City of Hamilton and CityHousing Hamilton

West Harbour affordable housing and transition strategy

Real estate framework summary

February 2016
While a number of recreational amenities have enhanced the West Harbour in recent years, the city has requested a development strategy to transform the waterfront. This strategy would ensure a consistent and aligned vision while capitalizing on any specific opportunities in a strategic and methodical fashion. This will serve as a catalyst for the area to initiate development and growth and become part of the “City building” opportunity for Hamilton.

Accordingly, Deloitte Real Estate has been retained to provide a redevelopment and disposition strategy, along with a focus on affordable housing for the portfolio of West Harbour lands and properties. The portfolio includes five significant properties including three parcels of development land adjacent the waterfront, and two residential buildings (further details regarding the five subject sites can be found to the right).

A market overview, market sounding and financial feasibility have been conducted in order to derive a holistic disposition strategy. This report describes each of the five assets, opportunities, constraints and values for consideration by the City of Hamilton.

<table>
<thead>
<tr>
<th>Index</th>
<th>Subject Property</th>
<th>Size Ac. / Hec.</th>
<th>Current Asset Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Barton – Tiffany</td>
<td>10.10 / 4.09</td>
<td>Mixed uses on the sites</td>
</tr>
<tr>
<td>2</td>
<td>Jamesville</td>
<td>5.41 / 2.19</td>
<td>The site consists of a 90 unit townhouse complex</td>
</tr>
<tr>
<td>3</td>
<td>500 MacNab St</td>
<td>1.06 / 0.43</td>
<td>The property consists of a 17 storey, 146 unit apartment building</td>
</tr>
<tr>
<td>4</td>
<td>Pier 6 and 7</td>
<td>*12.55 / 0.08</td>
<td>The predominant uses include the marina and boat storage uses. The Hamilton Marine police are located on Pier 7</td>
</tr>
<tr>
<td>5</td>
<td>Pier 8</td>
<td>31.60 / 12.80</td>
<td>Commercial and recreational uses</td>
</tr>
</tbody>
</table>

* The West Harbour Study area comprises Piers 5-8;
Affordable housing economics work plan

Deloitte Real Estate process

Project scope to analyze options for affordable housing at West Harbour in Hamilton

Deloitte’s scope and approach to this assignment contains two major phases as described below:

**Phase 1 Options Analysis:** we completed an analysis of the options for replacing the existing housing units including a review of financial implications, alternative locations within the West Harbour Area, potential funding mechanisms and development structures.

**Phase 2 Transition Strategy:** we will develop a transition framework consistent with the outcomes of phase 1 research. This includes an action plan that shows how the affordable housing requirements can be addressed within the West Harbour area.

Work plan

1. **Project Initiation:** Met with City of Hamilton project team to confirm work program and align project objectives and schedules.

2. **CHH Portfolio Review:** reviewed KPIs of land and housing assets currently under CHH ownership with a view toward the West Harbour assets.

3. **Strategic Opportunities Assessment:** Within the context of the above analysis, identified the main options for replacing the affordable housing units.

4. **Market Soundings:** completed selected market soundings with experienced developers, brokers and private equity firms to assess the level of interest in potential partnerships.

5. **Financial Summary and Potential Structures:** completed a detailed financial analysis of the real estate financial feasibility of the confirmed options. Identified potential funding/finance mechanisms.

6. **Decision Making Framework:** Based on the financial analysis, a decision-making framework was developed to assist the City and CHH in assessing the options in a way that balances their obligations with marketability to the private sector.

7. **Report and Presentation:** Finalized findings and presented the report to City Housing Hamilton.
Additional 3.3m people expected to move to the GTAH by 2041 with 7.2% or 238,000 people choosing Hamilton.

Hamilton is expected to see an additional 238,000 people and 118,000 jobs by 2041.
West Harbour alternatives

Affordable housing alternatives for consideration

Five alternatives were identified to address CHH’s current challenges while achieving a net increase in units

In order to address the replacement of the 500 MacNab and Jamesville properties, the City and CHH want to replace existing units and achieve a net increase in housing units. This expansion could be achieved either on existing CHH sites or within other locations within the West Harbour. Within this section we have concentrated on scenarios that are within either the City or CHH’s control, however we understand consideration would be given to all scenarios, whether that was solely driven by CHH, or potentially through a partnership. In this respect, five main options for consideration are outlined below.

1. Conversion of single-family home plots
   This option has been explored by the market already, with developers purchasing single-family homes of sufficient scale, demolishing and rebuilding with low-density apartment properties following

2. Redevelopment of Jamesville
   This asset is developed out to substantially less than maximum capacity according to existing density restrictions. Excess space on-site could allow a phased demolition and redevelopment to achieve maximum density as per the plan.

3. Redevelopment of 500 MacNab Street North
   Subject to confirmation from the City, it is our understanding the site is currently developed out to it’s maximum capacity, therefore a comprehensive redevelopment for either affordable or market housing would be the most likely scenario.

