Deloitte.

City of Hamilton West Harbour strategic properties

Real estate development and disposition opportunities

Final Report

April 26, 2016

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April 26th 2016

Dear Mr. Philips,

Deloitte Real Estate is pleased to provide our real estate development and disposition opportunities strategy for Piers 6 to 8, the Barton–Tiffany Lands, 500 MacNab Street North and Jamesville assets in the West Harbour Area. The report provides the market analysis, soundings and review of recent development activity to support future decision-making. In terms of work process, the assignment included detailed information review, interviews waterfront redevelopment agencies and industry stakeholders and a detailed feasibility assessment.

From this research and analysis, we conclude that residential uses are feasible in West Harbour although current planning permissions may not maximize full market potential consistent with the City of Hamilton's vision to create a diverse, balanced and animated waterfront. The market soundings confirmed the results of the analysis, and illustrated the need for public support and collaboration to deliver the vision. The importance of 'quick wins' was identified, not only to practically demonstrate project feasibility but also set the tone for development in the future. We trust that the information and strategy provided in this report is of assistance to the City.

We welcome the opportunity to review our analysis, key findings and recommendations. If you have any questions, please feel free to contact me at sbotting@deloitte.ca (416.601.4686) or Antony Lorius at alorius@deloitte.ca (416-775-7010).

Respectfully submitted,

Deloitte LLP

Sheila Botting
Canadian Real Estate Leader
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Executive summary

Hamilton’s West Harbour in context

Background

The Hamilton Waterfront includes both the Bayfront and West Harbour lands which extend along Hamilton Harbour and Bay waterfront. It represents a significant opportunity for the City of Hamilton (“City”) to transform uses over the next few decades. The **Hamilton West Harbour** area lies north of the City of Hamilton’s downtown and is currently subject to a variety of uses, including Bayfront Park, Royal Hamilton Yacht Club, newer commercial uses around the marina, older residential neighbourhoods and rail-related uses in the Barton-Tiffany area. Planning for West Harbour began in 2004 with the City’s Growth Related Integrated Development Strategy (GRIDS); then the Setting Sail secondary plan in 2005 and most recently the 2010 Hamilton West Harbour Waterfront Recreation Master Plan (WHWRMP).

While considerable municipal planning has been undertaken to date, a number of key implementation questions remain. The City wants to accelerate development and community building in the area, in particular for Piers 6 to 8, where most of the lands are City-owned. According to the City, this area has the potential to accommodate up to 1,609 new residential units, 13,000 square metres of commercial-retail floor space and private investment: potentially transformational levels of activity. Other City-owned assets such as the CityHousing Hamilton (CHH) Portfolio, the areas of vacant and underutilized lands within the Barton-Tiffany Community and the new GO Transit Station under construction along James St. North combine, to set stage for a major regeneration.

Over time, the vision is for the West Harbour area and Waterfront in particular to transform into a vibrant, mixed-use, compact, transit-supported and pedestrian-friendly waterfront community.

A. The Port of Hamilton (Piers 10 - 15, 22 - 28 & 34)
B. ArcelorMittal Dofasco (Piers 20 & 21)
C. US Steel (Stelco) (Piers 16 & 18)
D. West Harbour
E. The Beach
F. Go Station and Via Rail Train Station
G. Hamilton Airport

City of Hamilton's vision for the city

Setting Sail Secondary Plan Establishes the Planning Context

The City of Hamilton has a tremendous opportunity to use the West Harbour properties to facilitate the "City Building" activities to benefit the entire City. The overall atmosphere, environment and opportunity associated with West Harbour will infact guide the future of the city and help in the overall image and impression by both residents and visitors.

The planning context for West Harbour is found in the "Setting Sail" secondary plan. Setting Sail is a statutory plan which provides the land use structure for West Harbour, while the Waterfront Master Plan is a non-statutory physical plan for the area (not including Pier 8). The land use plan emphasizes three major areas of change – **the Waterfront**, the area south of the CN Rail Yard called **Barton-Tiffany** and the former industrial lands along Ferguson Avenue, referred to as the **Ferguson-Wellington corridor**, as well as strategic investment in commercial and mixed-use corridors. The plan is guided by eight core principles:

- Promote a healthy harbour
- Strengthen existing neighbourhoods
- Provide safe, continuous public access along the water's edge
- Create a diverse, balanced and animated waterfront
- Enhance physical and visual connections
- Promote a Balanced Transportation Network
- Celebrate the City's heritage
- Promote excellence in design

In addition there are **general policies** relating to land use, public realm, heritage and environment and **specific policies** relating to the three areas of major change identified above and the 'corridors of gradual change' including portions of York Boulevard, Cannon Street, portion of Barton Street with the intent of enhancing these corridors and reinforcing their mobility function. The spirit of the policy framework is to **create significant change** by **encouraging a transition in the area** from current marine and light industrial uses to a mixed use neighbourhood of **medium and high density residential** buildings oriented to the water, along with supporting **retail and service commercial uses.**

A portfolio of properties for redevelopment and disposition

Deloitte Real Estate has been retained to develop a redevelopment and disposition strategy for five properties

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 assess five City and CHH owned sites with the intent of providing a **feasibility**, **redevelopment and disposition strategy**. The portfolio includes 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.

This study has been created using factual data to inform the City and CHH's decision making and is not meant to be a policy study. The recommendations within are not absolute and represent a series of decision points.

The objective of the assignment was to provide a redevelopment and disposition strategy for the West Harbour portfolio.

Index	Subject Property	Size Acres/hectares	Current Asset Description
1	**Barton – Tiffany**	10.10/4.09	Two city parcels that are currently vacant
2	**Jamesville**	5.41/2.19	The site consists of a 90 unit townhouse complex
3	**500 MacNab Street**	1.06/0.43	The property consists of a 17 storey, 146 unit apartment building
4	**Pier 6 and 7**	*12.55/5.08	The predominant uses include the marina and boat storage uses. The Hamilton Marine police are located on Pier 7
5	**Pier 8**	31.60/12.80	Commercial and recreational uses

** The West Harbour Study area comprises Piers 5-8;*

Strong demand for residential, minimal demand for commercial build-out

Task 1: Market overview, Market soundings – Strong demand for residential, minimal demand for commercial

Residential: Arising out of this study were a number of key findings and themes. Hamilton's residential market has continued to show significant growth in property values and this, combined with the recent completion of the West Harbour Go Train station and recently announced rapid transit improvements, has changed the dynamics of the local residential market.

The market consensus is that the West Harbour Area is **primarily suited for residential development**. The market shows that the 1,609 residential units proposed at Piers 6, 7 & 8 could be absorbed over the next 23 years, while the Barton-Tiffany lands are ideally suited for Hamilton's affordable housing opportunities.

Retail/Commercial: The potential for commercial development was generally seen as limited in the short-medium term; with retail build-out dependent on the pace of residential development.

Piers 6, 7 and 8 are suitable for residential build-out but challenging for commercial development

Task 2: Financial feasibility analysis

Deloitte's assessment of the opportunities for the West Harbour lands was based on the "highest and best use" and may not be entirely consistent with the City's planning and zoning expectations for each of the specific sites. As a result, in order to achieve a marketable opportunity, some of the sites may require planning amendments.

Using various input assumptions, we have been able to determine value ranges for each of Piers 6, 7 & 8 based on the "highest and best use analysis." Key conclusions include:

- Under the current scheme, **development at Pier 6 does not appear feasible at this time**. The limited number of residential units combined with what is considered an over build out of retail space yields a negative present value.
- **Pier 7 shows a positive opportunity for development** with a sufficient number of residential units, and more than offsets the anticipated weaker demand for commercial space. Conclusions are sensitive to construction costs, finished product prices, variations in market supply/demand.
- **Pier 8 development shows the highest value** and indicates this development is feasible.

Principal of Highest and Best Use

The principal of the "Highest and Best Use" of a property is fundamental to the concept of market value. Highest and best use is defined by the Appraisal Institute of Canada as:

"The reasonably probable and legal use of vacant land or improved property; which is physically possible, appropriately supported, financially feasible, and results in the highest value. The four criteria of highest and best use are legal permissibility, physical possibility, financial feasibility, and maximum profitability."

Appraisal Institute of Canada, 2015

West Harbour provides a challenging but potentially transformational "city building" opportunity for Hamilton

West Harbour transformation feasibility summary

For Hamilton's West Harbour area, development will be challenging but there is a tremendous opportunity to transform this area of the City if properly planned over the next decade. Furthermore, West Harbour's transformation can provide the necessary catalyst for City building activities for Hamilton overall. However, there are constraints that must also be accounted for. The city is a significant land owner but total land supply is limited which makes the cost of land acquisition high. Total cost for any potential action will be significant as the cost of construction is high and refurbishment will require a significant capital re-investment.

Strengths

- Hamilton is currently one of the hottest residential markets in the country
- West Harbour has a new Go Train station
- Growing demand for multiple residential uses
- Potential for a well designed mixed use waterfront community development
- Flexible zoning
- Supportive city

Weaknesses

- Proximity to heavy industry and therefore negative perception
- High servicing costs
- Zoning does not allow for full market potential of lands
- Remediation requirements
- Peripheral location for retail
- Potentially higher than average parking construction costs

Opportunities

- Potential for a well integrated mixed use urban re-use of the waterfront
- Lands could be sold in bulk or by individual development sites
- Potential catalyst for additional redevelopment opportunities in the area
- Opportunity to transform image and branding of Hamilton waterfront capturing new residents and businesses

Threats

- Potential for cost over runs for both on and off site work requirements
- Shift in demand away from condominium developments
- Retail development is generally contingent on successful residential build-out
- Continuation of non compatible uses in general area
- Risk of longer absorption periods for finished product

Pier 6 should be retained for city building purposes; Pier 7 possesses development potential at a later date

The development of piers 6 and 7

Piers 6 and 7 are situated north of downtown Hamilton, bound by Pier 5 to the west and Pier 8 to the east. The site is located in a prime redevelopment area thus it's future must be carefully deliberated. The city must consider the long-term, city-building vision for the development of the area and how Piers 6 and 7 contribute to that vision.

Options, considerations and outcomes

Proposed Options

- Retain Piers 6 and 7
- Sell Piers 6 and 7
- Retain Pier 6 and Sell Pier 7

Key Considerations

- Financial feasibility
- City building aspirations
- Market demand and range of potential uses
- Infrastructure concerns

Potential Outcomes

- Retain Piers 6 and 7 for the purposes of generating a long term income stream to the City
- Sell Piers 6 and 7 for financial gain while undertaking controlled and measured approach to the area's redevelopment
- Sell Pier 7 for financial gain and retain Pier 6 with the longer term vision of focusing public amenities on this site to help draw residents and visitors to the waterfront area

Piers 6 and 7

Metric	Result
Site Size	*12.55 acres /5.08 hetares
Land Use	The predominant uses include the marina and boat storage uses. The Hamilton Marine police are located on Pier 7

Pier 6 offers limited opportunities under the current Setting Sail vision. The City should consider **the retention of this site** with the longer term vision of focusing public amenities on this site to help draw residents and visitors to the area to the waterfront. Pier 7 does possess development potential and **thus further study** is required regarding its disposition with a Request for Expression of Interest ("RFEOI") at a later date.

Pier 8 is an attractive development opportunity; an RFEOI process should be undertaken

The development of pier 8

Pier 8 is situated north of downtown Hamilton, at the eastern edge of West Harbour, and west of Pier 9 and the Bayfront lands. The site shows great potential with disposition being the preferred option. The City must consider which proposed disposition strategy will maximize value while still maintaining a long-term, city-building vision for the development of the area.

Options, considerations and outcomes

Proposed Options

- Retain Pier 8
- Sell the site on an ‘as-is’ basis, en bloc
- Service and sell the lands in a phased disposition
- Enter into a Joint venture or partnership with the private sector to develop the lands

Key Considerations

- Disposition Strategy
- City building aspirations
- Market demand and range of potential uses
- Infrastructure concerns

Potential Outcomes

- Retain Pier 8
- Sell Pier 8 as-is, en bloc which would transfer of all risk to the market and result in quicker revenue from taxes and development charges
- Sell Pier 8 in phases which would allow for control over the phasing of development and the ability to adjust to market feedback

Pier 8

Metric	Result
Site Size	31.60 acres /12.80 hectares
Land Use	Commercial and recreational uses

The site **has immense potential** and will be viewed favorably by the development community. Accordingly, the City should prepare a **RFEOI** document to identify potential partners / purchasers. This initiative will help to commence and shape the disposition process for the site.

Jamesville is a prime redevelopment opportunity; city must clarify policy objectives before development

The redevelopment of Jamesville

Jamesville is likely a **prime private-sector redevelopment opportunity**, given that the approximately five acres are well situated within the West Harbour neighborhood. The major consideration is the need for a transition plan and provision of alternate housing for the current residents who require accommodation when the project is being redeveloped. Intensification of land use is key in today's market and a historical lack of focus on density is illustrated here, where very low density was achieved.

Options, considerations and outcomes

Proposed Options

- Retain townhomes in current state
- Invest in current townhomes and bring to good condition
- Sell to private sector for redevelopment

Key considerations

- Affordable housing policy
- Financial feasibility
- Locational Considerations
- City building aspirations

Potential outcomes

- Retrofit the existing 90 townhomes through a capital expenditure program to bring the units to "good" condition.
- Sell property for land value
- Engage developer to redevelop Jamesville

Jamesville Property Details

Metric	Result
Site Size	5.41 acres / 2.19 hectares
Total Units	90 Townhomes

Jamesville represents a prime redevelopment opportunity to build to higher and better uses due to proximity to the West Harbour GO station and the waterfront. **Therefore we recommend a redevelopment of this property** to accelerate the West Harbour Setting Sails strategy. The City and CHH need to **consider the form and extent of this development**, and how/if affordable housing should be integrated from a policy perspective compared with mandating the developer(s) to providing funding for affordable housing on alternate sites.

If affordable housing is considered on this property, **CHH needs to conduct a demand analysis** to determine the format/extent required. **A RFEOI for market development should be prepared at a later date once policy objectives are clarified.**

Further information is required to determine the preferred option for 500 MacNab Street North

The redevelopment of 500 MacNab Street North

The 500 MacNab property offers a high value “city building” opportunity to initiate the transformation of the West Harbour neighborhood, and to connect the new GO Station with the community and waterfront. It is apparent that the City and CHH do not yet have all the facts and it is **unclear how much capital is required to bring the building up to current standards** for future affordable housing. There are a variety of options open to the future use of this asset, however it is clear that whatever is planned, a transition plan would be required for existing tenants.

