



Real Estate Asset Investment Strategy

Item 2
December 8, 2008
Board of Directors

To: Board of Directors
From: Chief Executive Officer
Date: December 2, 2008

Report: TCHC:2008-165

Page 1 of 26

PURPOSE:

To seek Board of Directors approval for the real estate asset investment strategy outlined in the approach and agreement to the strategy implementation approach and time lines.

RECOMMENDATIONS:

It is recommended that the Board of Directors:

- (1) Approve the real estate asset investment strategy as outlined in this report including:
 - a. The target facility condition index to be achieved for the portfolio of housing;
 - b. The actions necessary to achieving a 40% reduction in green house gas emissions and the related energy savings;
 - c. The revitalization of 13 communities and the development of plans and obtaining planning approvals to proceed with four of these sites;
 - d. The sale and replacement of 371 units of housing as outlined in this plan;
 - e. The financial plan to increase the annual capital expenditures on achieving a good state of repair in the housing portfolio;
- (2) Direct the CEO to develop implementation and business plans as necessary for approval by the Board of Directors in the first quarter 2009;
- (3) Direct the CEO to provide a report to the City of Toronto Council, through the Executive Committee on the strategy presented in this report and seek:
 - a. Approval to proceed with the sale of assets as outlined in this report as required by the Shareholder Agreement;
 - b. Approval to exempt Toronto Community Housing Corporation from the payment of property taxes as outlined in this report;
 - c. Assistance with the development of a financial strategy for the implementation of the 13 revitalization initiatives as outlined in this report;

- (4) Direct the CEO to review the real estate asset investment strategy annually report on the outcomes annually and to recommend further actions to be taken annually or as required; and
- (5) Authorize staff to take the necessary actions to give effect to these decisions.

BACKGROUND

Toronto Community Housing has spent close to \$630 million since 2002 in capital improvements, community revitalization and unit improvements. These investments are necessary to return the housing portfolio to a good state of repair.

In 2008, as part of the Community Management Plan, Toronto Community Housing undertook a review of the condition of all assets and committed to development of a strategy for future investments in the housing stock. The real estate asset investment strategy sets out the capital investment approaches and the related funding plans to support these approaches.

Context

The Toronto Community Housing Board of Directors has set as organizational priorities:

- providing tenants with housing in a good state of repair
- creating and maintaining healthy communities
- managing the housing in a cost effective and efficient manner
- achieving a 40% reduction in green house gas emission by 2020
- where possible ensuring that communities are mixed income, mixed tenure and mixed use

The real estate asset investment strategy provides a plan to guide investment in buildings and related facilities over the next 10 years. The approach is based on a comprehensive review of the condition of the real estate assets held by the Corporation as well as the operating performance of these properties.

The strategy provides the answers to the following questions:

- how much will it cost to **achieve** and **maintain** a **good state of repair** for all buildings and ensure good homes for tenants?
- what investments will be made to **create** a **green** housing portfolio to meet environmental targets?
- what communities have the need and capacity for **revitalization** to create healthy neighbourhoods?
- what building investments are needed to **cost-efficiently operate** the housing assets?
- what assets should Toronto Community Housing **sell** and **replace** to maintain a financially viable operation?

Finally, a key issue is the financial capacity of the corporation to finance the investment needed to ensure that affordable rental housing is available in the long term for low and moderate income households.

A great deal of effort in the past six years has been spent achieving a good state of repair in the housing portfolio, financed by borrowing, funding from the City of Toronto and a provincial grant. What is equally important is to identify the investment required to maintain this good state of repair, once achieved, and not let the housing return to a poor maintenance condition.

Framework

The real estate asset investment strategy is based on:

- Maintaining the same number of geared-to-income rental units

Toronto Community Housing has a signed Operating Agreement with the City of Toronto as well as rent Supplement Agreements that require all current rent-geared-to-income units be maintained. At present Toronto Community Housing is required to maintain and deliver a prescribed service level standard for assisted housing through the delivery of specified projects named in the SHRA. With the approval of the Minister of Municipal Affairs and Housing units can be demolished or sold. The Service Manager must ensure these are replaced. In the present Operating Agreement with the City of Toronto, Toronto Community Housing must replace all such units with similar units of housing.

- Reducing operating costs

Toronto Community Housing has set operating benchmarks, based on comparability with the non-profit housing sector, for operating costs. Addressing high-cost properties is essential to meeting these benchmarks. At present, Toronto Community Housing operates below the median cost of all non-profit and cooperative housing providers subject to the SHRA in Toronto.

- Ensuring the units meet current needs

Certain properties no longer meet the requirements of households on the social housing waiting list. This is demonstrated by the difficulty renting these units and maintaining these tenancies. High vacancy rates and turn over costs add to the overall operating costs of the corporation. Addressing this issue will contribute to reduced operating costs and increased revenues.

- Maintaining a general distribution of rental units across the City

Access to affordable rental housing for various household sizes in all parts of the City and close to employment is an essential part of creating and maintaining healthy neighbourhoods. The current distribution of social housing is historic and did not follow a planned approach. Often housing was developed based on opportunity or the

acceptance of a community or the then municipal council. The approach taken does not propose to radically change this distribution as many of the services that support low income tenants have developed and are available in proximity to the current location of the housing. The Official Plan for the City of Toronto also recognizes the need to have affordable housing in all neighbourhoods. Importantly, this housing should be able to address the needs of many different types and sizes of households.

Ten year time frame

The real estate asset investment strategy is designed to guide investment and related asset decisions over a period of 10 years. Information on asset investment needs have been calculated over a longer period of time. However, beyond the 10 year horizon there is greater uncertainty about when these investments will be needed. For example, the life expectancy of a boiler system is generally known through the average life of these assets, but the exact timing for replacement is not easily determined well in advance of the expected time of replacement.

REASONS FOR RECOMMENDATIONS:

Recommendation 1: *Approve the real estate asset investment strategy as outlined in this report including:*

- a. The target facility condition index to be achieved for the portfolio of housing;*
- b. The actions necessary to achieving a 40% reduction in green house gas emissions and the related energy savings;*
- c. The revitalization of 13 communities and the development of plans and obtaining planning approvals to proceed with four of these sites;*
- d. The sale and replacement of 371 units of housing as outlined in this plan;*
- e. The financial plan to increase the annual capital expenditures on achieving a good state of repair in the housing portfolio*

(a) Good state of repair

The objective for Toronto Community Housing is to ensure that all rental housing units provide a healthy, safe living environment. To meet this objective Toronto Community Housing needs to know what this costs and what priorities should be assigned to investments over the next ten years.

The condition of housing is not static – that is a building is a dynamic system that ages and wears out, and that over time all parts of a building will deteriorate due to use and wear on equipment. The wear on different parts of a building varied from building to building. Once

repairs are made, there is an almost instantaneous start of wear and therefore there is a need to constantly re-invest. These reinvestment costs can be minimized by effective daily and periodic maintenance. But eventually, each building and most of its components will require repair or replacement. Therefore, it is not only important to know what it costs to achieve a good state or repair, but what investment is required annually to maintain this condition.

