMA) with 81 units started to July, 2020, vs. only 35 for the same period in 2019. The increased availability of multi-residential units could have an unfavourable impact on TBDSSAB's market rent expectations.

Bertrand Court Regeneration

The Bertrand Court site includes two (2) community housing projects:

- Bertrand Court I – Three (3) 16-unit structures (48 units total)
- Bertrand Court II – One (1) 12-unit structure.

The current annual estimated financial condition for both Bertrand Court projects is presented as part of Attachment #1 – Bertrand Court Regeneration Pro Forma Budget. Both projects currently generate an annual deficit of \$168,100 (\$117,900 for Bertrand I and \$50,200 for Bertrand II). In addition, major capital repair expenditures are required, totaling \$1.19 million (\$762,000 for Bertrand I and \$428,000 for Bertrand II) over the next 3 years. These repairs would be financed from the Housing Portfolio Capital Reserve Fund.

The planned regeneration of the Bertrand Court site would be accomplished in three (3) phases over the next 4 to 5 years.

Phase 1 - Bertrand Court II Regeneration

The direction presented to the Board at the November 2019 meeting was to construct a new 4-story, wood framed, 43-unit apartment building, within the existing footprint of Bertrand Court II. The initial cost of construction in the November 2019 Board Report was estimated to be between \$9.3 million and \$12.0 million.

Administration has further reviewed the financial impact using a projected capital cost of \$10.7 million. Several scenarios have been analyzed with various market mixes and financing options. For planning purposes, financing from the Capital Regeneration Reserve Fund has been limited to \$3.0 million to ensure adequate financing for Phases 2 and 3 of the site regeneration discussed below.

Scenario A - With Board approval, Administration would pursue NHCIF loan and grants to finance the project, along with OPHI funding. To be considered for NHCIF financing, the market mix must be at least 50% affordable. The favourable interest rates provided through the NHCIF (potentially around 2.0% for 20 years), should offset the market rent revenue loss. Attachment #1 includes a pro forma budget under this scenario which shows the project could produce a small surplus of \$6,300 from an operating perspective under these assumptions. Given the uncertainty associated with a forgivable portion of the loan, this has not been factored into the pro forma at this time; any forgivable portion would produce more favourable financial results on the project.

Scenario B - If Administration were unable to obtain the NHCIF loan, alternative financing would be required, and is expected to be at a higher interest rate (approximately 3.75% based on current pro-forma modelling). To compensate for the higher interest rate, the market mix would have to be adjusted, up to 70% market. Attachment #1 includes a pro forma budget under this scenario in which the project could incur an annual operating deficit of \$17,300. However, this deficit is less than the current Bertrand Court II annual operating deficit of \$50,200, and there would be capital repair cost avoidance of \$428,000 over the first 3 years with a new build.

Phases 2 and 3 – Bertrand Court I Regeneration

Phases 2 and 3 would include the full regeneration of the Bertrand Court I site. Phase 2 would demolish the 16-unit structure on the north side of the property and construct another 4-story, wood framed, 43-unit apartment building, identical to Phase 1. At this time, the plan would include a market mix with 50% of units rented as affordable housing and Administration would once again pursue financing from the NHCIF. Attachment #1 includes a pro forma budget for Phase 2, assuming TBDSSAB is successful in its application for NHCIF, otherwise the market mix would need to be revisited to support alternative financing. The Phase 2 budget includes \$3.0 million financing from the Capital Regeneration Reserve Fund, depleting that resource, but excludes any OPHI funding as the future years' allocations have not yet been determined.

Phase 3 would demolish the remaining two 16-unit structures on the east side of the property and construct a 2-story, 24-unit apartment building at an estimated cost of \$4.7 million. At this time, the plan would include a market mix with 50% of units rented as affordable housing and Administration would pursue financing from the NHCIF. Attachment #1 assumes TBDSSAB is successful in its application for NHCIF, otherwise the market mix would be revisited to support alternative financing. The full capital cost would be borrowed unless other funding sources are presented.