4. Infill lot development
   There are various infill lots within the City – both City and privately owned – that could potentially be developed out to provide additional capacity of affordable housing.

5. Barton-Tiffany Lands
   Although subject to zoning restrictions requiring minimum provisions of commercial development, this is a prime opportunity for large-scale provision of new affordable housing stock
## West Harbour affordable housing

### Summary of alternatives

<table>
<thead>
<tr>
<th>Alternative</th>
<th>Description</th>
<th>Assessment</th>
<th>Opportunity</th>
<th>Financial Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Conversion of single-family dwellings (6 Units)</td>
<td>• Acquire single-family dwellings located on large enough lots to allow for the redevelopment to higher-density 4,6 or 8-plex apartments</td>
<td>• Suitable lots of sufficient size are available, however the value of the standing property usually precludes profitable redevelopment.</td>
<td>• Not applicable</td>
<td>?</td>
</tr>
<tr>
<td>2. Jamesville Redevelopment (329 Units)</td>
<td>• Current development underutilized. • Could convert wholesale to maximum residential density or include retail at grade with accompanying increase in height.</td>
<td>• Could use a mix of ‘market’ with affordable element, or more likely extract maximum payment from developer for use on a dedicated affordable scheme elsewhere.</td>
<td>• Zoning restrictions could be revisited to up-zoning density, increasing land value to City in a sale scenario.</td>
<td>✓</td>
</tr>
<tr>
<td>3. MacNab Street Redevelopment (146 Units)</td>
<td>• Demolish existing asset and sell for condominium development or rebuild to existing extent, for either private or affordable housing rental.</td>
<td>• Demolition and rebuild costs compared to renovation make affordable housing unviable. • Sale for ‘market’ development would likely work.</td>
<td>• Combine with adjacent site and up-zone development density to increase land value.</td>
<td>✓</td>
</tr>
<tr>
<td>4. Development of infill opportunities (20 Units)</td>
<td>• Infill sites – predominantly but not exclusively City-owned – could be used for development into affordable housing.</td>
<td>• Success of such schemes varies on a case-by-case basis, dependent on cost. Unlikely to provide solution of sufficient scale.</td>
<td>• Opportunity dependent</td>
<td>?</td>
</tr>
<tr>
<td>5. Development of Barton-Tiffany Lands (200 / 400 Units)</td>
<td>• Utilize Barton-Tiffany lands that is planned for residential use (including ancillary retail) for the purposes of provision of affordable housing, both at maximum density allowed and a “stretch goal” density</td>
<td>• Could use a mix of ‘market’ with affordable element, or more likely develop as dedicated affordable housing provision.</td>
<td>• Up-zone development density, increase land value. • Use profits from Jamesville sale to build affordable housing.</td>
<td>✓</td>
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## Key Insights

Below, we have highlighted the key areas around which our discussions focused, together with the main outcomes of those discussions.

| 1. Planning | Stakeholders highlighted the need for **planning approvals to be in place** for what the municipality was envisioning or the planning approvals to be facilitated. Deal structures were identified as almost secondary to the need for **political consensus** on the focus required on Affordable Housing. |
| 2. Incentives | **Adequate incentives** need to be fully in place for affordable housing to make sense for the development industry. Hamilton being an emerging housing market with comparatively lower land values, may require **additional equity investment or incentives** to ensure Affordable Housing projects are actually feasible. |
| 3. Co-ordination and Communication | The local municipality needs to assume a **key leadership role** for the project coordination and communication of the proposed affordable housing development within the immediate neighborhood. The City should **Identify change champions** and help the industry and community learn by example. |
| 4. Partnerships | **Partnerships are crucial to the success** of any affordable housing development. The private sector is assuming risk and, as a result, needs to ensure that any obstacles to the development process are removed or clearly understood and managed. |
| 5. Implications for Hamilton | The **planning framework** should make it easier for the private sector to get involved. Furthermore, the city must provide **sufficient incentives** to entice developers to build. A good mix of affordable and market units will **create a diverse community** with increased return on investments in the longer term. |
Decision making framework for affordable housing

High level review

The City and CHH must decide whether to maintain the status quo or dispose of their assets and redeploy capital elsewhere

The City and CHH must consider whether achieving a net increase in the number of affordable units outweighs the financial risks associated with a market transaction and the subsequent construction risks of a new development. Upon review, Deloitte recommends that the City and CHH should commence the disposition of 500 MacNab Street and ideally Jamesville while planning for the subsequent construction of affordable units at Barton-Tiffany.

The original intent of Deloitte’s assignment was to assist the City and CHH in achieving a net increase in housing units. While there are inherent challenges with the disposition of CHH sites, the marketability of the CHH sites must not be understated. The creation of a suitable transition plan will be challenging; however, the sale of these properties will allow CHH to rejuvenate the portfolio while still achieving the initial goal.

It is worth noting that there are other inherent risks that cannot be ignored. As an example, the disposition of 500 MacNab Street will have larger implications upon the supply and demand metrics for the build-out of Piers 6-8 as we identified in the separate West Harbour report.

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