Methodology for assessment of state of good repair

One of the key goals for the real estate asset investment strategy is to answer the question – How much it will take to achieve a state of good repair and to define this “state” in a manner that is as objective as possible. Toronto Community Housing uses a real estate-based facilities condition index (FCI) to rate the state of good repair, and to set benchmarks for the portfolio of housing as well as individual properties. The FCI is:

$$\frac{\text{Cost of repair}}{\text{Cost of replacement}}$$

Facility condition index

The cost of repair is determined by a detailed building condition assessment (industry standard approach), a review of past capital investment, current work and patterns of operating maintenance costs. The data base is updated in real time with data on asset component life cycle information, on-going capital investment and operations in order to ensure currency and accuracy of data. Asset reviews are also conducted by trained staff to validate engineering reports and to ensure that quality of life issues are included in the assessment.

The cost of replacement of the asset is based on industry standards for residential construction costs for those building components that would be replaced in a full regeneration of an asset – therefore the cost excludes land value, value of re-usable structure and other related components. It is assumed for concrete high rise structures that the structural elements would be preserved in a full regeneration of the asset, and that land will be maintained for the use as rental housing.

Choosing the FCI for a state of good repair

The FCI measures the state of repair of the housing. Generally, it is agreed in the residential industry that:

Good / excellent	=	FCI 0% to 5%
Good	=	FCI 6% to 10%
Fair	=	FCI 11% to 15%
Poor	=	FCI 16% to 30%

Critical = FCI 30% plus

Buildings in the excellent / good category are generally new or fully refurbished, with new mechanical systems, cladding etc. All buildings in operation for a period of time will have an FCI of 5% or higher – that is at any point in time there is a potential for investment, but that this investment need does not have a detrimental impact on the liveability of units or on the long term preservation of the asset.

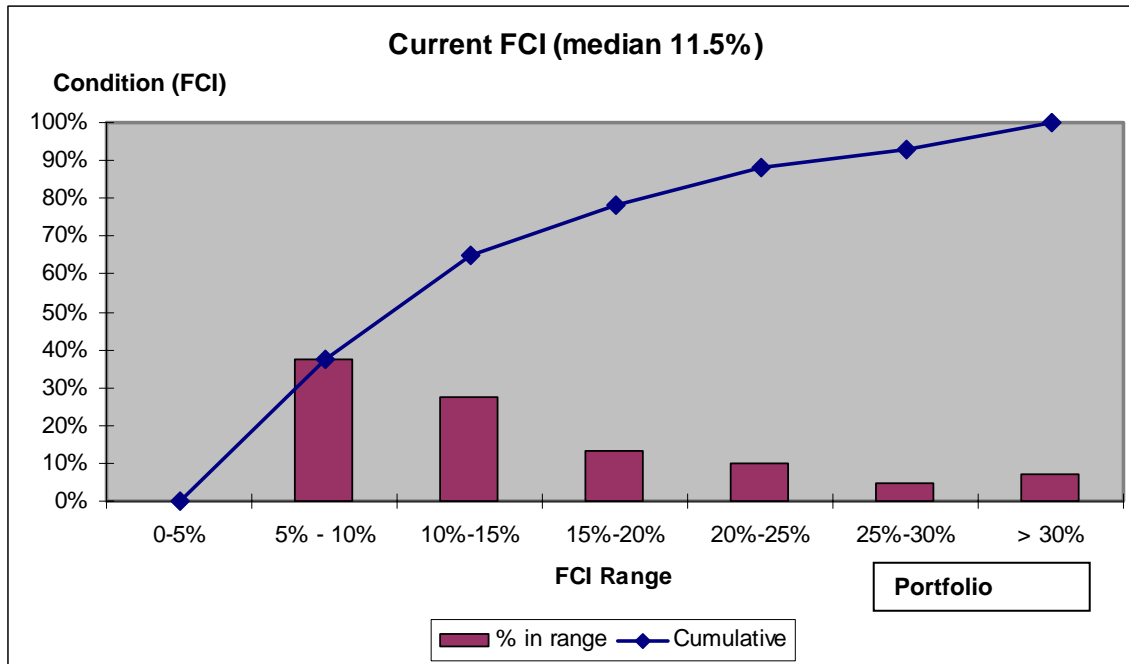
Setting the Toronto Community Housing benchmark

Toronto Community Housing has selected an FCI benchmark range of 10% to 20%, with the goal of having a portfolio average FCI of 12% - at this level homes will be in a fair condition, all major deficiencies will be addressed. It is not a level that would be considered a residential Class "A: building or a near-new state of repair.

This measurement tool helps to set and manage risk targets for buildings and the portfolio. The underlying notion is that all buildings will have deferred maintenance – the risk. The issue then is how much deferred maintenance risk the owner is willing to carry on an on-going basis and still be in a state of good repair. Once we set a target FCI for the portfolio, we can estimate the investment required to achieve the FCI target.

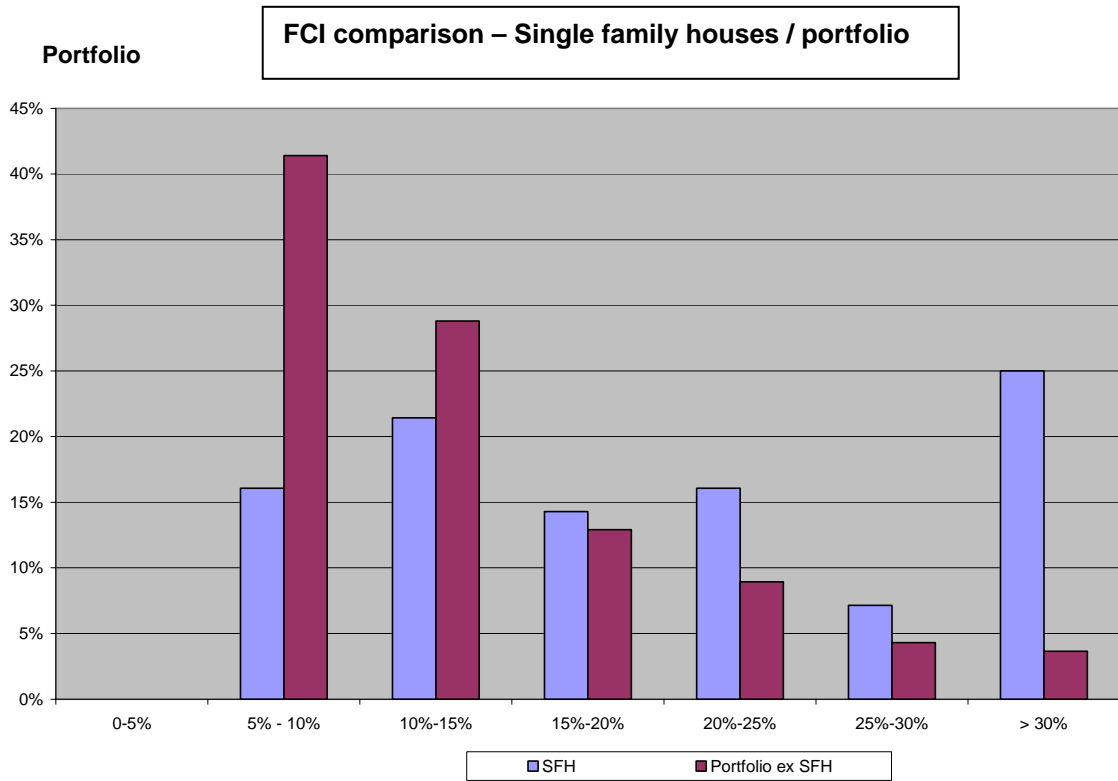
Current state of repair

The median state of repair of the Toronto Community Housing portfolio is close to the target 12%. However, as illustrated below, there is a wide variation in the condition of buildings. The investments required are those necessary to maintain the achieved condition of housing units at or below the median, and to improve those above the median condition so that they meet the Toronto Community Housing benchmark.