Attachment #1 shows a pro forma budget operating deficit for the Phase 2 (\$26,500) and Phase 3 (\$42,100) new builds, however the combined deficit is less than the current Bertrand Court I annual operating loss. As well, there would be capital repair cost avoidance of \$762,000 over the next 3 years.

Next Steps

Upon confirmation of Board direction, Administration would continue to meet with the consultants to refine the final design and working drawings for Phase 1 and confirm the procurement process details. Administration would also formally engage with CMHC to pursue NHCIF financing. Lessons learned through this process will inform Administration before proceeding with Phases 2 and 3, and the Board will be provided updates on capital cost estimates and financing options.

FINANCIAL IMPLICATIONS



The specific financial implications of each option are provided in Attachment #1 – Bertrand Court Regeneration Pro Forma Budget.

CONCLUSION

It is concluded that, as a result of the financial analysis and updated capital requirement analysis for the Bertrand Court properties, the regeneration of the Bertrand Court site provides the best outcome relative to the long-term sustainability of community housing.

REFERENCE MATERIALS ATTACHED

Attachment #1 – [Bertrand Court Regeneration Pro Forma Budget](#)

PREPARED BY:	Keri Greaves, CPA, CMA, Manager, Finance Barry Caland, Manager, Infrastructure & Asset Management Crystal Simeoni, Manager, Housing Programs The District of Thunder Bay Social Services Administration Board
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SUBMITTED / SIGNATURE:	 William (Bill) Bradica, Chief Administrative Officer The District of Thunder Bay Social Services Administration Board

THE DISTRICT OF THUNDER BAY SOCIAL SERVICES ADMINISTRATION BOARD
Bertrand Court Regeneration Pro Forma Budget

Description	Phase 1			Phases 2 and 3		
	Bertrand Court II Site			Bertrand Court I Site		
	Current Financial Situation	New Build		Current Financial Situation	New Builds	
		Scenario A NHCIF Financing	Scenario B Alternative Financing		*Assume NHCIF Financing*	Phase 2
Units	12	43	43	48	43	24
	(12 RGI)	(22 Affordable)	(12 Affordable)	(48 RGI)	(22 Affordable)	(12 Affordable)
Rent Geared to Income	47,200	-	-	229,100	-	-
Affordable Rent	-	193,600	98,600	-	193,600	98,600
Market Rent	-	335,900	497,000	-	335,900	186,400
Vacancy / Bad Debt	-	(11,000)	(12,300)	-	(11,000)	(5,900)
Tenant recoveries	-	-	-	-	-	-
Miscellaneous and Commercial	700	18,700	18,700	3,800	18,700	10,400
Total Revenues	\$ 47,900	\$ 537,200	\$ 602,000	\$ 232,900	\$ 537,200	\$ 289,500
Repairs and Maintenance	5,100	21,500	21,500	18,400	21,500	12,000
Operating Services	17,400	32,400	32,400	32,000	32,400	18,000
Bad Debt	-	-	-	-	-	-
Insurance	2,400	8,600	8,600	9,600	8,600	4,800
Gas	7,400	64,500	64,500	12,300	64,500	36,000
Electricity	9,900			47,500		
Water	5,700			22,200		
Water Tank Rental	-			-		
Property Taxes	19,200	63,000	67,000	85,000	63,000	34,000
Mortgage P&I*	-	247,800	329,500	-	280,600	171,300
Transfer to Capital Reserve Fund	13,300	30,500	33,200	53,000	30,500	20,800
Allocation of Management Admin and Maintenance	17,700	62,600	62,600	70,800	62,600	34,700
Total Expenses	\$ 98,100	\$ 530,900	\$ 619,300	\$ 350,800	\$ 563,700	\$ 331,600
Excess (Deficiency) of Revenue over Expenses	\$ (50,200)	\$ 6,300	\$ (17,300)	\$ (117,900)	\$ (26,500)	\$ (42,100)
	Debt	6,799,500	6,799,500		7,700,000	4,700,000
	Reserve Fund	3,000,000	3,000,000		3,000,000	-
	OPHI	900,500	900,500		-	-
	Total Financing	\$ 10,700,000	\$ 10,700,000		\$ 10,700,000	\$ 4,700,000