Toronto Community
Housing Corporation
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Attachment 1 -

Toronto
Community
Housing

February 9, 2017

Roberto Rossini
Deputy City Manager & Chief Financial Officer
Toronto City Hall,
7th fl. E., 100 Queen St. W
Toronto, ON M5H 2N2

Dear Mr. Rossini,

RE: Rationale for Regent Park Funding Request to City Council

Please accept this letter to provide some history, context and clarity in support of Toronto Community Housing's (TCH) request for funding to support the costs associated with completing Phase 3 of the Regent Park Revitalization. We hope you find it helpful in support of answering the request at Executive Committee meeting February 7, 2017; specifically EX22.2ac, Motion 5b from Councilor James Pasternak.

TCH is presently halfway through the redevelopment of the country's largest public housing community of 2,083 social housing units on 69 acres. The Regent Park Revitalization is being undertaken in five phases. Currently, the first phase is complete, the second phase will be complete in early 2018, and the third phase is expected to be completed in 2019/20. Phases 4 and 5 will follow in the future (generally the strip on the south side of Gerrard Street between Parliament and River St.).

The business plan approved by TCH's Board of Directors in April of 2003 and subsequently endorsed by City Council in July of that same year, estimated the Regent Park revitalization would cost $454.8M over 15 years with funding sources totaling $402.2M. This demonstrated a shortfall of $52.6M which is mainly attributed to infrastructure costs. The plan was premised on replacing all existing rent-geared-to-income units (RGI) and adding 2,500 market units for a total of just over 4,500 units. TCH anticipated the project to be financed through proceeds from land sales, savings from reduced expenditures for capital repairs, mortgage financing and TCH equity contributions. Infrastructure and community facilities costs were anticipated to be funded by the City or other levels of government.

TCH issued a Request for Proposals (RFP) to launch Phase 1 in 2005. A developer partner was selected and an outside fairness advisor was retained to oversee the process. Through subsequent due diligence, TCH and the potential partner could not come to terms and the award was cancelled. With the authority of the TCH Board of Directors, a second RFP was held in late 2005. Again, the RFP process was presided over by an outside fairness advisor to ensure transparency. The second RFP process resulted in the selection of the Daniels Corporation as the successful proponent.

In Phase 1, TCH undertook significant financial risk and acted as banker to constructing the market projects. The approach was to build the condominium projects first and then sell them; TCH received little in the way of land value from the development partner but received most of the condominium project's return from profit, which is only realized at the completion of a building, including all condo unit sales. At that time, and after the failed RFP process, it was felt that TCH had to undertake this risk in order to attract a private-sector partner, given that the market viewed the area as having little land value. TCH also assumed all of the costs of the new municipal infrastructure as well.

Between 2004 and 2009, TCH reported regularly to its Board of Directors on the projected revenues and costs of the revitalization. By 2008/09, the estimated costs for the overall revitalization had increased to over $700 million due to: increases in construction costs, costs of building well over 400 new affordable rental units for which TCH received only half of the capital cost, implementing LEED standards, offsite land acquisition costs, and adjustments to expected recoveries for demolition. Sources of funds also increased to approximately $600 million, with half of that coming from TCH long term debt financing. TCH issued two corporate debentures to fund the TCH equity contribution in Regent Park (and in other projects) at the time.

The overall strategy was also adjusted to contemplate a district energy system for the entire site, develop TCH replacement buildings offsite, secure additional funding to allow for a mix of incomes within TCH buildings, enhance affordability by providing home ownership, and eventually to reconfigure blocks to take advantage of funding opportunities to create a second, large park space. TCH also evolved its tenant relocation process and continued to engage with the community.

By 2010, TCH began developing the Phase 2 lands. In Phase 2, TCH is taking less risk, as the market projects are able to be financed by traditional lenders (except for the first market building) and the majority of the condominiums have been or will be pre-sold prior to construction start. In this phase, TCH does not receive any up front value for the land and only realizes proceeds from the market development once the projects are complete. This exposure to market risk has allowed TCH to generate greater returns for the business plan but it also means that the success of the project is reliant on the continuing strong performance of the Toronto condominium market. Beginning in Phase 2 and continuing in Phase 3, the City of Toronto has agreed to fund 60 percent of the cost of municipal infrastructure. Items such as streetlights, street trees and enhanced boulevard treatments are not included in the cost-sharing agreement. Presently, the final two market buildings in Phase 2 are expected to open this year (having been pre-sold), and the final TCH rental building either at the end of 2017 or early 2018.