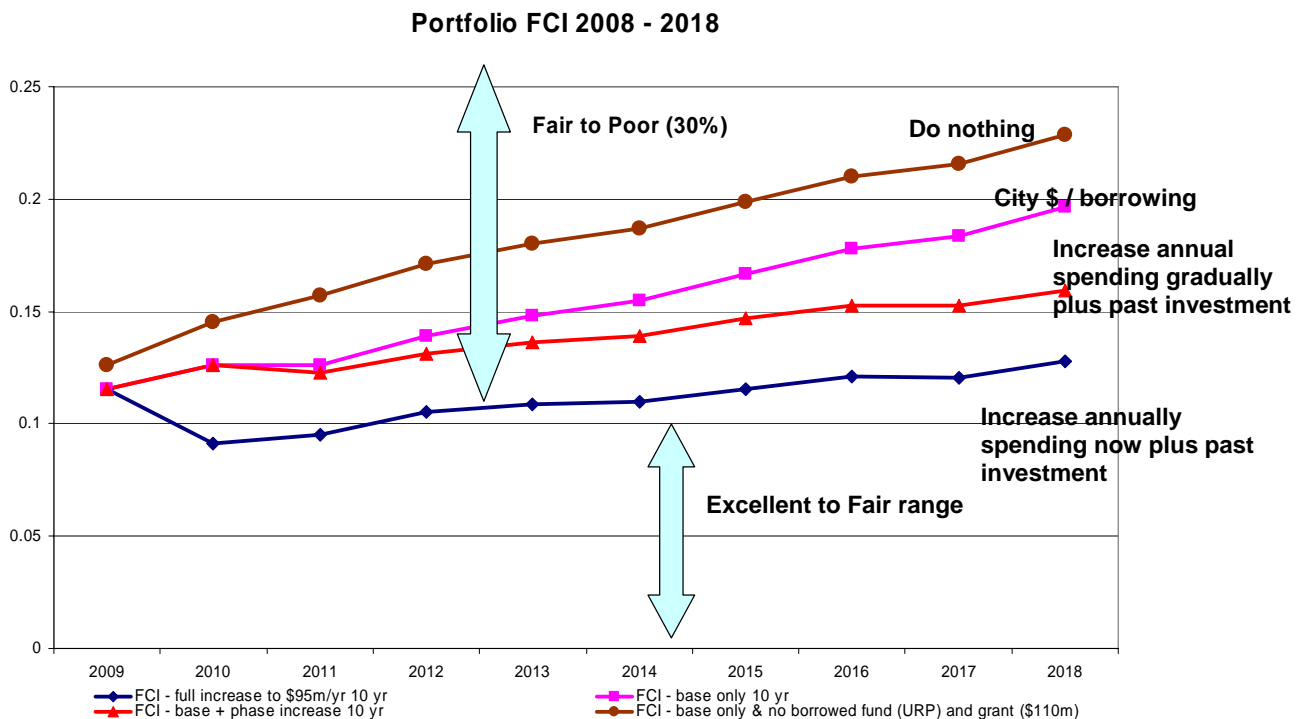


* excludes single family homes

Certain sub-sets of the portfolio are in very poor condition and there may not be an economic rationale to carry out repairs to all of these units. Illustrated below is the relative condition for the Single Family Homes – these properties have a higher proportion of units in poor condition. However, this does not automatically exclude these from fitting a repair definition, as the cost of reducing the FCI may not be as high as it would be for multi-residential units.



The investment made to date by Toronto Community Housing includes the amount annually in base capital funding - \$60 M, the City of Toronto one time contribution of \$75 M from the sale of Toronto Hydro Telecom, a contribution of \$ 34 M from the Province of Ontario, and amounts borrowed by Toronto Community Housing. The chart below illustrates the impact of these investments. Had there been no investment made (“do nothing”) the relative degradation of the housing over the next 10 years would be extreme – ending with a median condition of 23%.



City investment plus Toronto Community Housing borrowing take the projected median state of repair to 20%. This strategy aims to reduce this further to 12% - a good state of repair.

Approach to repairs

To estimate the long term asset repairs need, the following costs have been excluded from the baseline portfolio:

- current revitalization projects (Don Mount Court and Regent Park)
- existing or planned spending program (Building Renewal Program, Building Energy Retrofit Program , Unit Refurbishment Program)
- full cost of achieving a state of good repair for Revitalization sites (discussed below)

Current revitalization projects

These projects have received or will be receiving substantial targeted funding and will have FCI well within the target range of 10% to 20% and their condition is far from being critical (FCI > 30%). The costs associated with achieving a state of good repair are included in the capital cost of the revitalization projects.

Building retrofit programs

Toronto Community Housing is investing money in repair and retrofit programs related to energy efficiency, building renewal and unit interiors. These amounts are identified in current investment plans and are therefore excluded from the total cost of repairs as they will have a positive impact on achieving a good state of repair in the particular project locations.

Planned revitalization initiatives

The real estate asset investment strategy proposes to rebuild and regenerate the housing in 13 sites over the next 10-20 years. Until then it is proposed that the state of good repair target for these sites is an FCI of 20% to 30%. This will provide housing that meets all by-law requirements and is safe, but it will not provide the level of housing conditions that would ultimately be achieved through regeneration. This is to avoid making large capital expenditures in places where the benefits of this investment will not be realized as the housing is to be replaced in the near and medium term.

Cost of achieving a good state of repair

Using a 10 year planning horizon, the baseline portfolio after the exclusions noted above will have repair needs totalling of \$1.21 billion. This is an average per unit investment required of \$34,000 over 10 years. Of this amount \$950 million is required for repairs, and the balance of

costs will be avoided if Toronto Community Housing proceeds with revitalization of selected communities and sale and replacement of selected assets as detailed in this strategy.

To achieve the 12% FCI target, spending of \$800 million or **\$80 million per year** will be required. An additional **\$0.7 million per year** is required to maintain the single family homes at this FCI level. It should be noted that this is already \$20 million higher than the current annual capital repair budget of \$60 million.

The buildings recently or currently being improved through the Building Renewal Program (7,655 units) need continued investment in order to maintain the FCI that has been achieved and to achieve the 12% benchmark in all of these units – on average for these 7,655 units the current FCI is 13%. The annual cost for this portion of the portfolio is about **\$1 million per year** or \$10 million over 10 years.

Funds received from the City of Toronto (\$75 M) and the Province (\$ 36 M) are targeted to unit refurbishment (10,000 units) and a Building Energy Retrofit Program (6,417 units). These funds will reduce the FCI for this portion of the portfolio from the current average of 27% to 14%. To reduce the FCI on this portion of the portfolio to the 12% FCI rate will require an investment of **\$1.6 million per year** or \$16 M over 10 years.