Options, considerations and outcomes

Proposed Options

- Retain site in it’s current form
- Invest in current units and bring to good condition
- Sell to private sector for redevelopment

Key considerations

- Affordable housing policy
- Financial feasibility
- Locational considerations
- City building aspirations

Potential outcomes

- Sell to a developer to redevelop to high rise apartment condominiums
- Redevelopment to rental property with 17 stories
- City redevelops property for affordable housing
- City invests in current building for affordable housing

500 MacNab Street North Property Details

Metric	Result
Site Size	1.06 acres /0.43 hectares
Total Units	146 apartment units

CHH needs to consider the long term viability of this property to meet the demand requirements of the affordable housing population. The analysis assumes that the building is not viable due to physical constraints and this needs to **be verified through property/architectural feasibility reports**. Assuming that the property fails to meet demand requirements cost effectively, **we recommend the redevelopment for multi-residential units** – for either market or affordable housing. This course of action will allow the site to become a catalyst for the West Harbour redevelopment program. **The City should issue a RFEOI at a later date to gauge market interest.**

Barton-Tiffany requires a thorough environmental assessment before the issuing of an RFEOI or the development of affordable housing

The development of Barton-Tiffany

The Barton-Tiffany lands represent a **tremendous opportunity to create a medium to high density residential community** within the West Harbour Neighborhood, on City-owned lands benefiting from existing residential zoning. The lands are currently vacant but **could be utilized to deliver affordable housing** for CityHousing Hamilton. Alternatively, the **property could be sold to the private sector** for build-out which could catalyze development in the surrounding areas.

Options, considerations and outcomes

Proposed Options

- Development of affordable housing
- Property is sold to private sector for development

Key considerations

- Affordable housing policy
- Access to funding
- Environmental considerations
- City building aspirations

Potential outcomes

- Development of 200 residential units with 36,900sf of retail space at grade
- Development of 400 residential units with 36,900sf of retail space at grade
- Property is sold to private sector for development

Barton - Tiffany Property Details

Metric	Result
Site Size	10.10 acres / 4.19 hectares
Total Units	Currently Vacant Land (Potential to build 200 – 400 units)

The City needs to **conduct a thorough environmental assessment and property site plan** for technical analytics to input into the feasibility process. Barton-Tiffany can deliver 200-400 affordable housing units depending on form/extent of requirement. This is a viable marketplace solution for affordable housing within West Harbour and leads to City Building for the area overall. Alternatively, a **RFEOI and RFP process could be facilitated** to determine the market's interest in this project.

Next Steps

Action items required to move forward

There is a tremendous opportunity present but the City and CHH still have a significant amount of groundwork to complete

The possibility of a significant affordable housing development funded by the disposition of one or all of the sites under investigation has the potential to offer a 'win/win' solution. However, there is still a significant amount of groundwork that must be completed by all key stakeholders. The following implementation plan involves a series of decision points and should not be considered as an absolute one-step recommendation.

Next Steps

1
- Issue a RFEOI for Pier 8

2
- Confirm technical details, surveys, environmental etc., for all properties
- Conduct physical, engineering and architectural assessments to determine feasibility to maintain affordable housing units and cost implications

3
- Confirm demand for affordable housing and identify policy objectives

4
- Establish that 500 MacNab and Jamesville do not meet the City's requirements for affordable housing

5
- Complete an RFEOI and RFP process to understand development interest for 500 MacNab
- For the affordable housing requirement, complete financing decision making, then issue RFEOI for Barton-Tiffany and later for Jamesville

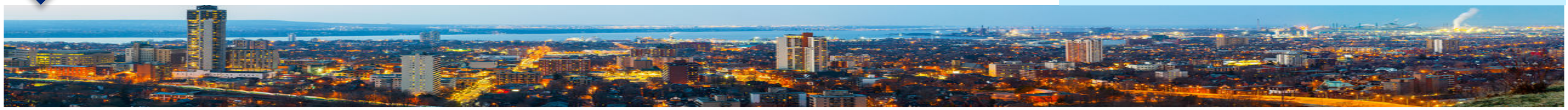
6
- Complete a RFEOI and RFP process to understand the requirements from the development community for a Barton-Tiffany development that includes affordable housing

<u>Required action items</u>

1. Issue a RFEOI for Pier 8
2. Conduct an architectural/engineering feasibility study to determine feasibility to maintain affordable housing units and cost implications.
3. Complete a **full demand analysis** to **confirm the number and type** of new affordable housing units required.
4. Complete an RFOI and RFP process to understand development interest for 500 MacNab. For the affordable housing requirement, complete financing decision making, then issue RFEOI for Barton-Tiffany and later for Jamesville

<u>Key considerations</u>

Is finance or policy the primary driver for the disposition alternatives and the creation of new affordable housing? Are there any specific timelines or transition policies that must be adhered to?



Section 1

Background and work plan

Background and work plan

Hamilton waterfront

A major development opportunity

The Hamilton Waterfront includes both the Bayfront and West Harbour lands, which extend along Hamilton Harbour and Bay waterfront. It represents a significant opportunity for the City of Hamilton to transform uses over the next few decades.

The Hamilton West Harbour area lies north of the City of Hamilton's downtown and is currently subject to a variety of uses, including Bayfront Park, Royal Hamilton Yacht Club, newer commercial uses around the marina, older residential neighbourhoods and rail-related uses in the Barton-Tiffany area. Planning for West Harbour began in 2004 with the City's **Growth Related Integrated Development Strategy** (GRIDS); then the **Setting Sail** secondary plan in 2005 and most recently the 2010 **Hamilton WHWRMP**.

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According to the City, this area has the potential to accommodate up to 1,609 new residential units, 13,000 sq. m of commercial-retail and private investment: potentially transformational levels of activity.

Other City-owned assets such as the CityHousing Hamilton (CHH) Portfolio, the areas of vacant and underutilized lands within the Barton-Tiffany Community and the new GO Transit Station along James St. North combine to set stage for a major regeneration.

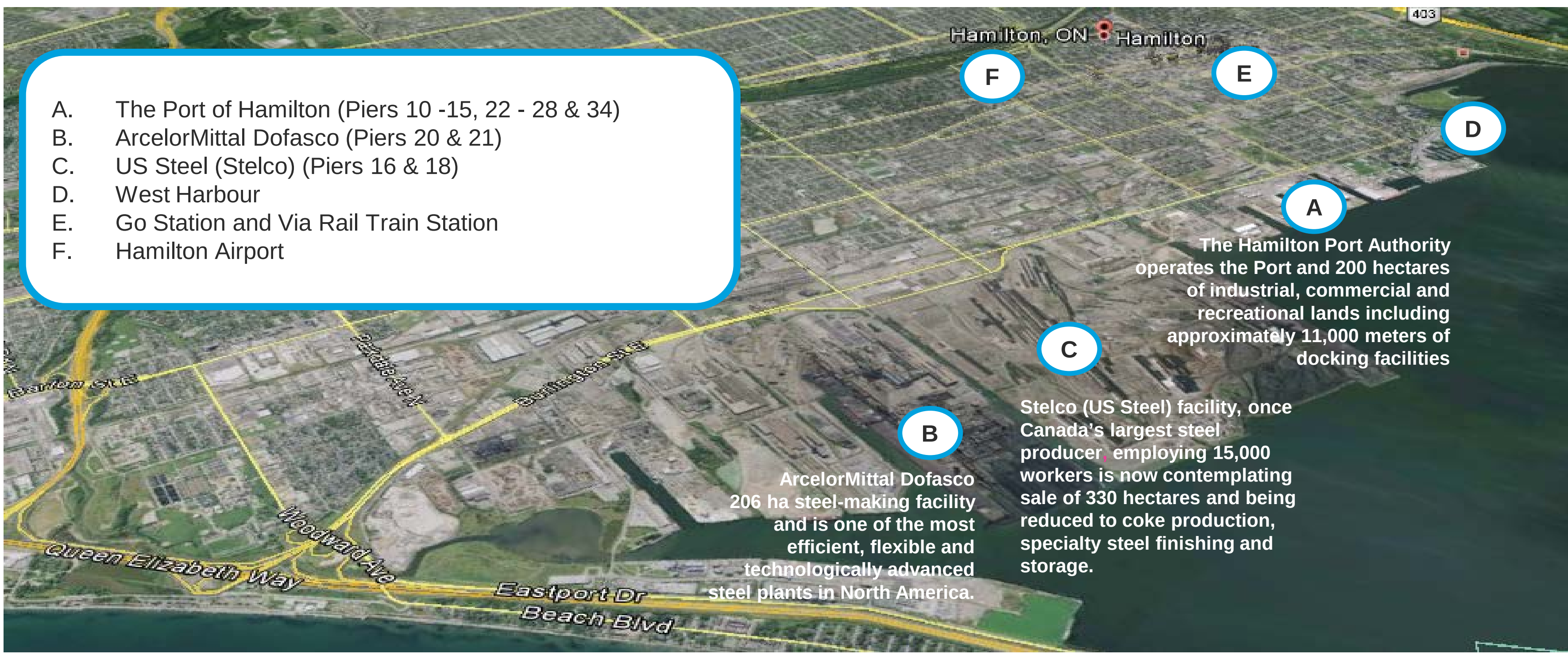
The **extension of municipal services, and other City works and investments are vital** to enhance redevelopment and make the lands attractive for investment. To ensure the City's policy and financial interests are aligned with market demand and investor appetite, a Real Estate Development and Disposition Strategy is required.

Background and work plan (cont'd)

West Harbour in the broader waterfront context

Broader Context of Hamilton's Watertont showing both Bayfront and West Harbour

The West Harbour area is one of the key areas **targeted for regeneration and redevelopment** by the City of Hamilton. It forms part of an **integrated north-Hamilton area** containing different land uses including the Bayfront Industrial Area, established recreational and boating related uses and some newer recreational and commercial activities that have helped to reinforce the City' vision and West Harbour's identity as an **important location for new development.** The West Harbour area enjoys **several competitive advantages**, including a waterfront location and proximity to the soon-to-be completed **GO Station** at James Street North. **Municipal ownership** also puts the City in a unique position to represent the public interest and **partner with the private sector** to implement the vision.



Background and work plan (cont'd)

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** The West Harbour Study area comprises Piers 5-8;*

Background and work plan (cont'd)

Our process

Real Estate development and disposition strategy

The overall project work plan is shown in the process chart below, and described in the pages that follow. As shown, a three-phase work plan was agreed to. In the first phase, a strategic asset and opportunity assessment was prepared, including property profiles, market reviews and determination of highest and best use. In the second phase, market value and feasibility were assessed and a disposition strategy recommended. Phase 3 is forthcoming as a Request For Expressions of Interest (RFEOI) and Request for Proposals (RFP) process will be developed to bring the lands to market.

1.

Phase 1
Strategic Asset and Opportunity Assessment

- Project Start-up and Document Review
- Profile and Description of Key Assets
- Assessment of Strategic Market Opportunity
- Market Feasibility and Due Diligence Initiation

2.

Phase 2
Market feasibility and disposition strategy

- Undertake Market Soundings
- Assess Financial Feasibility and Value Range
- Identify Priority Sites and Disposal Strategy
- Prepare Draft and Final Report
- Present Findings to Council

3.

Phase 3
Implementation

- Phase 3 Launch
- Compile/Refine Target list
- Prepare Request for Qualifications (RFEOI document)
- Solicit Interest From Real Estate Community
- Collect and Assess RFEOI Documents
- Issue RFP to Qualified Parties
- Receive Bids
- Provide Support in Negotiating Agreements

Section 2
Real estate market perspectives

Market review

Introduction

Identifying demand is key to creating successful development

When considering the planning and execution of a successful development, achieving the right mix of use types is key – too much of any one use can upset the balance and result in development issues such as:

- Too much retail space without matching occupational demand can lead to long-term vacancies and blight at street-level
- Over-reliance on office development creating an impression of abandonment outside of office hours
- Under provision of leisure combined with residential development leaves residents with nowhere to go at night and during weekends.

Within the following section we provide an overview of the main sectors of demand that are at play within the West Harbour area, identifying key themes and reviewing likely demand and future competing demand.

Residential markets

Residential real estate markets

Growth in the Greater Toronto and Hamilton ("GTAH")

Hamilton expanding and investing in infrastructure

The West Harbour development envisions some 1,509 residential units and this section addresses the feasibility of development likely timeframe for absorption.

The City of Hamilton currently has some 519,000 residents according to Statistics Canada 2011 Census. The City identifies that there are currently some 220,702 housing units with some 2,136 new starts annually. The City boasts about its unique quality of life, and benefits for prospective employers and residents:

Hamilton is a city of many communities, built on community spirit. Physically defined by unique geographical features like the Niagara Escarpment and Hamilton Harbour, the municipality has a broad mix of urban centres and sprawling farmland, offering beautiful sights at every turn. From Flamborough to Stoney Creek and all points in between, the municipality is industrious and culturally diverse. With a wide range of museums, libraries, entertainment venues, recreational facilities, parks and conservations areas, the City of Hamilton offers the perfect place to start a business, raise a family and grow with the community. (City of Hamilton website 2015).

Recent advancements within the Hamilton economy including a multitude of new and expanding companies, along with significant infrastructure investments will continue to make Hamilton appealing for employers and residents alike. Within this section**, we identify specific trends that affect the development potential for the West Harbour five properties**, and use these market findings for major assumptions for the financial analysis and feasibility for each of the developments.