Over time and through the rezoning process, the density in Regent Park has increased to approximately 7,800 units thereby allowing for an increase in market units to augment the business plan and to allow for additional new TCH rental units to be built in the form of affordable rental units not contemplated in the original plan.

In 2013, the TCH Board asked staff to seek ways to better limit market risk exposure for the Phase 3 lands. As a result, TCH has negotiated a market land sale to the developer partner and has no participation in condominium sales or market risk. The land value is secured up front and will be realized regardless of market performance. However, by taking less risk, TCH realizes less returns and a larger funding gap is identified.

The shift in the business model is also expected to accelerate the pace of development and reduce the time TCH tenants spend offsite waiting to return to new buildings. For example, site work for the revitalization began in 2007. Phase 1 was complete in 2011 and included the development of 770 rental units over four years (193 units per year). Phase 2 relocation began in 2010 and is anticipated to be completed in 2018, with the development of 428 rental units over eight years (54 units per year). The Phase 3 implementation plan involves the development of 637 rental units over five years (128 units per year) and is intended to ensure that long relocation times are minimized.

Presently, the projected costs for the entire revitalization (all five phases) have increased to just over $1 billion. The increase is largely due to the increase in construction costs, changes to the building code requirements, and increases due to factors associated with inflation. As mentioned earlier, costs related to constructing the new affordable rental units have also increased project costs.

The redevelopment of Regent Park also makes significant contributions to the neighbourhood and city as a whole. The project will now see approximately 5,400 market units and 2,400 TCH rental units (in a combination of rent-geared-to-income and affordable rental units). This includes three TCH rental buildings completed offsite in locations very close to Regent Park. TCH is also responsible for replacing spaces for support agencies previously located on the Regent footprint and by the end of Phase 3, we will have constructed spaces for all of these agencies or provided land. Additionally, introducing market variety will further contribute to the mixed income model envisioned for the community in a combination of condominium buildings, senior's rental and private market rental buildings, as will the affordable rental units in the new TCH buildings. Moreover, the project introduces new recreational and cultural facilities: a 6 acre City park, 2.8 acre athletic grounds, aquatic centre, new community centre, and an arts and cultural centre; new buildings for local agencies and providers that serve Regent Park residents such as the Christian Resource Centre, Dixon Hall, and Parents for Better Beginnings; introduces new services such as: the Sumac Health Centre, Toronto Birth Centre, RBC, Fresh Co, and George Brown college; and finally, adds numerous new City roads and streetscapes to improve pedestrian access through the community.

A portion of the Councilor's motion asked "how the model has fallen short and what is needed to get the Regent Park Revitalization project back to its original projections." The answer to that question is two-fold. First, the project has evolved significantly since it started 13 years ago, so it will not return to its original projections; it is a different revitalization with a host of new features not originally contemplated. Second, a robust analysis has not yet been completed for phases 4 and 5 to make clear what the final shortfall may be; that will be subject to further work in consultation with the TCHC board and city staff.

I hope the above summary provides some insight into the history and rationale for adjustments to the Regent Park Revitalization plan which have occurred since its inception. While I can appreciate the 'ask' to the City appears to be sudden, the funding shortfall had always been expected at some point. Until now, the project has been funded largely through TCHC resources.

The success of Regent Park has made possible strong partnerships with the private sector in five other TCHC communities in the city that are providing new, replacement energy efficient housing for more than 4,500 families at significantly reduced costs and material savings on extensive repairs to buildings that have essentially aged out. In addition, those communities will also enjoy enhanced services in mixed income revitalized and renewed neighbourhoods. This is city-building at its best.

Sincerely,

Greg Spearn
President and Chief Executive Officer
Toronto Community Housing Corporation