For the 13 sites identified in Section 4 below that include 4, 826 units **\$12 million per year** or \$120 million over 10 years will be required to maintain an FCI of between 20% and 30%.

The total 10 year investment requirement to maintain the portfolio as noted above and other buildings with planned investment at 12% FCI is approximately **\$950 million**.

(b) 40% reduction in greenhouse gas emissions

Green communities

Toronto Community Housing has set environmental stewardship targets in adopting a revised corporate green plan in 2007. These targets are aimed at reducing the ecological footprint of the organization as well as reducing costs, which in turn allows for more investment in communities. The targets to be achieved by 2020 are:

- greenhouse gas emissions reduced by 40% from 2001 levels
- energy consumption reduced by 30% or more from 2001 levels
- potable water consumption reduced by 30% from 2001 levels

To be achieved by 2015:

- 70% waste diversion (10,000 tonnes)

In addition, Toronto Community Housing will work in the next year to set out goals and a business case for use of renewable energy and examine the applicability of other technologies in conjunction with major building repairs (grey water systems, solar, solar wall, etc.).

Smart buildings

Toronto Community Housing will accelerate the implementation of building automation systems. These systems harness data generated by building mechanical systems, and this data is used to improve the efficiency of building operations – resulting in reduced energy consumption, improved comfort for tenants, reduced wear on equipment and lower maintenance costs. The smart building approach relies on the ability of the corporation to monitor and manage building systems through automation.

The smart building program will build on the current systems in place in some facilities such as energy and water consumption monitoring and mechanical system monitoring systems. The goal is to be able to actively manage buildings using automated systems and real time data. The Smart Building technology will take five years to implement across the portfolio.

The costs and savings for years 1-10 for implementing the smart building program are summarized below. Over 20 years, the projected costs and savings are \$62 million and \$113 million respectively. The internal rate of return (IRR) on the 10 year investment is 25%, and IRR on 20 years is 31%.

Year	1	2	3	4	5	6-10	total
Net Cash Flow	(\$3,310,000)	(\$1,830,000)	\$270,000	\$890,000	\$1,710,000	\$16,000,000	\$13,730,000
Cumulative Cash Flow (net savings)	(\$3,310,000)	(\$5,140,000)	(\$4,870,000)	(\$3,980,000)	\$2,270,000	\$35,900,000	\$16,380,000

In conjunction with the implementation of the smart building program, Toronto Community Housing will complete the conversion of CCTV equipment to current digital standard, with remote access features and where required operable cameras. This cost will be \$2 million over five years. Funds for this program are included in the planned capital spending program.

Building investment initiatives

Over the past six years Toronto Community Housing has invested significantly in the energy performance of buildings – through replacement of older appliances (\$20 M 2002-2007, 2,620 tonnes GHG reduction); a building renewal program in 19 communities (\$ 25 M, 4,200 tonnes GHG reduction, final completion 2008); a unit refurbishment program (10,000 unit interiors (primarily kitchen and bathroom) replacement 2007-2010).

Starting in 2009, four new initiatives will be undertaken:

A building energy retrofit program will invest \$60 million in 19 communities over three years to reduce energy consumption. The focus of this program is on energy measures such as a boiler and mechanical equipment efficiency, domestic water systems and in-suite energy use and is not intended to be a holistic renewal of the assets, but will be delivered along side building

improvement investments. The target of this program is a reduction of GHG of 5,865 tonnes and reduced energy consumption of 23,000 MWh. Energy investments in this program will be approximately \$35 M.

A pilot renewable energy initiative aimed at identifying opportunities for the use of solar and wind technologies in the portfolio. The cost of this program is \$2 million over two years, and will result in a renewable energy plan for the corporation. These funds are included in the five year capital plan for the corporation.

Toronto Community Housing is a participant in the Mayors' Tower Renewal project. Working with others, options will be developed for the retrofit of a tower in St. Jamestown. The approaches to this project will inform Toronto Community Housing on how to achieve better energy savings in the large number of concrete high rise buildings in the portfolio of housing. \$7million has been set aside for this initiative in the five year capital plan for the corporation.

Other green measures

Staff and tenant training and education programs aimed at providing simple and effective ways to implement best practices that reduce energy and water consumption in buildings. Tenants have an influence over 50% of the energy consumed in multi-residential properties, and can have very significant impacts on reducing water consumption.

A similar approach is being taken with solid waste – aiming to meet and exceed City of Toronto diversion targets within the prescribed time frames for multi-residential buildings. In addition to the over \$6 million spent to date to improve waste handling and diversion in all buildings, an estimated \$4 million has been earmarked in the five year capital plan for the corporation.

Energy savings measures are designed to be self-funding – that is the savings generated by the initiatives off set the capital cost. Toronto Community Housing generally seeks an internal ROR of 6.5 % for these projects. Over the long term, these initiatives have a very beneficial financial impact as they mitigate forecast increases in operating costs by reducing energy consumption.

(3) Revitalization of 13 communities

In 2007, staff presented the Board with options for the revitalization of a number of sites in the Toronto Community Housing portfolio. Objectives for revitalization are:

- replacement of the existing rent-geared-to-income housing and / or
- full regeneration of associated high-rise buildings
- introduction of market rental and ownership housing to develop mixed income community
- creation of local employment and small business opportunities
- attraction of public and business services to the communities

A review of all Toronto Community Housing sites was conducted and 13 sites have potential for revitalization. That is, these sites meet the following criteria:

- density potential for increased units (market and rental) to create a mixed income, mixed tenure community
- housing is in poor condition (high FCI (20% plus)
- housing configuration and urban plan do not support healthy and safe communities (poor access, high rates anti-social behaviour, poor outdoor and public space configuration)

Revitalization sites

Sites were examined for their potential for regeneration as mixed income communities – therefore sites with development potential (surplus density) were identified. Staff also identified sites that were in or in proximity to City of Toronto priority neighbourhoods.

Revitalization of Toronto Community Housing developments will have a positive impact on the overall neighbourhood. In addition the City has designated these neighbourhoods for more investments in social and physical infrastructure so there will be increased synergies between City and Toronto Community Housing investment initiatives. Last but not least is the opportunity to rebuild assets in poor condition.



The table below provides a summary of the 13 sites, number of units by bedroom size.

Summary of units by site – revitalization

Community	Units and no. bedrooms					Total
	1	2	3	4	5	
Lawrence Heights	335	237	479	119	38	1208
Allenbury Gardens	0	72	52	3	0	127
Alexandra Park	0	0	159	77	27	263
Edgeley Village	0	22	305	89	31	447
Firgrove	0	3	195	53	0	251
Flemingdon Park	0	273	234	17	0	524
Kingston Rd (3190)	0	17	72	2	0	91
Leslie Nymark	0	0	91	30	0	121
O'Connor Sheppard	0	0	108	28	12	148
Magellan	0	0	74	6	0	80
Thistletown	0	0	434	82	33	549
Vic Park Chester Le	0	0	125	97	8	230
Yorkwoods	0	0	270	13	22	305
TOTAL	335	624	2598	616	171	4344

Revitalization economic model

The economic model for revitalization is to leverage the value of land and density assets to offset as much of the cost of new construction for replacement of rental units. Each site has variable density potential and characteristics, and therefore a different economic model. Values are also dependent on the prevailing market conditions – general and local to the neighbourhood. Therefore, revitalization projects will proceed based on the prevailing and forecasted economic conditions.