Some of the significant new infrastructure investments for Hamilton include:

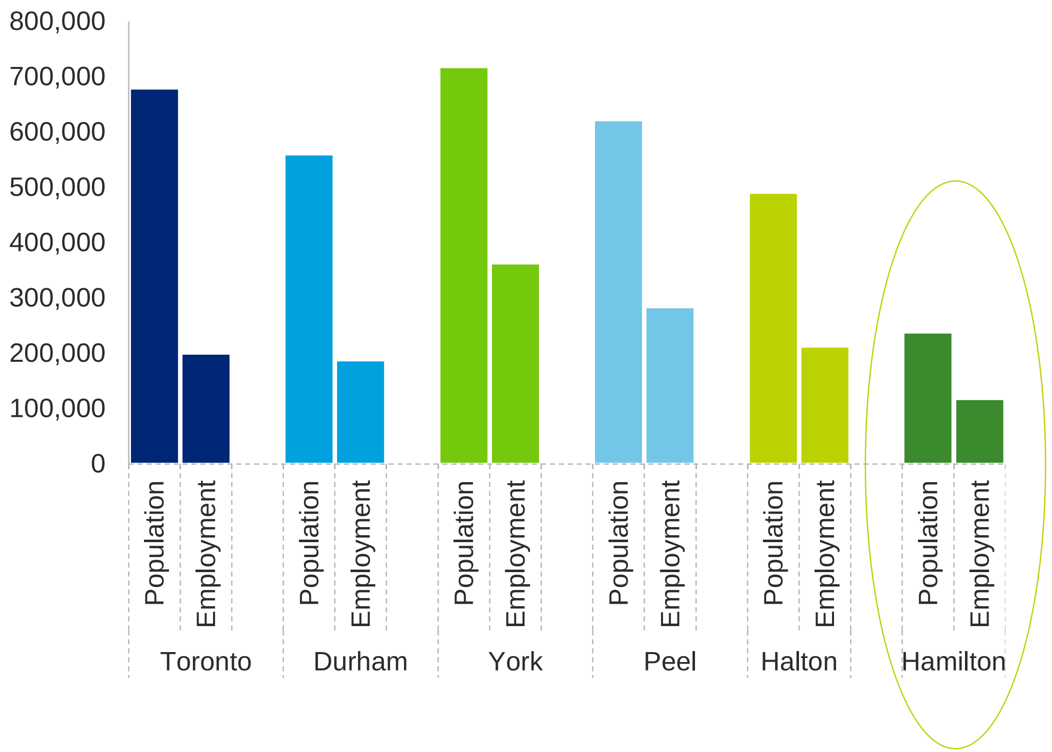
- Recent GO Transit station to West Harbour that will continue in the decade ahead through Stoney Creek and Niagara
- Recent announcement for the LRT line that will extend through the centre of the City from East Hamilton to McMaster University, and include a north-south spur line to the West Harbour
- New facilities including Tim Horton's Field, built for the Pan-Am Games and home to the Hamilton Ti-Cats
- Increasing infrastructure for the Port of Hamilton and related supply chain through the region to attract business opportunities
- Advancements in local universities and colleges including McMaster and Mohawk

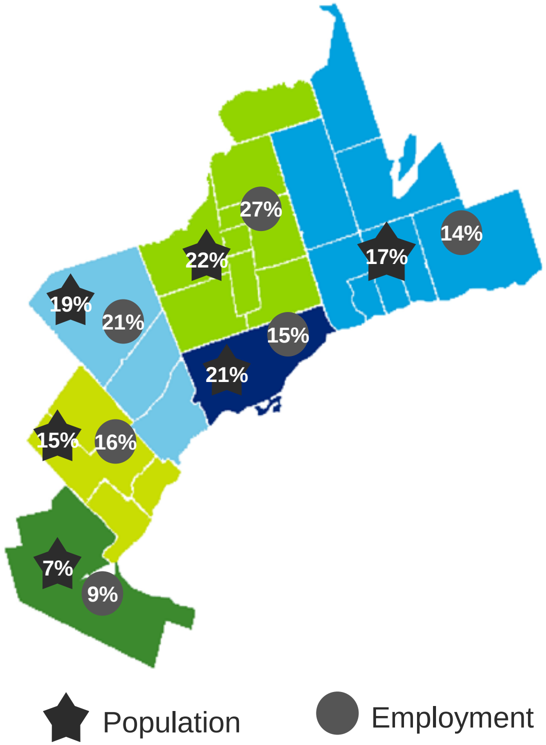
Clearly these investments will continue to accelerate and make Hamilton a growing opportunity for developers and investors alike.

Market review – Residential

Growth in the Greater Toronto and Hamilton Area ("GTAH")

Additional 3.3m people expected to move to the GTAH by 2041, with 7.2% or 238,000 people choosing Hamilton





Source: Greater Golden Horseshoe Growth Forecasts to 2041, Hemson Consutling Ltd. November 2012

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

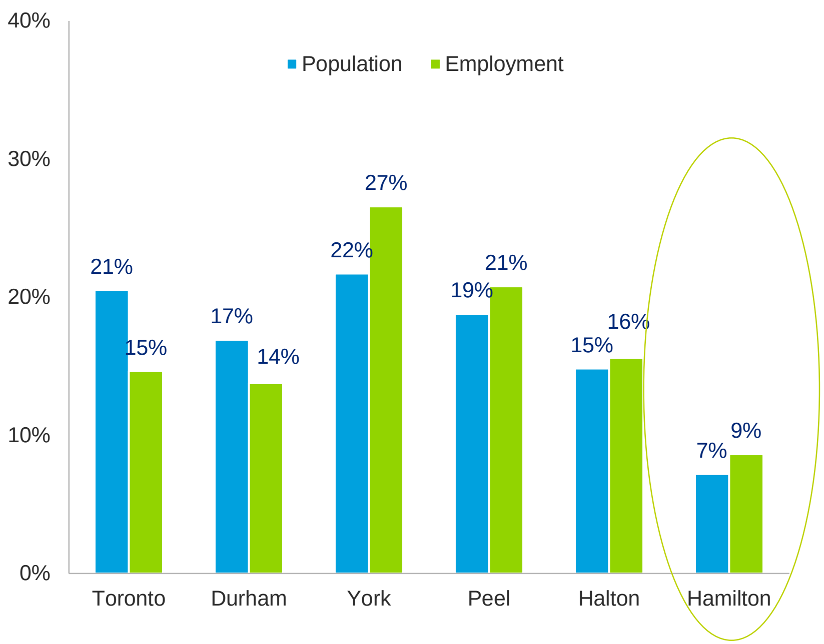
Market review – Residential (cont'd)

Growth in the Greater Toronto and Hamilton Area ("GTAH")

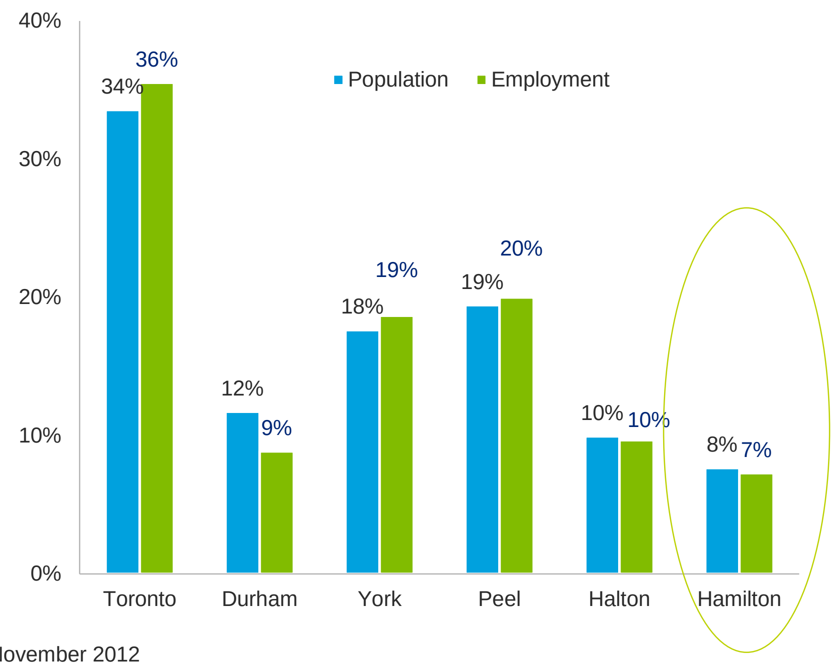
Hamilton expected to see favorable growth through 2041, with 238,000 new people and 300,000 new jobs

The GTAH continues to experience population growth and this presents excellent opportunities in all areas of real estate including the Hamilton region. The Hamilton region is expected to see 7.2% of all population growth and 9% of employment growth. Generally speaking, growth is expected to favour the north and west 905 communities.

Share of growth 2011 to 2041



2041 share of total



Source: Greater Golden Horseshoe Growth Forecasts to 2041, Hemson Consulting Ltd. November 2012

By 2041, the Greater Golden Horeseshoe will be home to 13,480,000 people and 6,270,000 jobs.

Market review – Residential (cont'd)

Changing times for transport

New Residential and Commercial developments must keep up with Millennials' changing preferences for transit

In 2007, a study by Ren Thomas on the travel patterns of youth and young adults in the Metro Vancouver region showed that despite the constraints faced in relying upon transit, millennials remained committed to using transit as a sustainable transportation alternative, and is one of the first signs of a worldwide trend in transportation choice.

Hamilton's expansion of GO Service into the West Harbour, along with the newly announced LRT line through the City, provide substantial infrastructure to foster redevelopment and transformation of the City's aging communities.

- The advent of the millennial generation has ushered in new lifestyle choices that have perplexed older generations and raised serious questions about the economy, transportation, and community planning.
- Studies around the world echo these findings: in Germany, Norway, Sweden, and Japan, young people are less interested in driving. In Germany, the percentage of 18- to 29-year-old car owners who drove at least five days a week dropped from 62 to 47 percent from 1997 to 2007, while the share of those taking transit at least once a week increased from 25 to 40 percent.
- In 2012, the Atlantic called Millennials "the cheapest generation" when it reported on the plummeting car sales to the 21- to 34-year-old age group. In the US, this group bought only 27% of all cars sold in the country in 2010, compared to 38% in 1985. Even among car owners, the number of vehicle miles travelled by this age group fell by 28% from 1998 to 2008. Even "transforming vehicles into giant smartphones" is unlikely to appeal to the Millennials, now approaching their early 30s, who often opt to go car-free or use public transit and car sharing and on-demand alternatives.

Availability of reliable transportation infrastructure in close proximity to mixed use development is key to the success of the development. Reduced on-site parking requirements can significantly reduce construction costs.

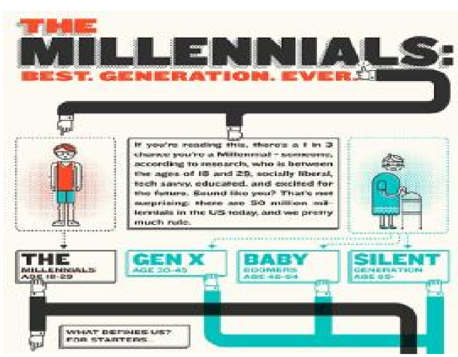
Market review – Residential (cont'd)

Changing times for family composition

Millennials are driving a fundamental shift in what is considered a 'normal' family

In Canada there are more single-person households, more couples without children (including same-sex couples), and more young people living with their peers. In 2011, the National Household Survey showed a higher percentage of single-person households than couples with children for the first time ever. Statistics Canada reported that between 2001 and 2011, the proportion of one-person households increased from 25.7% to 27.6% of all households. The fundamental shift from the two-adult two-child household, indicates that planners need to think differently about the way we plan transportation and housing in our cities and regions.

Furthermore, millennials aren't the only ones driving the demand for sustainable urban lifestyle choices. Baby boomers are downsizing, choosing high-rise or townhouse options in inner cities rather than holding on to their two-storey houses in the suburbs.



Transportation planning is undergoing a seismic shift in many cities and regions around the world – Traffic congestion, economic costs, and sustainability concerns are driving a switch from the predict-and-provide approach to a more balanced approach integrating land use, infrastructure, and behavioral techniques. Instead of calculating how many people are going to be driving and building infrastructure to support the trend, transportation planners are now trying to influence demand to try and make better use of existing infrastructure.

Market review – Residential (cont'd)

Housing starts by built form

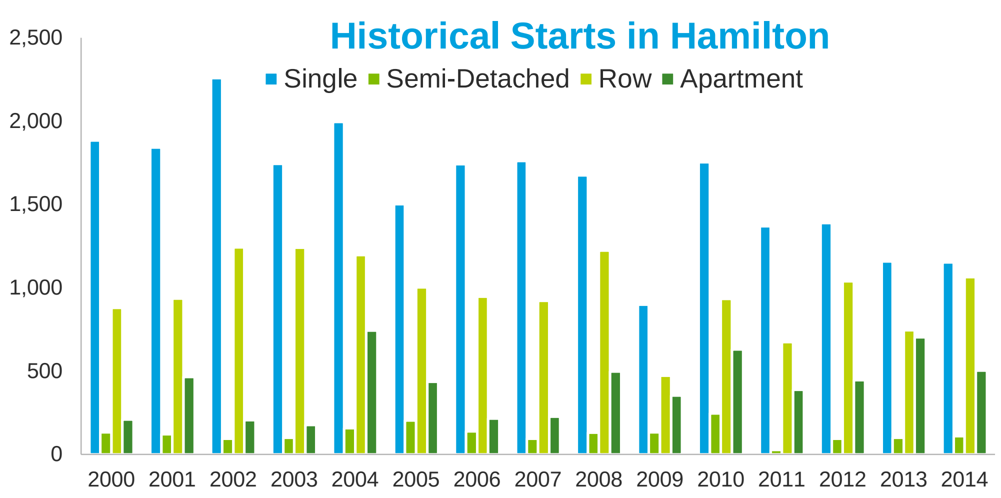
Hamilton's Housing Starts up 4.5% in 2014

Single and Row Homes account for 79% of Housing Starts in 2014

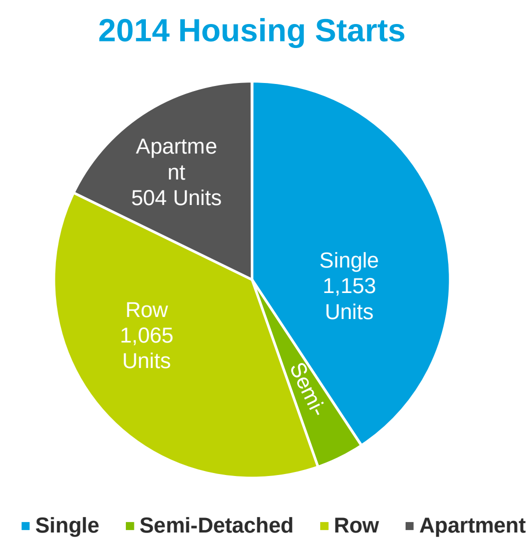
The Hamilton Housing market has seen increased construction recently as starts were up 4.5% compared to 2013. Single and Row homes continued to dominate construction as they accounted for 79% of all starts in 2014.

After significant growth through the late 90's and early 2000's, starts have slowed in recent years. 2014 housing starts were down 2.5% compared to the five year rolling average. While single homes still represent the highest proportion of building type, their starts are down compared to historical averages. It is worth noting that row apartments continue to grow in popularity as they have seen 20% growth in the past five years.