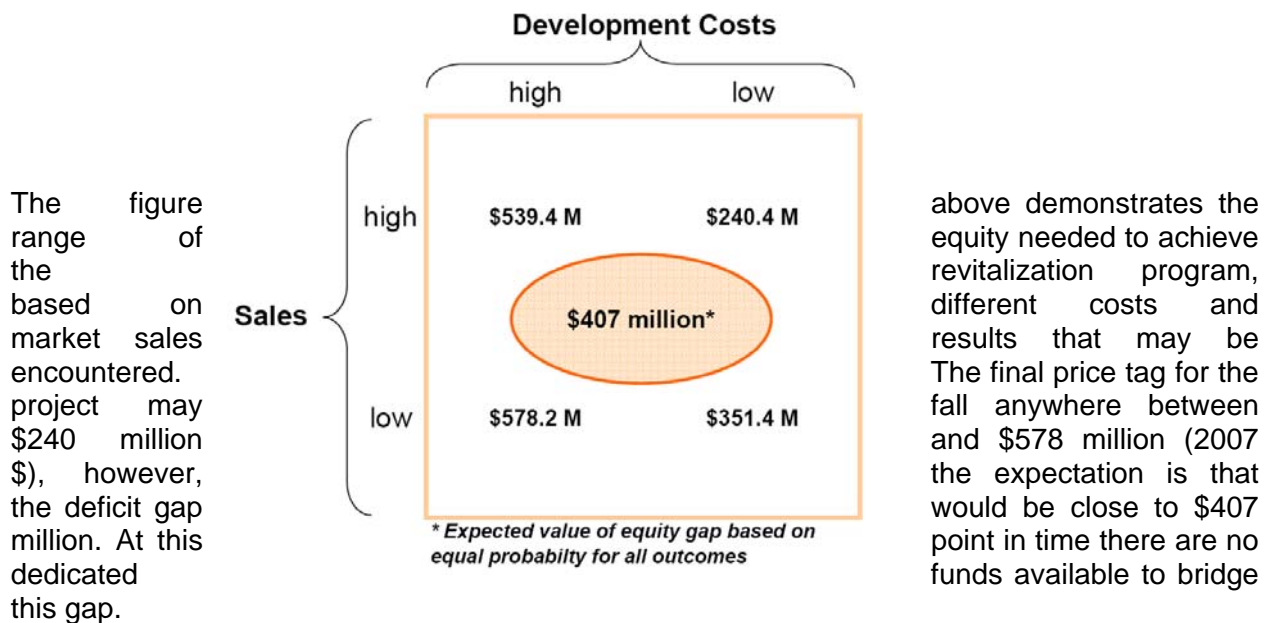
A preliminary review of the 13 sites was conducted in order to determine what the potential equity investment requirements will be for revitalization. Assumptions on values and market yields are based on 2006 market data. Current conditions may differ from these, as would the conditions prevailing at the time any particular project was initiated. The sites are generally a mix of low-rise and some high or mid-rise buildings. It is assumed any concrete frame structures of six stories or more would be retained and refurbished, and most low rise housing replaced.

The analysis reveals:

- units likely to be retained and refurbished 1,150
- units to be replaced 4,350
- new rental units (mixed rental buildings) 1,200
- new market units 10,200

Of the 13 sites identified, 12 are “inner” suburban sites, and one a central location. Planning on one of the sites, Lawrence Heights started in 2008 and a development plan is expected in the first quarter, 2009, and planning approvals in 2010. This must happen before revitalization starts.

As noted in the 2007 Board report Asset Revitalization Program, the financial challenge to regenerate the 13 sites is huge. Four different financial scenarios were examined to illustrate the potential range of development contexts that might occur, all resulting in a substantial deficit gap.



It should be noted that the 13 sites revitalization plan is focused on rebuilding the low-rise buildings in each site. The program also carried a \$45 million budget to refurbish the high-rise buildings retained.

The 13 sites have a capital investment requirement of \$260 million with a 10 year FCI of 38% or an investment requirement of \$53k per unit. While Toronto Community Housing is trying to seek funding to revitalize, there will still be a need to maintain the assets in a state of good repairs. Since assets may be rebuilt, we should not be using the same 12% target FCI for the base portfolio. It is recommended that a higher deferred maintenance target of 20% FCI be used to provide for asset repairs pending revitalization. On this basis, approximately \$120 million or about \$25,000 per unit will be required in the next 10 years (\$12 million per year) to maintain the 13 sites.

Planning approvals

Of the 13 sites Toronto Community Housing has identified five priority communities including Lawrence Heights. Planning for the Lawrence Heights community is currently underway, with approvals anticipated in 2010. It is recommended that planning approvals be obtained for four additional sites so that these are ready to proceed with revitalization once funding can be secured and when market conditions are appropriate. These sites have:

- high FCI rating
- located in or adjoining priority neighbourhoods (with one exception)
- there is community interest in revitalization

Total cost for the planning work is estimated at **\$4.5 million**. These funds are included in the 2009-2011 capital plans or have previously been allocated to projects (Lawrence Heights). The sites recommended for planning approvals are:

- Jamestown (Thistletown 1&2)
- Alexandra Park (Atkinson Coop)
- Flemingdon park
- Edgeley Village