Type	2014 Total	5 Year Average (units)	10 Year Average (units)	25 Year Average (units)
Single	1,153	1,365	1,440	1,567
Semi-Detached	110	115	128	118
Row	1,065	892	903	946
Apartment	504	534	440	430
Total	2,832	2,906	2,911	3,061



Source: CMHC Housing Portal, 2015



Market review – Residential (cont'd)

Housing starts by type

Homeowner starts show consistency

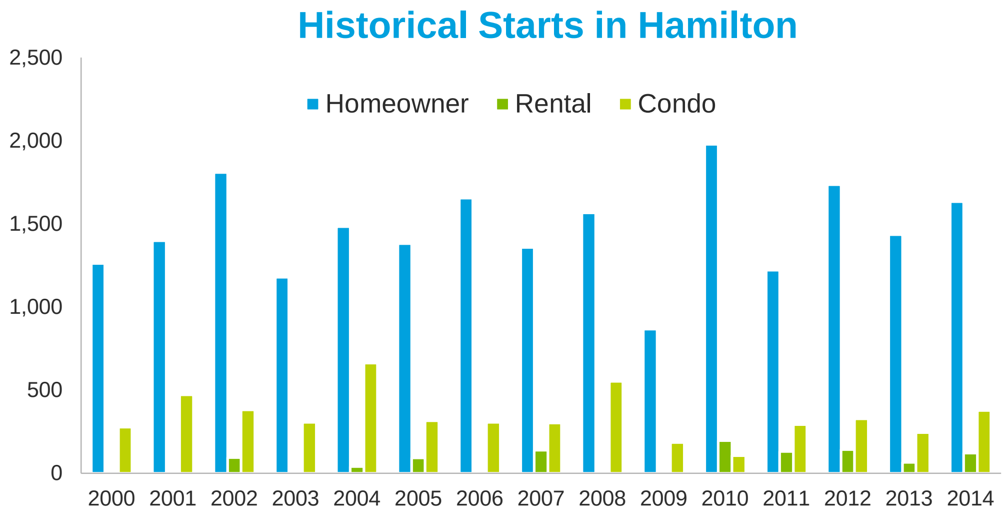
Rental starts fall below historical average

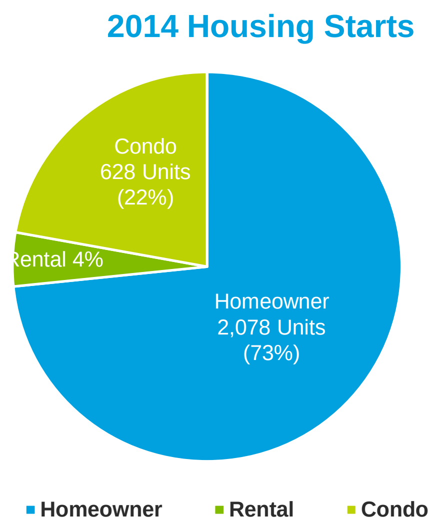
After a soft 2013, homeowner starts were up 24% in 2014. The homeowner market continues to dominate the majority of starts; this trend has been consistent over the past 25 years.

Generally speaking, there has been relative stability in the composition of starts. It is worth noting that starts for rental construction have dipped in the past 5 years. While apartment to condo conversion is partially blamed for the record low vacancy rates in Hamilton, the lack of new rental supply is also considered to be a primary factor.

Hamilton area stats at a glance

Type	2014 Total	5 Year Average (units)	10 Year Average (units)	25 Year Average (units)
Homeowner	2,078	2,086	2,088	2,083
Condo	628	627	646	739
Rental	126	194	177	214
Total	2,832	2,906	2,911	3,061





Source: CMHC Housing Portal, 2015

Market review – Residential (cont'd)

Absorption by built form

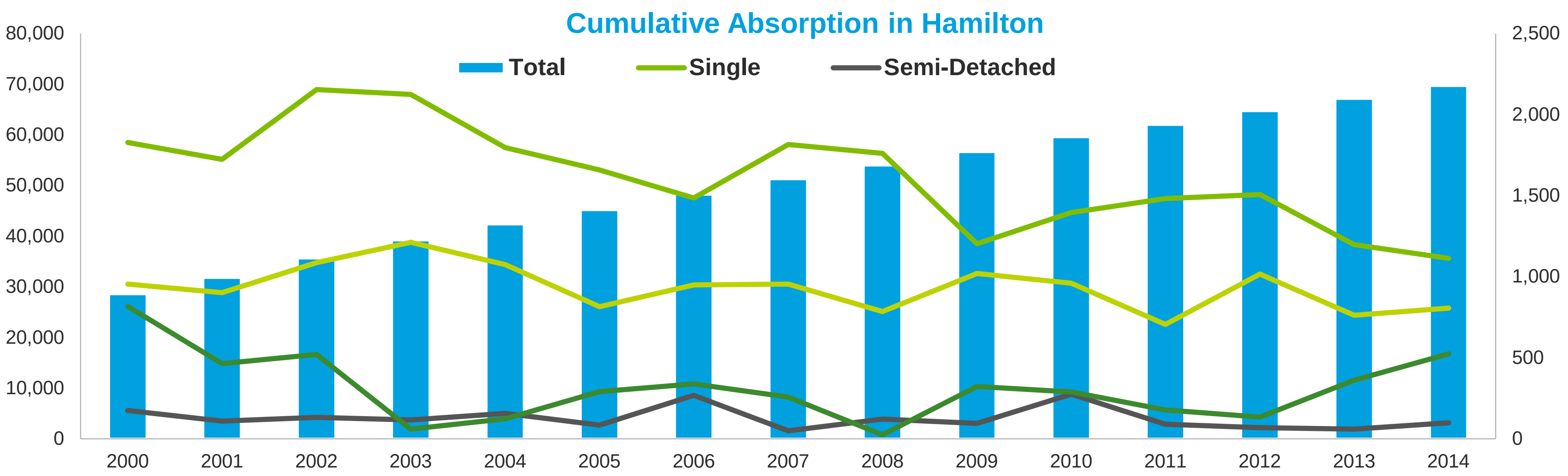
Hamilton absorption figures up 6.7% in 2014

Apartment absorption showing significant growth over the past 5 years

Historical absorption of housing units in Hamilton has closely paralleled housing starts. While absorption was up by 6.7% in 2014, the 5 year average is slightly below 0. This can largely be attributed to soft absorption figures in 2011 and 2013. In fact, 2013 saw only 2,383 units taken up which represented the lowest figure over the last 15 years. That said, The REALTORS® Association of Hamilton-Burlington (RAHB) reported a record number of property sales processed through RAHB Multiple Listing Service® (MLS®) system in 2015.

While single units have been decreasing in popularity, there has been a noticeable uptick in the absorption of apartment units.

Type	2014 Total	5 Year Average (units)	10 Year Average (units)	25 Year Average (units)
Single	1,113	1,339	1,462	1,581
Semi-Detached	99	119	122	115
Row	807	850	877	820
Apartment	524	297	272	270
Total	2,543	2,605	2,733	2,786



Source: CMHC Housing Portal, 2015

Market review – Residential (cont'd)

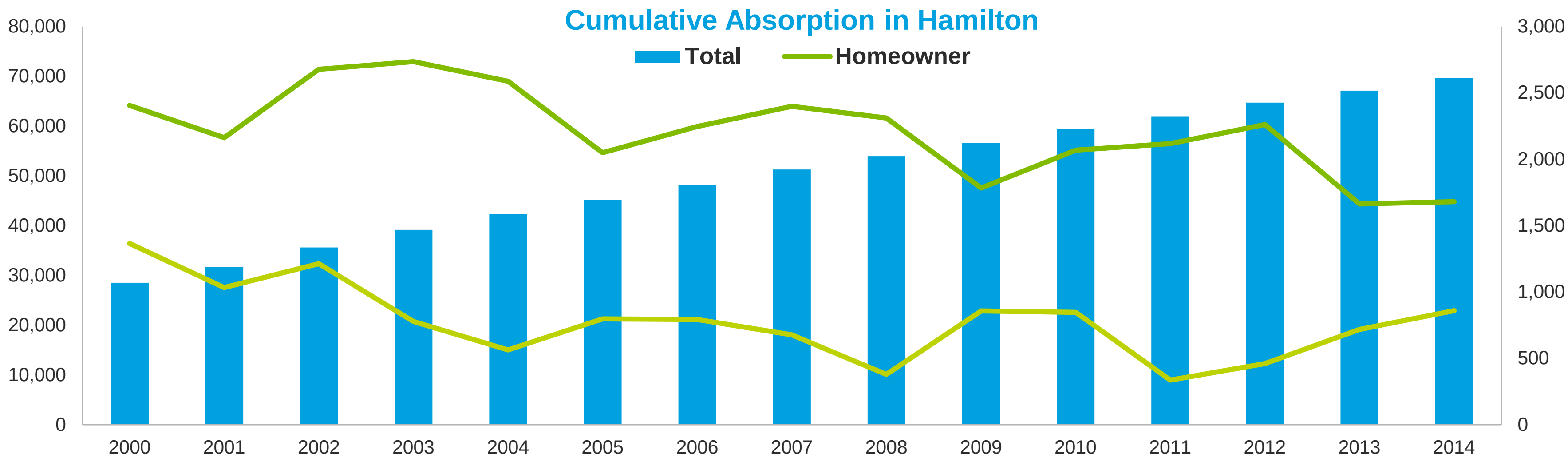
Absorption by type

Homeowner absorption well below historical averages

Slack picked up by the condo market

As the table to the right illustrates, homeowner absorption is down significantly compared to historical averages. In fact, the 1,682 homeowner units absorbed represents the lowest figure since 1992. While absorption is down across the board, the slack in the homeowner market seems to be have been picked up by the condo market. There have been 4 straight years of growth with 2015's 861 units representing the largest figure since 2002. That said, it should be noted that homeowner absorption still represents 66% of the total figure.

Type	2014 Total	5 Year Average (units)	10 Year Average (units)	25 Year Average (units)
Homeowner	1,682	1,960	2,059	2,060
Condo	861	645	674	725
Total	2,543	2,605	2,733	2,786



Source: CMHC Housing Portal, 2015

Market review – Residential (cont'd)

Residential permits

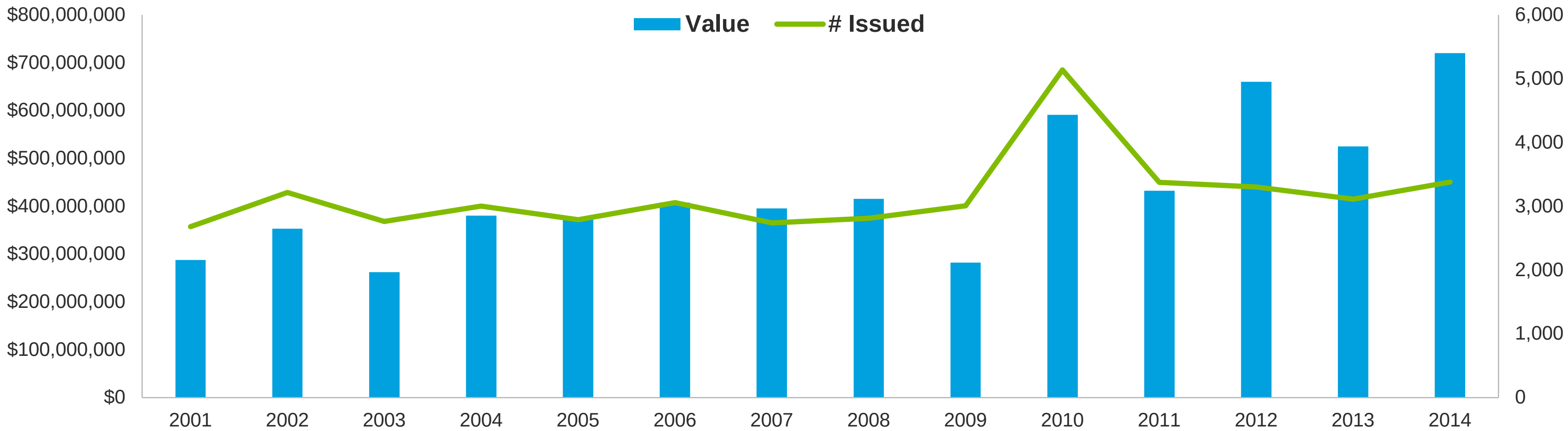
Hamilton sets a record of $719M in residential building permits

Residential accounts for 63% of total activity

The $719M in revenue from processing residential building permits represents a 37% increase when compared to the 2013 figure. The 2014 figure is also well above the five year historical average. Of the $719M, just over $370M or 51% of the permits were for new one or two family dwellings. Conversely, just under $280M or 39% of the total value was for new row or apartment dwellings. The remaining 10% of the residential permits were for alterations to existing buildings or structures.

Type	2014 Total	5 Year Average (units)	10 Year Average (units)	25 Year Average (units)
Value ($M)	$719	$586	$480	$434
Permits Issued	3,379	3,661	3,270	3,168

Hamilton Residential Permits – Total value vs. Number of Permits Issued



Source: City of Hamilton

Market review – Residential (cont'd)

High-rise supply

Nine projects with a total of 787 units 'active' in Hamilton

249 units are currently available for purchase

As part of our analysis, we have also considered the 'active' high-rise projects in Hamilton marketplace.

According to Realnet's New Homes Search, there are nine high-rise projects currently active as of May 2015. Seven of these projects are located in Hamilton proper while two are located in Ancaster and Waterdown respectively. These nine projects include a total of 787 units with 249 units currently available for purchase.

Five of the developments are in downtown Hamilton including the two largest developments (150 Main and the Residences of Royal Connaught).

We have also identified a number of projects that are in an earlier phase of the development process; they can be found on the next page.

Type	Builder	Total Units	Remaining Inventory	Average Price Per SF	Monthly Absorption
Waterfront Trails – Southshore	New Horizon Development	129	0	$427	11.46
Kensington	Winzen	39	2	$414	2.31
Treviso	Augustine Group	55	10	$351	2.69
Stinson School Lofts	Stinson Realty	61	13	$326	3.00
170 Rockhaven Lane	Hawkridge Homes	41	3	$311	2.38
150 Main	Vrancor Group	150	76	$390	6.36
Residences of Royal Connaught	Spallaci Group and Valery Homes	137	38	$517	9.70
City Square – Tower Two	New Horizon Development	89	15	$454	4.56
Gibson Lofts	Stinson Realty	86	83	$278	1.50
Total		**787**	**249**	**$380**	**4.84**

Source: Realnet New Homes Search, 2015






Market review – Residential (cont'd)

High-rise pipeline

Coming soon

The following properties were not identified by the New Homes database; however, we were able to identify them using other external sources. These developments are either in the pre-selling stage or currently are under construction and represent over 600 new units.

Building	# of Units	Size Range (SF)	Price Range	Unit Types	Sales Commencement	Other
Tiffany Square Condos	164	650 – 1,050+	$250,000-$560,000+	1 Bedroom; 2 Bedroom; 3 Bedroom; Penthouse	June 18, 2015	Mixed Use Development located in West Harbours; built by Sonorak Corp.
The Connoly	259	451-2,077	Currently Unknown	1 Bedroom; 1 Bedroom + Den; 2 Bedroom; 2 Bedroom + Den; Penthouse	Registration Phase	Mixed Use Development at 98 James Street South (James and Jackson)
Residences at Acclamation	60	645-2,366	$249,900-$949,900	$375-$378	December 2014	Development at 185 James Street North
Tivoli Condos	106	Unnown	Currently Unknown	Currently Unknown	Registration Phase	Located at James Street North and Vine Steet
Harbour West Urban Towns	34	Unknown	Currently Unknown	Currently Unknown	Summer 2015	Address is 290 Barton Street West
TOTAL	**623**					

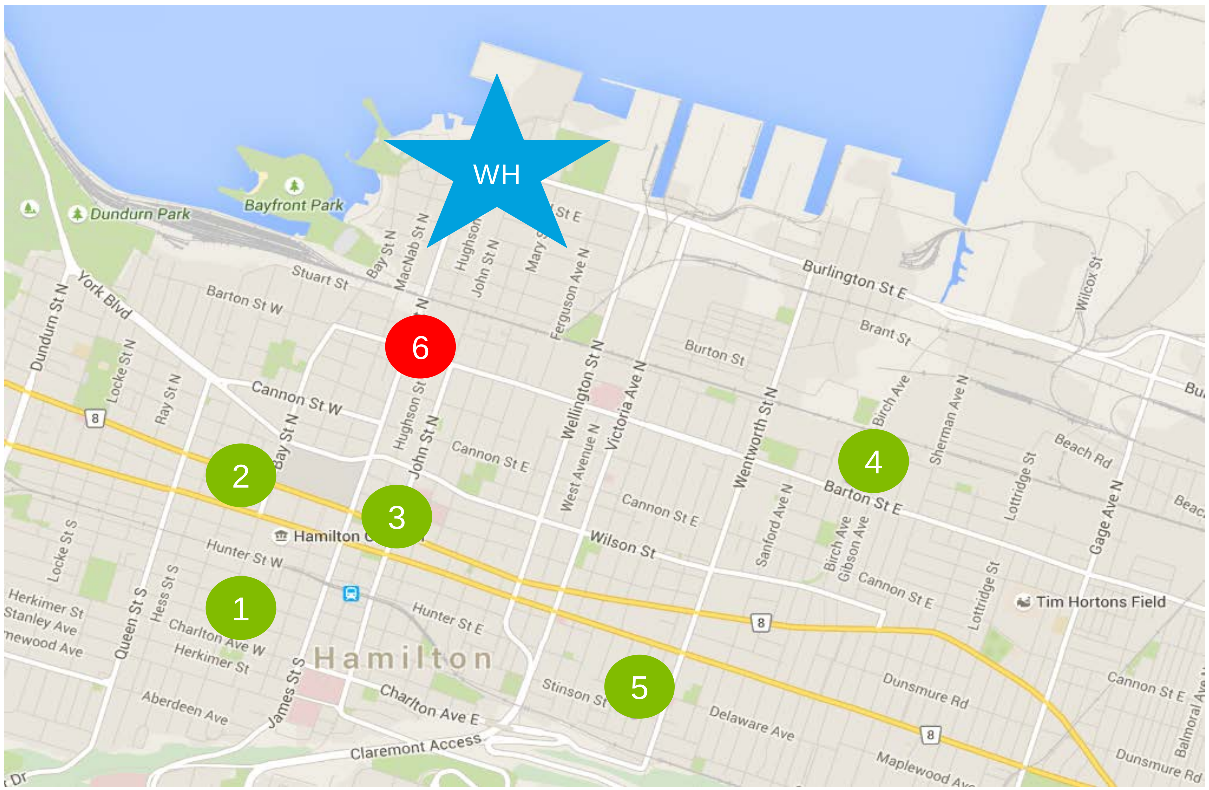
Source: Realnet New Homes Search, 2015

Market review – Residential (cont'd)

High-rise pipeline

Of the nine active development projects, five are within the downtown core in proximity to the new West Harbour Go Station

We have plotted these developments, along with the new West Harbour GO Station, on the map below:



Study Area Developments:

1. City Square – Tower Two
2. 150 Main
3. Residences of Royal Connaught
4. Gibson Lofts
5. Stinson School Lofts
6. West Harbor GO Station

Source: Realnet New Homes Search, 2015

Market review – Residential (cont'd)

High-rise inventory

1 Bedroom and 1 Bedroom + Den units represent 61% of total inventory; a large variation in square footage is offered

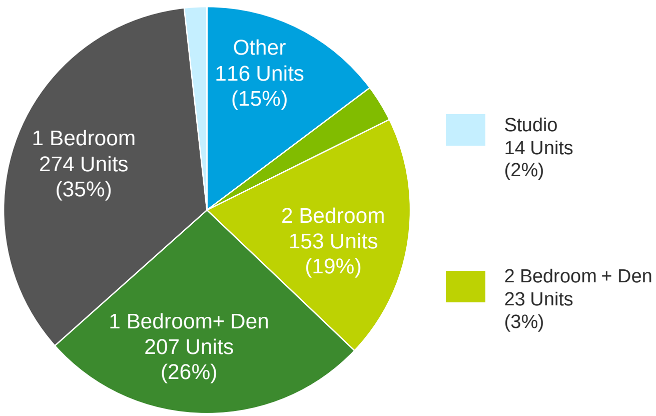
Of the nine projects, the 1 bedroom and 1 bedroom + den units account for 61% of total units. Larger apartment units represent a much lower share of the inventory (22%), suggesting that most of the demand is for smaller units likely targeted towards a younger, urban population and potentially including first-time homebuyers.

There is a great deal of variety in the size of units offered within the marketplace. The smallest studio units at The Kensington are 398 sf while the penthouse at the Treviso totals 1,531 sf. On the whole, the average size of inventory ranges from 358 sf for a studio to 1,134 sf in the 'other' category. Of note, the 1 bedroom units ranged from 460 to 703 sf while the 1 bedroom + den units ranged from 733 to 863 sf.

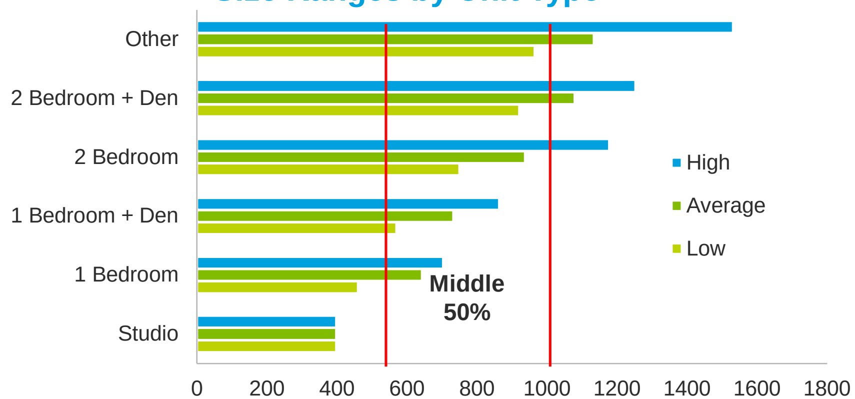
We calculated the middle 50% of unit sizes to further illustrate the composition of Hamilton's inventory. The bottom 25% represented all units 695 sf and below while the top 25% represented all units at 1100 sf or higher.

Source: Realnet New Homes Search, 2015

Inventory by Unit Type



Size Ranges by Unit Type



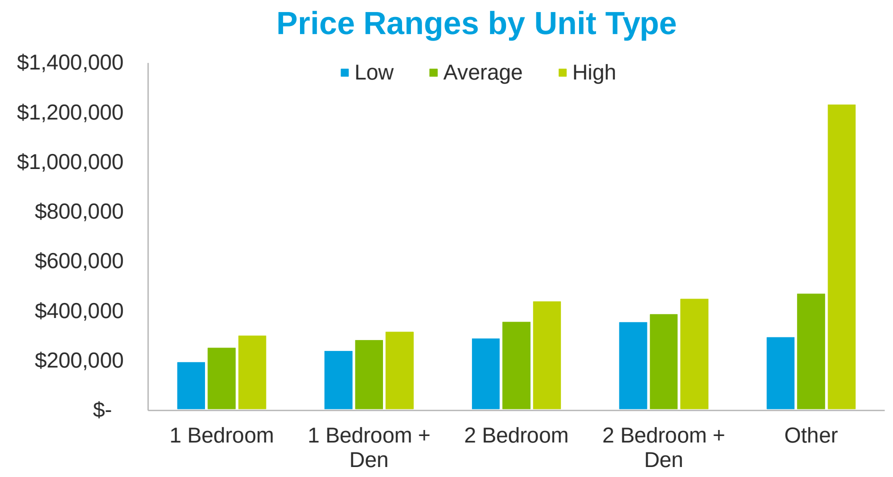
Market review – Residential (cont'd)

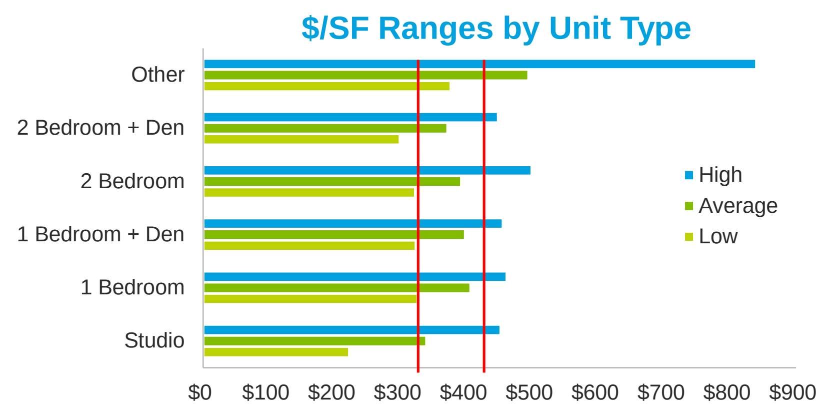
High-rise pricing

Hamilton units range between $222/sf – $840/sf; the average for active projects is $380/sf

Pricing in Hamilton shows variation as the studio apartments at the Gibson Lofts were priced at $99,990. Conversely, the penthouse at the Residences of Royal Connaught is just over $1.2M. The average price of a unit in Hamilton was $355,889. Of note, 1 bedrooms ranged from $199,990 to $305,990 while 1 bedroom + den units ranged from $244,990 to $321,990. The pricing and unit size suggests that new units are being marketed towards younger urban professionals as opposed to larger families.

With the variation in unit size and pricing, it should come as no surprise that there was a large range in the price per square foot achieved. The studio units at the Gibson Lofts sold at a price per square foot of $222 while the penthouse at the Residences of the Royal Connaught were $840 psf. The average price per square foot was $380 with the middle 50% ranging between $325 and $430 psf. Of note, the greatest amount of variation was found in the 2 bedroom and 2 bedroom + den units.





Source: Realnet New Homes Search, 2015

Market review – Residential (cont'd)

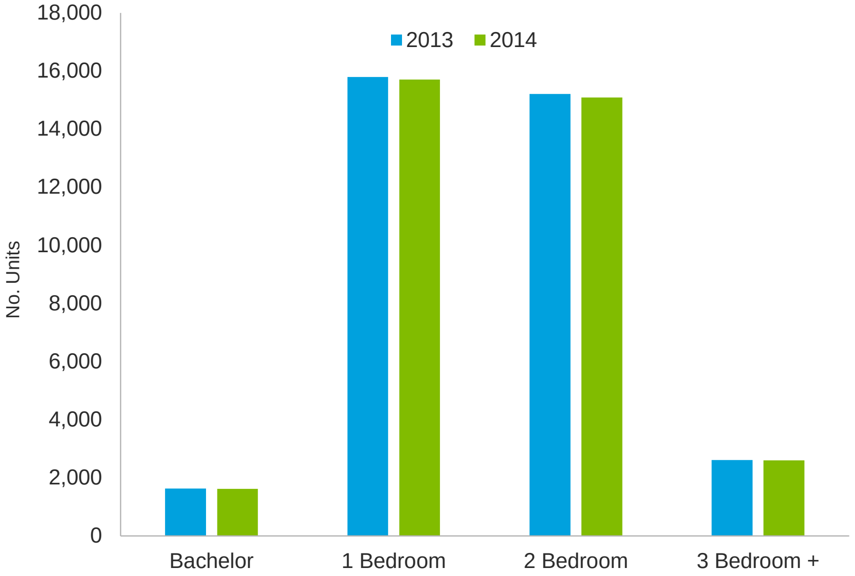
Overview of rental market

Minimal growth in the amount of rental stock over the past 10 years; inventory was largely built 30+ years ago

An examination of Hamilton's rental stock shows that overall unit type spread has remained relatively stable. As of 2014, there were 35,023 rental units available within the Hamilton marketplace. For further context, there were 34,913 units available for rent in 2010. There has been a slight shift in unit composition as the number of bachelor units has dropped by approximately 90 units in the last 5 years. Conversely, there has been an increase of 70 1-bedroom units over the same timeframe.

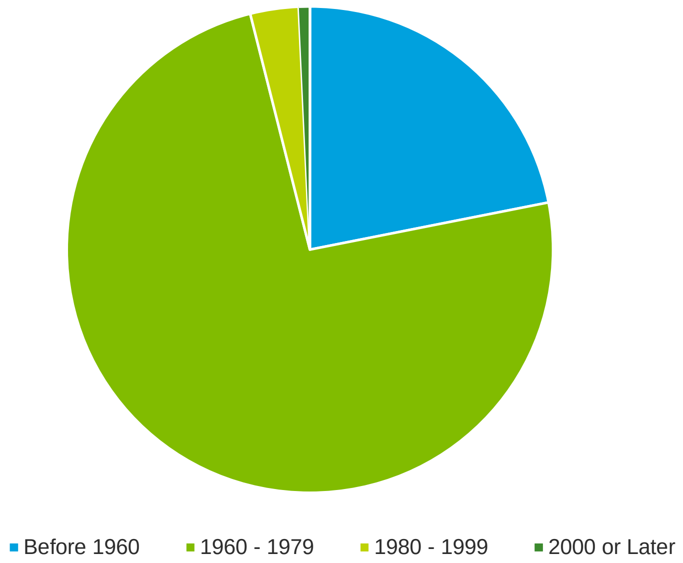
The graph on the bottom right clearly indicates the majority of apartment rental stock in Hamilton is over 30 years old. Of note, just 3% of rental stock in Hamilton was built after the year 2000.