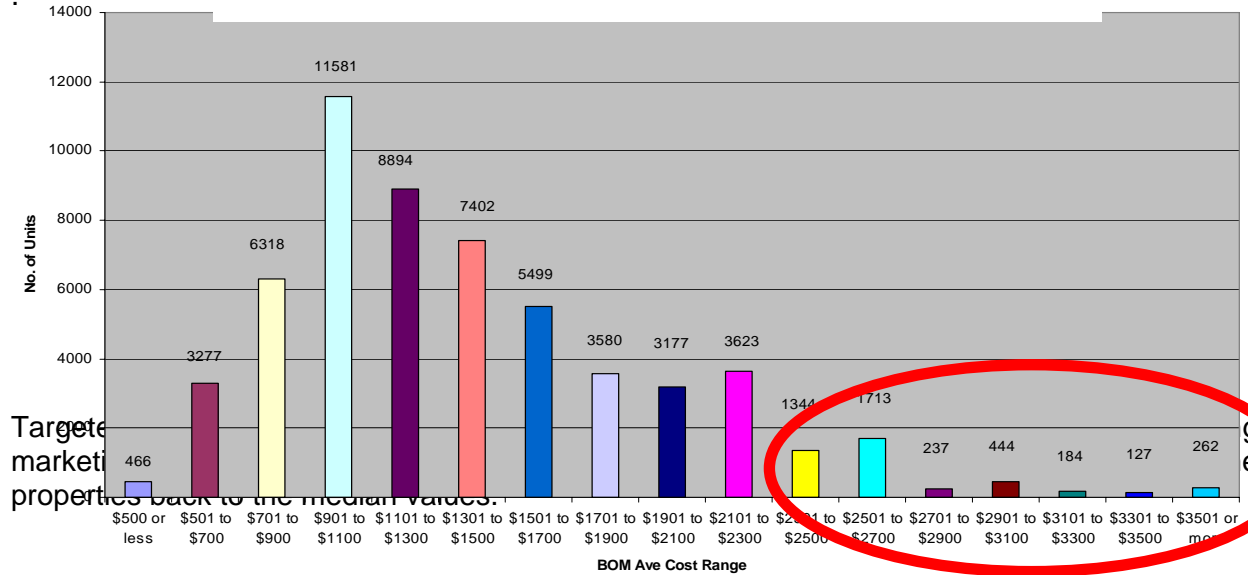
Funding for revitalization

At present Toronto Community Housing is funding the required equity investment in the Regent Park and Don Mount Court projects with an annual revitalization reserve contribution of \$10 M. The Don Mount Court reserve is fully funded as of 2007, and Regent Park reserve will be funded as of 2011. It is proposed at that time, assuming no significant changes to the revitalization business plan for this community, that the revitalization contributions be capped, and that Toronto Community Housing seek alternative financial support for the future revitalization projects. This should include funding from the provincial and federal governments. The province contributed close to \$10 M to Don Mount Court. Neither order of government has contributed to the cost of replacement of geared-to-income housing or infrastructure at Regent Park.

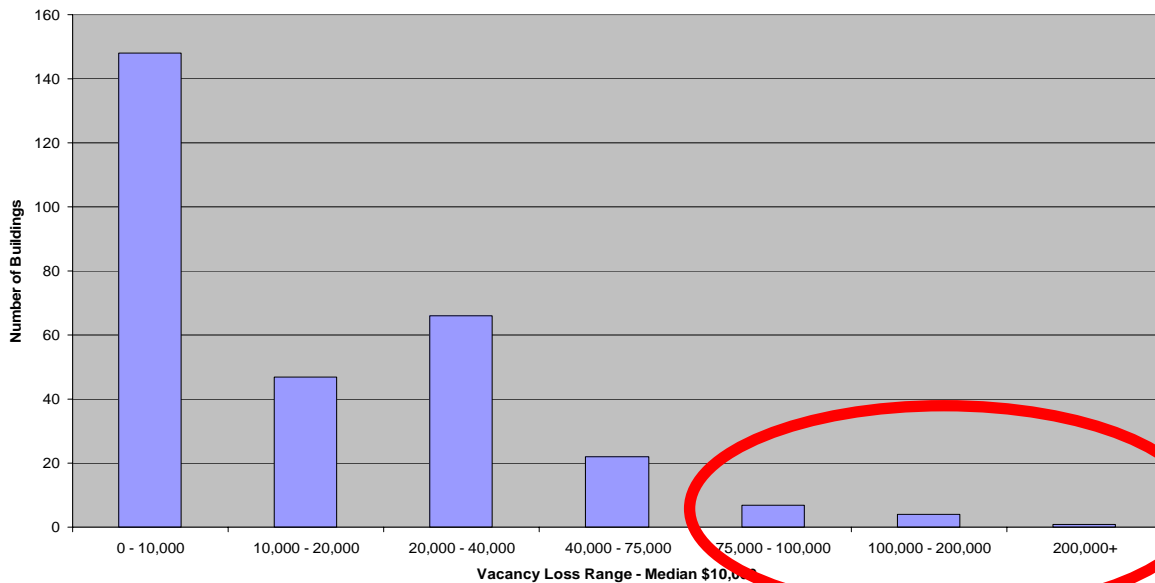
(d) Sale and replacement of housing

An analysis of the operating costs and rental revenues of all assets was conducted. On average, Toronto Community Housing operates at a reasonable cost benchmark relative to industry standard and the non-profit housing sector. The usual measure in this sector is manageable cost – that is operating costs minus taxes and borrowing costs. The current portfolio average is about \$2,540 / unit / year. For building operations & maintenance (BOM) the average is about \$1,500. The graph below illustrates that there are some properties that operate far above this benchmark and outside a reasonable range. Similarly, there are certain properties that consistently under achieve their rental revenue targets – due to the type of accommodation offered or condition of the housing.

Building operation and maintenance cost distribution



Annual Vacancy Loss per Building



Results of analysis – multi-residential buildings

Three multi-unit properties have been identified with high FCI (require large asset investment) that include 326 units (including 270 in room/cluster form). In these properties there is no

reasonable level of expenditure that can be made to bring the properties to a 12% FCI or alter them in order to meet operating cost benchmarks.

Site	FCI		Operation Cost		Utility Costs		Vacancy Rate
	Year 1	Year 10	per unit	per room	per unit	per room	
A	27.40%	37.80%	\$1,950	\$355	\$2,528	\$460	8.90%
B	7.10%	16.20%	\$450	\$179	\$872	\$347	25.90%
C	20.80%	51.70%	\$1,334	\$513	\$789	\$303	9.70%

It is proposed that these units be sold and replaced through new construction and / or acquisition of existing rental buildings in order to maintain the current levels of rent-gear-to-income. Sale would occur when the buildings are vacant. All replacement would happen either on vacancy or with a long notice period to tenants. In cases of replacement, policies currently in place for relocation of tenants will apply, such as ability to access a similar unit, preservation of geared-to-income status based on continued eligibility, reasonable moving expenses.

Currently, only one of these buildings is fully vacant due to mould and structural issues. A relocation program will be required in order to ensure all tenants remain housed with the same geared-to-income benefits as is presently the case.

Results of analysis – single family homes (SFH)

As a group, Single Family Houses (SFH) has a five year investment requirement of about \$40 million or an FCI of 17% with the following distribution.

Needs	% of \$	% of unit	FCI
>\$150k	23.0%	3%	39%
\$50k to \$150k	36.0%	12%	23%
<\$50k	41.0%	85%	12%

As noted above, the majority of the houses (85%) are in a low needs category with FCI in the target range of 12%. Ten percent of the portfolio or about 45 houses represents almost a quarter of the total dollar investment needs with five year requirement of more than \$9 million and an FCI of 39% or an average of \$220,000 per unit.

The remaining SFH portfolio with needs in the \$50,000 to \$150,000 range still has a FCI of 23% and will require about **\$7 million** (\$1.5 per year) to meet a 12% FCI target.

It is therefore proposed to sell and replace 45 houses with a high FCI that will reach or exceed 30% within three years. Currently, some of these homes are vacant pending the asset review and a decision on repairs.

In the short term, the rent-geared-to-income portion of the 45 homes can be replaced with the conversion of market rental units to rent-geared-to-income in existing developments or in the balance of the single family homes portfolio upon vacancy of the units. It is proposed that this strategy for replacement of these units be used for up to five years, with long term replacement either being achieved through purchase or new development.

The cost of replacement of the 371 housing units is estimated to be between \$25 million and \$30 million. Asset value of the stock to be sold is estimated to be in this range. Replacement value is dependant on a negotiation with the City of Toronto and provincial Ministry of Municipal Affairs and Housing on how unit counts are determined for room / cluster arrangements. Preliminary discussions indicate that these will be considered as 5 rooms to a unit for the purposes of meeting service level targets.

In addition to the 45 houses noted above, four properties have been identified where there is a house that is in poor condition, but adjoining properties owned by the corporation are not. In these instances, a more detailed set of options will be developed and presented to the Board in the context of an implementation plan for the sale and replacement of housing. A more intensive use of these sites may be possible providing both a reduced operating cost and replacement options for the housing being sold elsewhere.

(e) Financial plan for capital repairs

Toronto Community Housing has in the past six years invested over \$630 million in capital repairs, revitalization and energy reduction projects. In 2008, the City of Toronto provided \$75 million from the proceeds of the sale of Toronto Hydro Telecom for capital repairs. The province contributed \$36 million for the same purpose. These investments have been critical for improving units and buildings, and the well being of tenants.

To meet the FCI target noted, Toronto Community Housing has to increase annual investment from the current \$60 million per year to \$95 million, an annual increase of \$35 million. In order to achieve this level of spending, Toronto Community Housing will have to make expenditure decisions, and seek the assistance of the City of Toronto in securing additional annual revenues.

The table below summarizes the investment needed to achieve an FCI of 12% for the whole of the portfolio. It is proposed that this FCI target be achieved over a 10 year horizon.

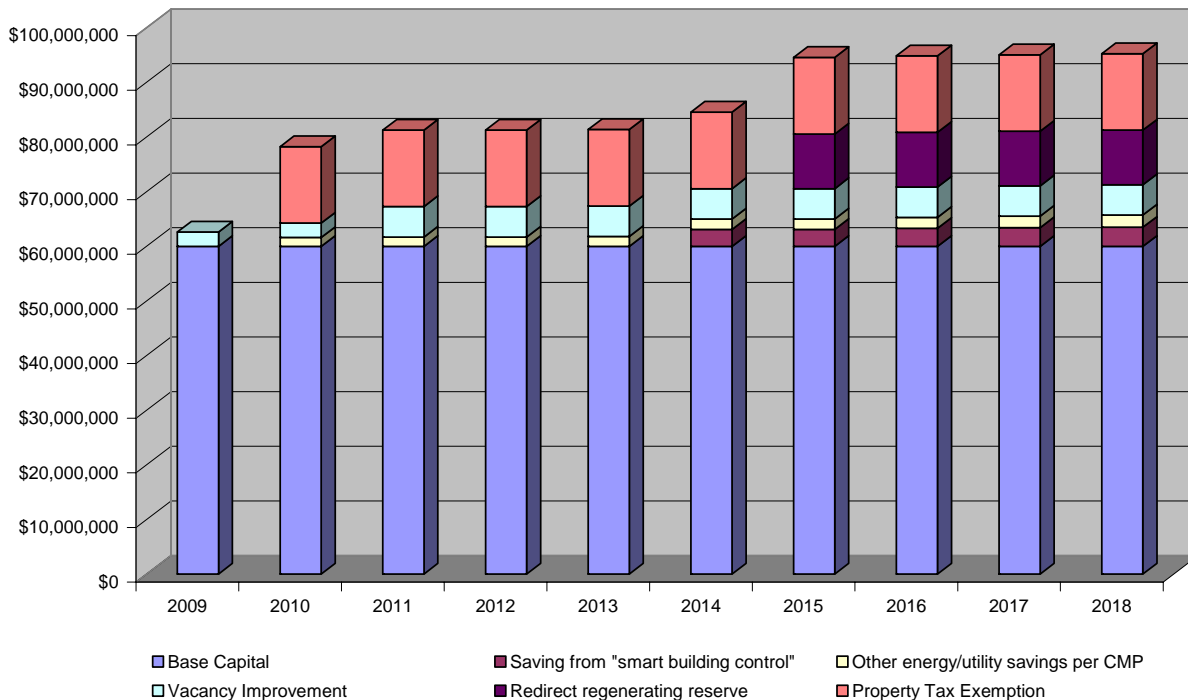
	Needs	10 year FCI	FCI Target	Needs in \$/unit	10 year spending require to meet FCI target	units	Spending to meet target \$/unit
Baseline	\$1,210,000,000	27%	12%	\$34,000	\$800,000,000	35,645	\$22,444
BRP buildings after planned capital	\$115,000,000	13%	12%	\$15,000	\$9,000,000	7,655	\$1,176
BERP buildings after planned energy retrofit and planned capital	\$100,000,000	14%	12%	\$16,000	\$16,000,000	6,417	\$2,493
13 sites Regeneration Program	\$260,000,000	38%	20%	\$54,000	\$120,000,000	4,826	\$24,865
Single Family Houses (after disposal)	\$29,000,000	15%	12%	\$21,000	\$7,000,000	1,413	\$4,954
Total	\$1,714,000,000	28%			\$952,000,000		
Available base funding					\$600,000,000		
Addition funding required to meet FCI target					\$352,000,000		

It is proposed that Toronto Community Housing progressively augment the funds available for capital repairs and maintenance of a good state of repair by four measures:

- Re-directing the annual revitalization contribution to repairs
- Seeking exemption from property taxes
- Achieving operating cost reductions and redirecting these to capital repairs
- Achieving energy and water consumption reductions and re-directing savings to capital repairs

The table below illustrates the incremental increase to annual capital expenditures for repairs:

Sources of Capital Investment
(Requirement investment = \$95m annually)



The increased funding will be achieved in the next 10 year through:

- the use of capital allocations currently being spent to make equity investments in Regent Park and Don Mount Court - **\$10 million per year** by 2015

Currently Toronto Community Housing funds a revitalization reserve at a level of \$10 million per year. These funds are used to support the equity contribution necessary for the construction of replacement rental housing as there are no government funding programs to support revitalization. Once the Regent Park and Don Mount Court reserves are fully funded, and funds set aside for planning approvals work in Lawrence Heights and four other sites, the funds currently directed to this reserve will be re-allocated to capital repairs.

- a request to the City of Toronto to exempt Toronto Community Housing from payment of property taxes – net annual impact of **\$14 million** (no revenue impact for the City of Toronto)

The City of Toronto has the authority to exempt municipal capital facilities from paying property taxes. This exemption covers both the City and education portions of the tax payment. The net cash flow gain, after assuming that the portion equal to the annual payment of City property taxes is deducted from the annual subsidy grant payment

made to Toronto Community Housing by the City is approximately \$14 million. The City must be assured that there will be no net impact on its revenues, and that the Province will not attempt to claw back the loss of education taxes from other payments made to the City.

- operating revenues as a result of savings from smart building program, Green initiatives, reduced operating costs (asset replacement) and vacancy reductions (replacement of assets) - **\$11 million per year** by 2015.

Selected capital investments designed to reduce energy and building operating costs and sales and replacement of housing units will reduce the overall cost of the housing portfolio, and increase revenues. The net impact will provide additional cash for capital investments.

Together, the three measures outlined above will raise annual capital expenditures from the current \$60 million to close to \$95 million. Adjustments in expenditures and revenues will be progressive. It is assumed the full effect of these measures will not be realized for 5 years.