Rental Inventory by Bedroom Type



Source: CMHC Housing Portal, 2015

Rental Inventory by Construction Date



Market review – Residential (cont'd)

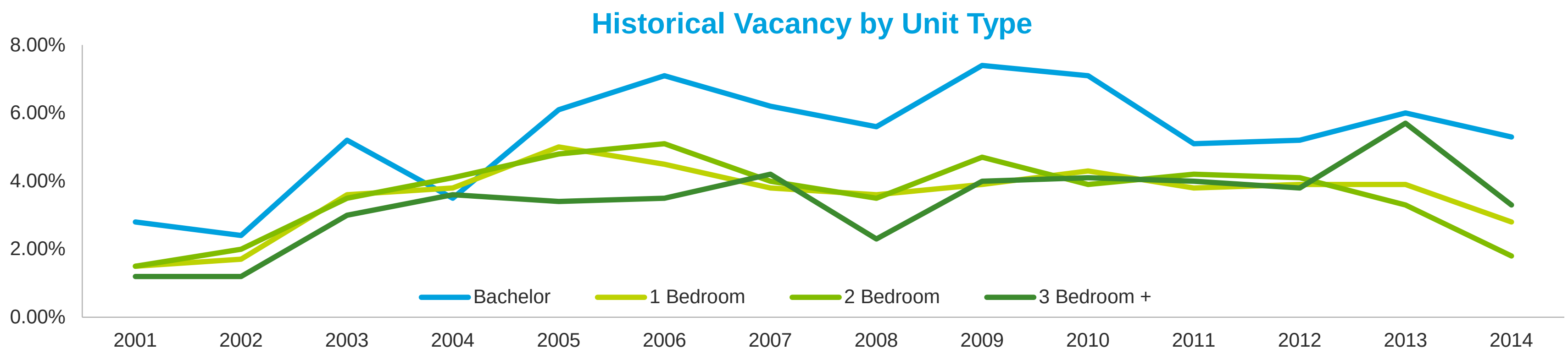
Rental market vacancy

Record low 2.2% vacancy leads to a moratorium on apartment conversions in order to alleviate supply concerns.

Based upon available rental metrics, **Hamilton's rental market is extremely competitive**. Rental rates themselves have been generally stable as there has been a minimal uptick of just 2.5% over the past year. This figure is consistent with the 2.36% annual rental increase the Hamilton market has seen over the past 5 years.

However, there has been a sharp decrease in vacancy over the past year. While vacancy rates have remained in the 4% vicinity since 2010, this past year saw vacancy rates drop to 2.5%. There has been tightening in the 2 bedroom market as vacancy rates dropped by 150 bps to 1.8%. The shift in 3+ bedroom apartments was more significant as vacancy rates dropped by 240bps to 3.3%. Accordingly, the city has enacted a two-year moratorium on apartment building conversions to condos in order to alleviate some of the pressure.

Size	2010	2014	Avg. Annual Change
Bachelor	$503 per month	$573 per month	+2.8%
1-bed	$653 per month	$740 per month	+2.6%
2-bed	$787 per month	$885 per month	+2.4%
3- Bed	$938 per month	$1,009 per month	+1.6%



Source: CMHC Housing Portal, 2015

Market review – Residential (cont'd)

Summary – Ownership and rental markets

Ownership Market

Hamilton's condominium market is currently seeing a renaissance as high quality projects are built in an effort revitalize the downtown core. The arrival of the GO Train has prompted numerous transit-oriented developments targeted at millennials and young families, who fully embrace the live, work, play mantra.

An emerging market like Hamilton should expect continued demand for condominiums which bodes well for premiere sites within the West Harbour.

Rental Market

The Hamilton rental market is competitive as vacancies have hit record lows. This has led to a moratorium on apartment conversions as the city has taken a proactive stance on a contentious issue.

Rental stock is dated, hence construction of new rental units will likely be required in the near future.
If affordability issues continue within the GTAH, the subject's proximity to employment and transit could make it a desirable site for rental development.

Both ownership and rental markets are transforming as revitalization projects occur in the downtown core – West Harbour is ideally positioned for such large-scale residential development.

Market review – Residential (cont’d)

Summary – Opportunity for West Harbour

Home buyers prefer homes with transit access and walkability; West Harbour presents a great opportunity

A recent RBC and the Pembina Institute study suggested that the majority of home buyers (81%) would choose less car-dependent, transit connected neighborhoods over big lawns and extra bedrooms if cost was not a factor. Those surveyed claimed that they would pay more to live in a ‘centrally located’ neighborhood even if it meant downsizing their home. It was extremely interesting to note **that seniors and adults aged 18 to 35 were most likely to prefer more walkable, transit-oriented locations**.

Generally speaking, the **development of a transit station tends to attract significant real estate investment** within close proximity of the site. The Greater Toronto Area is no different as it has seen a great deal of transit oriented development in recent years. As an example, The City of Vaughan has set aside 442 acres for the development of the Vaughan Metropolitan Centre (VMC). The region has prioritized the development of a new metropolitan centre featuring “urban living, inspiring offices, residential complexes, restaurants and cafés, hotels and pedestrian shopping.” Accordingly, the area is expected to include 25,000 residents and 11,000 jobs by 2031. The catalyst for this massive development is the arrival of the Yonge-University-Spadina line in 2016. The construction of the Eglinton LRT line has also resulted in a spur of development. Since construction of the Crosstown line was announced, more than 40 rezoning requests have been made to City Planning for residential development.

As evidenced by the Tiffany Square and Harbour West Developments, the **West Harbour area has already started to see the investment that comes with a transit hub**. The development of the new GO Train and recently announced LRT project will encourage development that enhances the livability and quality of life for area residents and employees. Thus, any development occurring in the West Harbour area will appeal to the segment of the population who desire the amenities of Hamilton’s city centre while still having the ability to connect to the GTAH region.

Commercial real estate (Retail and Office)

Market review – Retail

Trends in the retail sector

West Harbour as envisioned through Setting Sail anticipates some 164,000sf of commercial space. This section identifies that this significant amount of commercial space is not feasible at the current time due to lack of demand.

The Canadian Retail Market has shown softness in recent months as it undergoes a significant transformation

A recent Globe and Mail article stated that 'the retail real estate market is in transition and it's going to be a couple of years before it settles down.' In 2014, the Canadian marketplace saw a total of 38 new international retailers commence operations including Nordstrom and Muji. However, several major retailers, including Target, Future Shop and Jacob, have exited or declared bankruptcy in the Canadian marketplace in recent months. What was already a competitive marketplace has been thrown into flux as e-commerce platforms have forced retailers to transform their brick and mortar operations.

Recent projections have suggested that an estimated 21 million sf of retail real estate will be vacant in 2015; this figure is approximately three times the amount of annual new retail supply. The current weakness in the marketplace was displayed when Target was forced to hand back 75 store leases to their landlords after they were unable to find suitable buyers for them. However, many researchers have suggested that Target's predicament is not a testament of a weak Canadian marketplace but an indication of a shifting in the purchasing behavior of Canadian consumers. Traditional shopping centres (and particularly anchor tenants) have been forced to reevaluate their platforms as e-commerce gains further popularity. In fact, a recent CBRE report found that mall sales growth had stagnated as Canadian consumers have begun to shun that traditional mall format in favor of e-commerce solutions.

Canadian Retail Metrics						
Region	**Neighborhood/Strip Inventory**	**Neighborhood/Strip Vacancy Rate**	**Power Centre Inventory**	**Power Centre Vacancy Rate**	**Regional Shopping Centre Inventory**	**Regional Shopping Centre Vacancy Rate**
National	**45,168,000 sf**	**3.9%**	42,765,000 sf	**2.2%**	**26,327,000 sf**	**2.9%**

Source: CBRE Inc.

Approximately 18.7% of all new retail development is occurring in mixed-use developments (a combination of retail with either/both office and residential condominium) with retailers adapting their storefronts to smaller floorplates. This shift in retail built-form has occurred in urban centres as businesses attempt to reach consumers who have fully embraced the live-work-play mantra. West Harbour's retail component is likely to embody the above mixed-use principles that have been seen in other parts of the GTAH.

Market review – Retail (cont'd)

Hamilton in context

Hamilton has a variety of retail options including Malls, Farmers Markets and a number of Art Galleries

The **Downtown Hamilton core attracts customers from a very broad trade area** including Stoney Creek, Grimsby, Burlington, Waterdown, the Mountain, Ancaster and Dundas. The area has become home to a number of entertainment options including shopping, dining, sporting events and commercial conventions.

Hamilton has long been known for its specialty retail trades which include a number of farmers markets, art galleries and wineries. However, consumers have the option of purchasing goods at one of the city's four malls: Eastgate Square, Hamilton City Centre, Lime Ridge Mall and Lloyd D. Jackson Square. There are also **13 distinct shopping districts within Hamilton's borders** which include the Barton Village Shopping District, Locke Street Shopping District and King Street West Shopping District. These retail nodes have become a fixture within the community as they feature a number of unique and distinct retailers within a village typing setting.

Source: City of Hamilton

The retail component at West Harbour will bear resemblance to the neighborhood and unique retail districts found in other parts of the city. As residential build-out occurs, new, urban retail will be required to support the influx of residents. The retail form could include urban grocers, specialty food stores, beauty and health supply stores, bistros and entertainment options.

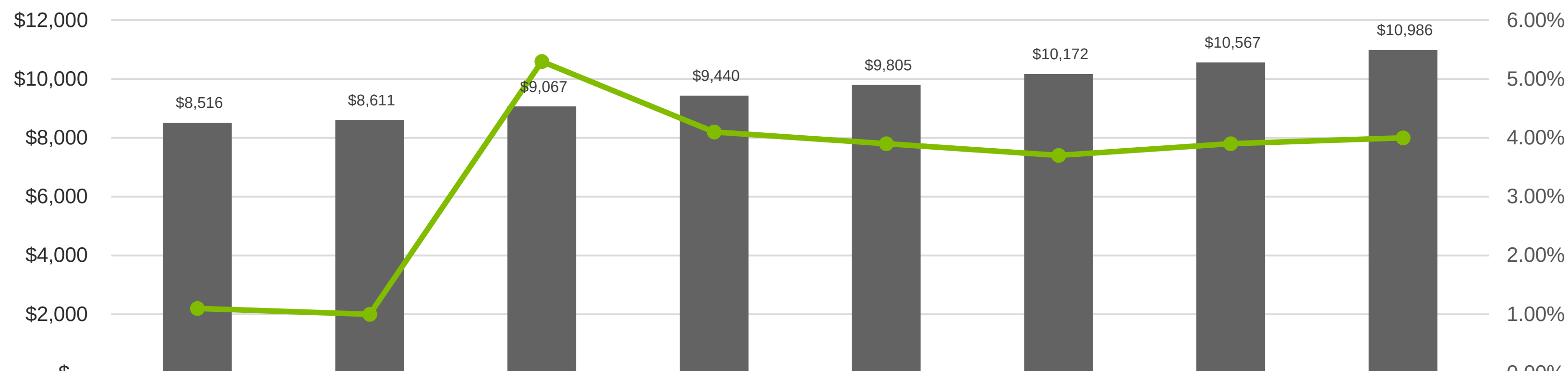
Market review – Retail (cont'd)

Retail sales and growth

Retail sales in Hamilton will hit $11 Billion by 2019

Retail sales within Hamilton grew significantly in 2014 and overall sales are forecast to follow this trend moving forward. **Sales over the next 4 years are projected to grow by just over 4% annually** with retail sales approaching $11B by 2019. The positive gains are largely being driven by increased employment as the manufacturing and construction sectors continue to rebound.

Hamilton Historic & Forecast Retail Sales



	2012	2013	2014	2015 F	2016 F	2017 F	2018 F	2019 F
Retail Sales ($M)	$8,516	$8,611	$9,067	$9,440	$9,805	$10,172	$10,567	$10,986
Percentage Change	1.10%	1.00%	5.30%	4.10%	3.90%	3.70%	3.90%	4.00%

Retail Sales ($M) Percentage Change

Source: Conference Board of Canada

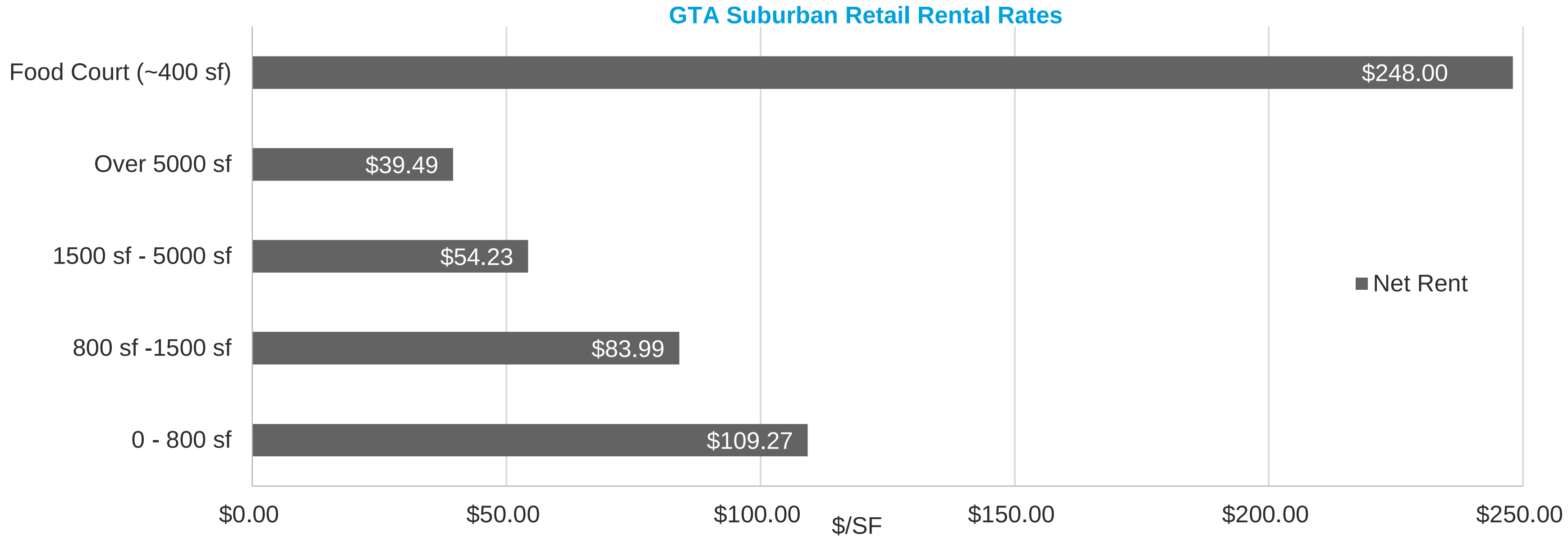
Hamilton retail sales are forecast to continue to increase going forward in line with population growth however changing consumer buying patterns will alter traditional ratios of retail area per capita. Any new retail development at West Harbour is likely to benefit from growth as increased employment leads to increased disposable incomes; however, it must conform to shifting consumer behavior.