Property tax exemption

The Ontario City of Toronto Act (City Act) empowers the City to exempt “municipal capital facilities” from property and education taxes. A municipal capital facility is defined to include a City housing project facility designed to provide residential accommodations such as the housing projects owned by Toronto Community Housing. The City enacted By-Law No. 282-2002 to enable Council to enter into municipal housing project agreements to exempt housing project facilities from property and education taxes. Prior to entering into a municipal housing project agreement, the following conditions must be met. Council enacts a by-law authorizing the municipal housing project facility agreement.

1. All the housing units to be provided as part of the municipal housing project facility meet the definition of “affordable housing”. Affordable housing is defined as housing units with monthly occupancy costs at or below the average monthly City-wide rents by unit types as determined in the annual survey of City-wide rents published by CMHC.
2. The City continues to be a delivery agent under the Ontario Works Act, 1997 authorized to operate and manage housing under the SHRA.
3. Public eligibility for the housing units is determined according to either the rent-geared-to-income selection criteria contained in the SHRA or other process satisfactory to the City.

As with past Toronto Community Housing projects these conditions are generally satisfied in the provision of housing subject to the SHRA. There may be some question on the eligibility of units where there is some low end of market rents as well as rent-geared-to-income rents, whether the definition in #1 is satisfied. Only 7% of all Toronto Community Housing units are rented at low end of market, and many of these below the average CMHC rent for the City of Toronto.

The Residential Tenancies Act (RTA) exempts Toronto Community Housing projects from the requirement that municipal tax reductions be passed on to tenants in the form of reduced rent.

Cash Flow Savings

A property tax exemption for the projects subject to the Social Housing Reform Act will produce a net cash flow of approximately \$14 M annually (2007), equal to the education portion of the property. This assumed that any net impact from the reduction in property tax revenue to the City of Toronto from Toronto Community Housing is deducted from the annual subsidy grant provided by the City of Toronto to Toronto Community Housing. In addition, Toronto Community Housing pays \$7.6 million in property taxes on projects not subject to the Social Housing Reform Act.

Recommendation 2: *Direct the CEO to develop implementation and business plans as necessary for approval by the Board of Directors in the first quarter*

The real estate asset investment strategy sets out a number of key goals to be achieved, and is dependent on being able to increase funds available for capital repairs. In addition to the need to consult and work with the City of Toronto on the issue of property tax exemption, more detailed plans are needed prior to the Board agreeing to investment in certain activities. Plans related to the development of green and smart buildings, sale and replacement of housing units, and the development of planning approvals for a select number of revitalization sites will be brought forward in the first quarter 2009, based on the approvals granted by the Board for the overall approach to the real estate asset investment strategy.

Recommendation 3: *Direct the CEO to provide a report to the City of Toronto Council, through the Executive Committee on the strategy presented in this report and seeking:*

- a. Approval to proceed with the sale of assets as outlined in this report as required by the Shareholder Agreement;*
- b. Approval to exempt Toronto Community Housing Corporation from the payment of property taxes as outlined in this report;*
- c. Assistance with the development of a financial strategy for the implementation of the 13 revitalization initiatives as outlined in this report;*

As noted above there are several elements of the real estate asset investment strategy that will require City of Toronto concurrence and assistance.

Sale of assets

The Shareholder Direction of the City of Toronto for Toronto Community Housing requires that

the sale of all real estate assets that can be used for housing purposes must be authorized by the Council. Toronto Community Housing does not have this independent authority if the assets can be used for housing purposes. Therefore, Toronto Community Housing must obtain city approval to proceed with the sale of the assets identified in this plan.

Exemption from payment of property taxes

The Ontario City of Toronto Act (City Act) empowers the City to exempt “municipal capital facilities” from property and education taxes. A municipal capital facility is defined to include a City housing project facility designed to provide residential accommodations such as the housing projects owned by Toronto Community Housing. Approval for a tax exemption is a City of Toronto authority. As it is possible that there may be impacts on the City of Toronto from the provincial government in the event such an exemption is granted, it is likely the City will consult with the province prior to granting such an exemption.

Recommendation 4: ***Direct the CEO to review the real estate asset investment strategy annually report on the outcomes annually and to recommend further actions to be taken annually or as required***

The real estate asset investment strategy is developed based on the use of data to model capital repair and maintenance needs, and is dependent on the achievement of revenues for the replacement of housing and the revitalization of communities. The assumptions made in the development of these models will be subject to change over time; in addition, there are factors that may not have been anticipated currently that will come to bear on the implementation of this strategy.

In the past changes in regulations and legislation governing multi-residential housing have had considerable financial impact on the ability of the Corporation to meet its repair targets. These include changes to fire codes (audibility retrofit \$ 20M 2003-08); asbestos abatement regulation changes (\$2M 2007); elevator regulation changes (\$2.7 M 2007); solid waste by-law (\$7M 2007). Given these unanticipated expenditures arise, it is prudent practice to annually review the strategy and make adjustments as required. It is also possible that rental development opportunities not previously identified will assist in the sale and replacement of assets and adjustments to this part of the approach can be made over time.

FINANCIAL IMPLICATIONS:

The financial implications of the plan are detailed above. For the repair of housing and its and maintenance in a good state of repair the Corporation will redirect significant spending over the next five years to achieve a level of annual expenditure of approximately \$95 million. To maintain this level of expenditure over the long term will require the amount to be adjusted for inflation.

A remaining concern in the approach is the lag in being able to achieve the necessary level of annual spending. This lag in effect will produce an additional structural backlog of repairs of approximately \$100 million. A portion of this can be off-set by expenditures from reserves available to the corporation, or borrowing against cash flow produced by the investment income of these reserves. This approach will be further explored with the Investment and Finance Committees of the Board, and the Board, prior to making a decision. The most obvious way of bridging this gap is for the Province of Ontario to fund the gap – as most of the investment requirements over the next 10 years are a result of the transfer of the former Ontario Housing Corporation stock to the City of Toronto in very poor condition, and with an existing capital backlog estimated in 2002 at close to \$1 billion.

LEGAL IMPLICATIONS:

The sale of real estate assets that can be used for housing purposes requires the consent of the Shareholder, the City of Toronto. In addition, and sale or major change in use of a housing asset included in the SHRA regulations requires the consent of the Minister of Municipal Affairs and Housing.

COMMUNICATION IMPLICATIONS:

The real estate asset investment strategy will have an impact on tenants. For the most part this is positive in that it provides a plan to achieve a good state of repair in the portfolio over time. However, there are two groups of tenants where there will not be immediate positive impacts: those living in units designated for sale and those in units designated for revitalization and where the facility condition index to be maintained pending revitalization is less than that of the overall portfolio – therefore some of the site, mechanical system and landscape issues will not be addressed for these tenants until the community is revitalized. To do so would be spending “good money after bad” in many respects.

A communication plan has been developed that provides:

- A briefing on the plan to all Councillors (January 2009)
- Letters to tenant representatives on the plan and its impacts
- Letters to all tenants living in property houses, those houses identified for sale, the three multi-residential properties designated for sale explaining the impact of an approval of this plan on their housing
- Opportunities for further information sharing and consultation with tenants on the implementation of this plan
- Briefing materials for City of Toronto staff in the Affordable Housing Office and Shelter, Support and Housing Administration Division.