Market review – Retail (cont'd)

Retail rental pricing

GTA Suburban retail rental rates show a great deal of variance depending upon the unit size and purpose

A recent Colliers GTA retail report noted that GTA rental rates are largely dependent on the size and location of the commercial retail units (CRU) as smaller spaces and special purpose retail will generally pay higher rates per square foot than a large format anchor tenant. Kiosks or food court tenants typically generate the highest rental rates per sf which can often exceed $200 psf (kiosk space can rent for more than $500 psf).



Source: JLL Real Estate Services

Retail rates in the GTA vary considerably across different CRU areas, retail mall types and concepts. The above rental rates are representative of the suburban GTA marketplace; however, similar trends are likely to be found within Hamilton. West Harbour's retail built-form will be streetfront and ancillary in nature; thus rental rates will be higher than those found in a regional or power centre. That said, forecast retail rates are likely to be on the lower end of the larger GTA range as Hamilton is a secondary retail market.

Market review – Commercial

Office inventory – Hamilton's place in the GTAH

Hamilton is a secondary office market; new development likely to be located in downtown and suburban business parks

Hamilton's office market currently encompasses some **5.2 million sf** of the total 170 million sf Greater Golden Horseshoe office marketplace, or roughly 3% market share. Most of the current office space can be categorized as **class b, c or "flex**" space and is typical of transitional office markets.

During the 1980s, Hamilton captured some large office tenants and developments including CIBC's, and the federal government offices. However, as jobs and industry left Hamilton, demand for new office development declined. Workers began to migrate to other areas of the GTA which led developers and investors to focus on municipalities that featured easy transit access and closer proximity to Toronto. Mississauga, Brampton and Oakville were able to provide shovel-ready greenfield lands that were suitable for the suburban business park projects developers desired.

Projections have suggested additional growth in Hamilton's office space of some **3.5 million sf** of office space **by 2041**. Most of this space is likely to be accommodated downtown or on greenfield sites with superior highway access, particularly around the airport. Most of the demand for office in the Bayfront is likely to be in brick and beam type buildings, similar to the pattern seen in the City of Toronto, or potentially as part of new non-competitive space such as the Arcelor Mital Dofasco offices on Burlington street or flex industrial.

Initially, the West Harbour site might appear attractive for an office development. The arrival of the West Harbour GO station would be beneficial as employers gravitate towards transit friendly buildings. The proximity to the waterfront is idyllic and may attract workers who desire such a setting. However, currently there is a negligible supply of office space in the West Harbour. Furthermore, future projections indicate the majority of new office development will occur in other outlying areas. A developer is unlikely to invest in an unproven market when there is ample land supply found in other established nodes. Residential or retail uses are a far more likely outcome for the West Harbour.

Sources: Cushman Wakefield, Hemson Consulting, City of Hamilton Urban Growth Survey

There is unlikely to be a significant office development at West Harbour; residential units with ancillary retail is a probable outcome.

Section 3

The assets – Feasibility analysis

Feasibility analysis

Introduction

The development of a residential/retail project offers the ability to capture the highest return to the land

A key part of the assignment is to review the work undertaken to date for the City of Hamilton by third party consultants, in order to verify veracity of key inputs and provide our own high-level analysis, with a view to identifying key stress points within the development.

Historical development in other portions of the GTA suggests that the live-work-play mantra is in full-swing. Accordingly, as jobs continue to flock to Hamilton, millennials will demand housing in close vicinity to transit and other features. The arrival of the GO train adheres towards the trend of transit oriented development.

In February 2014, the City of Hamilton commissioned Dillion Consulting to prepare a **Servicing Study and Pro-Forma Analysis** for West Harbour Piers 5 – 8. A number of scenarios were proposed with variances in parking approaches, building types and sales pricing assumptions. At that time, it was concluded that **market demand for finished product was feasible under Setting Sail guidelines but only given certain development scenarios**.

Development on Pier 8 was found to be favorable under hybrid parking scenarios but required higher sale prices and other municipal incentives. Development on Piers 6 & 7 was far more challenging due to parking restrictions and servicing which resulted in development costs exceeding total net revenue**.** Of note, the study also found that commercial uses provided less financial returns when compared to residential uses.

Feasibility analysis (cont'd)

Planning environment – Relevant policy and guidance

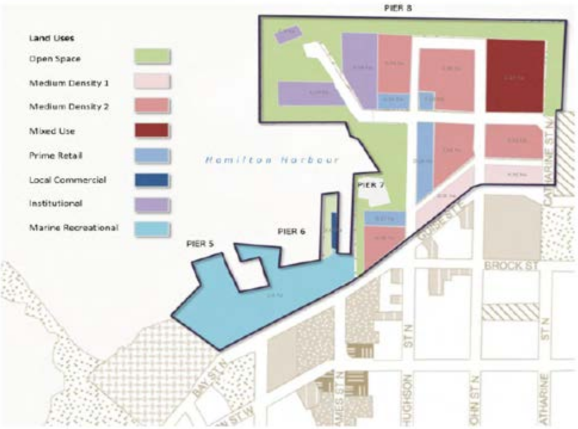
Setting Sail Sets the Planning Context

The planning context for West Harbour is found in the "Setting Sail" secondary plan. Setting Sail is a statutory plan which provides the land use structure for West Harbour, while the Waterfront Master Plan is a non-statutory physical plan for the area (not including Pier 8). The land use plan emphasizes three major areas of change – **the Waterfront**, the area south of the CN Rail Yard called **Barton-Tiffany** and the former industrial lands along Ferguson Avenue, referred to as the **Ferguson-Wellington corridor**, as well as strategic investment in commercial and mixed-use corridors. The plan is guided by eight core principles:

- Promote a healthy harbour
- Strengthen existing neighbourhoods
- Provide safe, continuous public access along the water's edge
- Create a diverse, balanced and animated waterfront
- Enhance physical and visual connections
- Promote a Balanced Transportation Network
- Celebrate the City's heritage
- Promote excellence in design

In addition there are **general policies** relating to land use, public realm, heritage and environment and **specific policies** relating to the three areas of major change identified above and the 'corridors of gradual change' including portions of York Boulevard, Cannon Street, portion of Barton Street with the intent of enhancing these corridors and reinforcing their mobility function. The spirit of the policy framework is to **create significant change** by **encouraging a transition in the area** from current marine and light industrial uses to a mixed use neighbourhood of **medium and high density residential** buildings oriented to the water, along with supporting **retail and service commercial uses.**

FIGURE 2.3: SETTING SAIL LAND USE DETAIL FOR STUDY AREA



Note that this graphic illustrates the land use designations identified in the Setting Sail Secondary Plan and that the City is currently in the process of harmonizing the policies and permissions associated with the lands on Piers 5-7 to align with the framework subsequently established in the Hamilton West Harbour Waterfront Recreation Master Plan.

Feasibility analysis (cont'd)

Planning environment – City of Hamilton's Vision

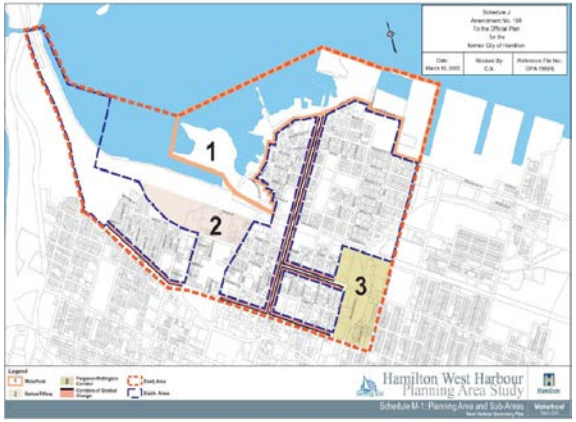
Planned Amount and Mix of Development

The vision for West Harbour is reflected in the **planned land uses and development forms,** including commercial allocations. Overall the general policy approach is to encourage a particular **type of waterfront development** as opposed to maximizing development yield from a market perspective. **Investments in servicing** are viewed as a long-term strategy to implement the City's vision for the area.

Permitted land uses: In order to implement the vision for the West Harbour, a range of residential and commercial activities are permitted, including apartment, townhouse and other multiple dwelling forms, along with retail and service commercial uses as part of the *Mixed Use Area* and the *Prime Retail* and *Local Commercial* designations. The plan also provides for *Marine Recreational* and *Institutional* uses to recognize the existing function of the area and to ensure new community needs are met.

Building heights and density provisions: While the current planning permissions provide the potential for significant redevelopment in the area, they also provide a limit on the actual amount of new building that can occur. Particularly with respect to the Medium Density residential category, it is understood that the **combination of height limits and density thresholds preclude maximizing the overall development potential**. There is also some concern that the overall amount of **commercial designations may exceed projected demand**, and in any event are anticipated to lag residential growth.

Servicing and Development timing: In order to make the West Harbour lands available for redevelopment, the extension of municipal services and other City infrastructure **investments are required**. As development proceeds it is anticipated that the City will be in a position **to recoup a portion of this investment** in the form of development charges, property taxes and proceeds from the sale. There is also the potential for **existing incentive programs** to offset a portion of project costs.



Feasibility analysis (cont'd)

Summary of West Harbour Sites Piers 6, 7 and 8

Portfolio of Sites

Below we have set out the City's vision of what accommodation is hoped to be provided across Piers 6, 7 & 8.

	Total # of Residential Units	Gross Leasable Floor Area (Commercial Sq. M.)	Gross Leasable Floor Area (Institutional Sq. M.)	Comments
Block 1	242	680	6,940	Prime waterfront location with retail potential.
Block 2	343	432	0	Mid-block waterfront location with exposure to lake
Block 3	362	4,291	0	Prime waterfront location with some exposure to Bayfront area
Block 4	284	1,444	0	Western exposure overlooking Piers 6 and 7
Block 5	184	0	0	Limited view potential
Block 6	45	0	0	Limited view potential
Block 7	49	0	0	Limited view potential
Pier 8 Sub-Total	*1,509*	*6,847*	*6,940*	
Block 8	44	2,958	0	Mix of retail and residential overlooking marina
Block 9	56	5,430	0	Retail and marina related commercial uses. Destination retailers.
Piers 6 & 7 Sub-Total	*100*	*8,388*	*0*	
Total	**1,609**	**15,235**	**6,940**	

Feasibility analysis (cont'd)

Project feasibility analysis

Developers undertake a four-step process when assessing feasibility

Project feasibility analysis is a four step analytical exercise. As the analysis progresses, the developer will gradually acquire more information that will help determine whether or not to proceed further.

Four Stages of Project Feasibility Analysis

1. Macroeconomic Market Analysis
2. Site Selection Analysis
3. Competitive Market Analysis
4. Financial Feasibility Analysis

Principle of Highest and Best Use

The principal of the "Highest and Best Use" of a property is fundamental to the concept of market value. Highest and best use is defined by the Appraisal Institute of Canada as:

"The reasonably probable and legal use of vacant land or improved property; which is physically possible, appropriately supported, financially feasible, and results in the highest value. The four criteria of highest and best use are legal permissibility, physical possibility, financial feasibility, and maximum profitability."

Appraisal Institute of Canada, 2015

Financial Feasibility Analysis

Financial feasibility analysis uses information from each of the previous steps to evaluate whether a project can be delivered within a price range the target market can afford over the period of time it will take to plan, develop, construct and fully occupy the building or sell off all of the units.

A pro forma is used to assemble all relevant financial information about a project. The two primary components of any development pro-forma are the expected revenue and the cost required to develop the project.

Source: CMHC

Feasibility analysis (cont'd)

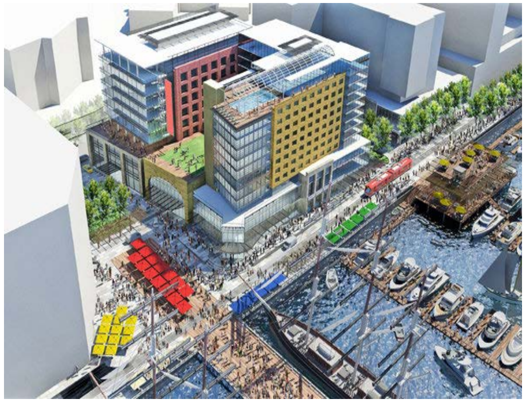
Pro forma metrics

Revenue assumptions for financial analysis process

Hamilton's residential market has continued to show significant growth in property values. This, combined with the new West Harbour GO Train station and the recently announced LRT transit improvements, have changed the dynamics of the local residential market. To determine whether the ongoing level of investment into transportation related infrastructure has bolstered the level of demand for housing in the Hamilton area to a level needed to support a feasible development of the lands, we have undertaken a pro forma development analysis. The results of the analysis has a significant bearing on the recommended development and disposition strategy the City of Hamilton should adopt when taking the property to the marketplace.

Based on the Dillon report and information utilized by the City of Hamilton, Pier 8 is anticipated to yield 1,509 units; this differs marginally to the maximum density of units outlined within Setting Sail. We have been advised that the City is comfortable with this minor variance.

Metric	Assumption
Commercial Rental Rates	$10 psf - $30 psf
Apartment Pricing	Site Specific - $350 psf - $500 psf
Investment Horizon	20 – 23 years using current market absorption rates



Feasibility analysis (cont'd)

Pro forma metrics

The following baseline cost assumptions were utilized within this proforma analysis

There are a number of costing inputs that have been assumed for the purpose of this analysis. **Development Costs are those incurred in the planning and design of the project** and include architectural and engineering fees, legal fees, permit fees, environmental assessments, and advertising and promotion expenses. **Construction costs are directly attributable to the construction and finishing process** and include labour and materials, appliances. They may also include any external improvements made to the property, such as site servicing and landscaping.

Development Cost Assumptions

Item	Assumptions (From Dillon)
Architect fees	3% of Construction Costs
Engineering fees	5% of Construction Costs
Other Consultants	1% of Construction Costs
Survey	Site Specific
Rezoning	Site Specific
Development permits	Site Specific
Building permit fees	Site Specific
Contingency Cost	5% of Development Costs

Construction Cost Assumptions

Metric	Assumptions based on Deloitte Experience
Residential Hard Cost	$150 psf for baseline construction
Commercial Hard Cost	$175 psf for baseline construction
Offsite / Servicing	Site Specific
Parking Cost	$18,000 - $25,000 / stall
Planning Time	12 + months from 2016
Construction Time	Between 18 and 24 months
Contingency Cost	5% of Construction Cost

Other Valuation Metrics

Metric	Assumptions based on Deloitte Experience
Commercial values	$215 to $225 psf
Average Residential unit values	$300,000 to $425,000
Capitalization Rates	5 - 7%

Given the nature of this development we have assumed no developer's profit for the purpose of the analysis. Furthermore, we have not included any financing costs within our pro-forma.

Feasibility analysis (cont'd)

Key variables

Piers 6-8 to feature 1,609 residential units; composition and pricing in line with recent Hamilton Development

In order to evaluate the financial feasibility of development at Piers 6-8; the implications from the market overview must be considered.

Residential – # of Units	In total, Pier, 8 is expected to yield 1,509 residential units. Under the *Setting Sail* guidelines, Piers 6 and 7 will yield 100 units. The residential units will be located within a blend of residential and mixed use buildings with several of the buildings offering prime waterfront locations overlooking the lake.
Residential – Unit Types	Recent development has favored 1 Bedroom/1 Bedroom + Den units while 2 Bedroom units have been constructed in modest numbers. Accordingly, the majority of development at Piers 7-8 will likely be 1 bedroom/1 Bedroom + Den units. However, as families further embrace 'live-work-play' lifestyle, construction of larger floorplans (i.e., 2 bedroom/other units) would be a prudent decision. Average unit sizes were assumed to be 800 sf for mixed use buildings, up to 950 sf in the residential towers.
Residential – Pricing	While pricing will not reach the heights found at the waterfront in Burlington which has been reported as high as $1000 psf. It is likely that development at Pier 8 will see price/sf metrics similar to other recent high-end development in Hamilton in the $350-$500 psf range. Accordingly, prices within some developments are likely to exceed $500,000 per unit on average, depending on the phase and location.
Retail	Retail will be required to some extent in order to provide the amenities found within a mixed-use community. It will largely be ancillary in form and found on both Piers 6/7 and 8. Rental rates will be in the region of $10 to over $30 psf on average. Lower rates would apply for any institutional development.

Development at Piers 6-8 will be mixed-use in nature with residential units on average, priced between $300,000 to over $500,000.

Feasibility analysis (cont'd)

Net Present Value results

Pier 8 shows development potential; Pier 7 also possesses a positive opportunity for development

Using various input assumptions, we have been able to determine value ranges for each of Piers 6, 7 & 8 based on the "highest and best use analysis." Key conclusions include:

- Under the current scheme, **Pier 6 does not appear feasible at this time**. The limited number of residential units combined with what is considered an over build out of retail space yields a negative PV
- **Pier 7 shows a positive opportunity for development** with a sufficient number of residential units, and more than offsets the anticipated weaker demand for commercial space. Conclusions are sensitive to construction costs, finished product prices, variations in market supply/demand.
- **Pier 8 development shows the highest value** and indicates this development is feasible.

Feasibility analysis (cont'd)

Options and results

Pier 8 – City Owned – 30.60 acres	
Potential Build-Out	1,509 units
Potential Options	• Retain Pier 8 • Sell the site on an 'as-is' basis, en bloc • Service and sell the lands in a phased disposition • Enter into a joint venture or partnership with the private sector to develop the lands

Piers 6 and 7 – City Owned – *12.55 acres	
Potential Build-Out	100 units
Potential Options	• Retain Piers 6 and 7 • Sell Piers 6 and 7 • Retain Pier 6 and Sell Pier 7

Barton-Tiffany Lands – City Owned - 10.10 Acres	
Potential Build-Out	200 / 400 units
Potential Options	• Development of affordable housing • Property is sold to private sector for development

Jamesville – CHH Owned - 5.41 acres	
Potential Build-Out	330 units
Potential Options	• Retain townhomes in current state • Invest in current townhomes and bring to good condition • Sell to private sector for redevelopment

500 MacNab Street North – CHH Owned - 1.07 acres	
Potential Build-Out	146 units
Potential Options	• Retain site in it's current form • Invest in current units and bring to good condition • Sell to private sector for redevelopment

Results

Barton-Tiffany Lands	Jamesville	500 MacNab Street North	Piers 6 and 7	Pier 8
 More info required for disposition assessment	 More info required prior to disposition	 More info required prior to disposition	 Retain Pier 6; Pier 7 delayed as Pier 8 build-out occurs	 Go to market with RFEOI process

Section 4

Market soundings

Market soundings

Introduction

Developers, investors and advisors were contacted in order to understand the perspective of the real estate community

Market sounding process and list of objectives

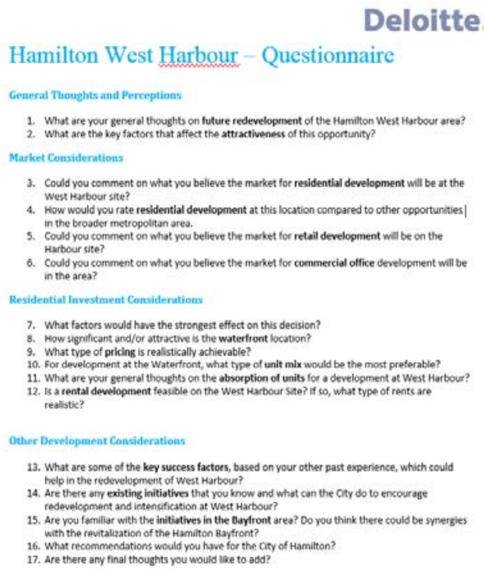
A market sounding process was undertaken to complement and confirm the results of the market feasibility. The market sounding was also utilized to provide further insights regarding the West Harbour opportunity. Interviews were conducted with a selection of leading real estate developers, investors and advisors to understand their perspectives and identify any relevant opportunities. This process was meant to ensure that the final redevelopment and disposition strategy is aligned with the requirements of the larger real estate development and investment industry.

Discussion guide and questions

A discussion guide was provided to most interviewees and is included in the Appendix. The guideline provided some background to the discussion, and provided a general list of questions. Each interview followed the same general process, but the discussions were actually quite unique due to the nature of the stakeholders and covered a wide range of topics. The interviews helped solicit specific assumptions for the financial analytics process.

The Process

- Interviews started by collecting information regarding the participant and their general perceptions of the West Harbour opportunity.
- This was followed by a specific discussion on the future market for residential, retail and office development in the area.
- The interviewees were also asked to further comment on the residential component of any West Harbour development.
- The market soundings were finally concluded as the interviewees were asked to identify any other relevant development and investment considerations.



Deloitte.

Hamilton West Harbour – Questionnaire

General Thoughts and Perceptions

1. What are your general thoughts on **future redevelopment** of the Hamilton West Harbour area?
2. What are the key factors that affect the **attractiveness** of this opportunity?

Market Considerations

3. Could you comment on what you believe the market for **residential development** will be at the West Harbour site?
4. How would you rate **residential development** at this location compared to other opportunities in the broader metropolitan area.
5. Could you comment on what you believe the market for **retail development** will be on the Harbour site?
6. Could you comment on what you believe the market for **commercial office** development will be in the area?

Residential Investment Considerations

7. What factors would have the strongest effect on this decision?
8. How significant and/or attractive is the **waterfront** location?
9. What type of **pricing** is realistically achievable?
10. For development at the Waterfront, what type of **unit mix** would be the most preferable?
11. What are your general thoughts on the **absorption of units** for a development at West Harbour?
12. Is a **rental development** feasible on the West Harbour Site? If so, what type of rents are realistic?

Other Development Considerations

13. What are some of the **key success factors**, based on your other past experience, which could help in the redevelopment of West Harbour?
14. Are there any **existing initiatives** that you know and what can the City do to encourage redevelopment and intensification at West Harbour?
15. Are you familiar with the **initiatives in the Bayfront** area? Do you think there could be synergies with the revitalization of the Hamilton Bayfront?
16. What recommendations would you have for the City of Hamilton?
17. Are there any final thoughts you would like to add?

Market soundings (cont’d)

Process

Deloitte contacted a number of key stakeholders when conducting the market sounding

Over the period between April and August 2015, a series of market soundings were held as part of the Bayfront Market Opportunities Study as well as the West Harbour real estate development and disposition strategy. The list of interviewees is shown below. Arising out of these consultations were a number of themes of relevance to the Bayfront and West Harbour.

	Industry and Other	Participants	Contact (Tel/Email)	Deloitte Representatives	Interview – Date/Time
1	**City of Pittsburg (Urban Redevelopment Authority)**	Robert Rubinstein, Director, Economic Development (URA)	412.255.6663	Sheila Botting, Antony Lorius, Sameer Jain	April 28th 2015
2	**Waterfront Toronto**	John Campbell, President & CEO at Toronto Waterfront Corporation	(416) 214-1344	Sheila Botting, Antony Lorius, Chris Phillips, Michelle Sergei	April 28th 2015 and June 29$^{/15}$ tours
3	**MEDTE/MRI**	Joe Veloce: Manager, Aerospace and Materials Unit Tom Bedford: Senior Sector Advisor, Aerospace and Materials Unit	416-325-6767 416-314-0710	Antony Lorius	May 1st 2015
4	**City of Hamilton**	Economic Development Staff	Multiple professionals	Sheila Botting, Antony Lorius	April 16th 2015
5	**Deloitte**	Internal discussions with Subject Matters Experts	Multiple professionals	Antony Lorius	April 23rd 2015
6	**Auto Sector**	Denis Desrosiers, Consultant		Antony Lorius	April 21st 2015
7	**Colliers**	Sydney Hamber, Agent	(905) 333 8849	Antony Lorius	June 25th 2015
8	**Cushman & Wakefield**	Chris Vardon, VP Valuation	chris.vardon@ca.cushwake.com	Sheila Botting	August 3, 2015
9	**Royal LePage Residential**	Michael O’Sullivan, Agent	michaelo@royallepage.ca	Sheila Botting	August 9 2015

Market soundings (cont'd)

Interview – Case studies with waterfronts

Waterfront redevelopment is a long-term process that requires vision and a great deal of cooperation

A market sounding and tour with Waterfront Toronto's CEO John Campbell and Pittsburgh's Waterfront team revealed that their organization focuses upon "city building," thus ensuring that all partners are focused on the long term vision. Other relevant conclusions are summarized below:

- A proper waterfront redevelopment is a **long-term process** that requires vision, tremendous strategic planning and organization, along with a clear implementation program with sufficient resources. Interviewees from the Cities of Toronto and Pittsburgh initiated their plans nearly 30 years ago; this time was required for planning, consultation and implementation.
- Public **control of key strategic sites is central** to the success of many waterfront redevelopment projects. To **maximize return**, disposition should generally be **focused on the smallest sites possible** that contribute to the overall strategic vision toward city building and best use of public assets.
- **Public support and collaboration** are key to developing the vision and ensuring that local residents understand current conditions and potential outcomes. The **private sector must also be part** of this process.
- Partnerships with the **development community** combined with financial incentives can be very effective, particularly when navigating various **government jurisdictions and resources**. Often structured financial arrangements bringing together public and private sector can have positive outcomes with transformational development opportunities.
- **'Quick Wins' are important** to demonstrate practical project feasibility to the development community and set the tone for the future, particularly with respect to building quality and open space standards. It is also important to view the real estate opportunity **not as redevelopment but rather revitalization:** a **tool for talent attraction,** increasing **quality of life** and **long-term economic development** for the City as a whole.

Market soundings (cont'd)

Residential and retail development

Residential development is the preferred option; medium density will attract buyers

- Interviewees and especially the residential real estate brokers were positive in their support for **market demand for residential units** along Hamilton's waterfront **-** depending on pricing and absorption. The initial units will likely take a "**wait and see'** or **prove-it mindset**, and others will follow once the area is proven. Medium density will provide more affordable options while still providing the developer with the financial returns that they require. This expectation further underscores the i**mportance of achieving a series of Quick Wins** to establish interest in the area within the development community and maximize revenues.
- Residential developers and real estate agents alike reinforce the demand for Waterfront residential projects – If properly planned with market appealing amenities and architecture. If Hamilton's Waterfront is properly developed (similar to other repurposed opportunities), it is reasonable to assume based on our interviews, that Hamilton could capture some of the marketplace demand.
- **Recent infrastructure investments** in Hamilton including the West Harbour Go Station and public transit line, combined with waterfront parks, marinas and other amenities, make the area more appealing to potential residential purchasers.
- Municipal ownership is very effective tool. Public **control of key or strategic sites has been central** to the success of many waterfront redevelopment successes. A similar approach is to be taken in the re-development of West Harbour.
- Stakeholder consultations revealed that sites that offered opportunities for **reconnecting underutilized sites** back into the neighbourhood provided much more off-site value and benefits than isolated re-developments. Part of the vision for revitalizing the Pittsburg downtown was connecting it to the water. Some of these **links already exist in West Harbour** and the Downtown and can be leveraged for positive outcomes.

Key findings – Retail development is not viable in the short – Medium term

- Previous studies showed that the Barton and Kenilworth commercial corridor in Hamilton has experienced general decline over the last decade due to **employment declines in the steel and heavy industrial sector.** Previous decades showed strong and vibrant retail corridors resulting from demand in nearby neighborhoods and factories.
- **Retail will not likely be viable in the short or medium term** until the residential neighborhoods are built out and proven. Given the Barton/Kenilworth study findings, there is limited opportunity for development and should not be considered further at this time.
- The Interviewees confirmed that retail development would not be viable in the short to medium term and instead these assets should focus on residential development.

Market soundings (cont'd)

Overall conclusions

Strong demand for residential housing and limited demand for commercial development

Arising out of the study were a number of key findings and themes. These are summarized below with the red, green and yellow "traffic lights" indicating the general level of optimism or concern with the key issues. The consensus view is that the West Harbour Area is primarily suited for residential development. The potential for commercial development was generally seen as limited in the short-medium term; with retail build-out dependent on the pace of residential development.

West Harbour Redevelopment Opportunity	Conclusion
Residential development opportunity	Green
Office development opportunity	Red
Waterfront Retail development opportunity	Red

- It was universally agreed that **residential prospects for the West Harbour were strong** although initial demand would be dependent on pricing and absorption. Medium density projects will likely be the most attractive to purchasers.
- **Limited interest in retail and office development** was expressed by private and publicly funded real estate investors and developers.
- **Retail will not likely be viable in the short or medium term until the residential neighborhoods are built out and proven.** Furthermore, the development of a significant office project is not feasible given demand.
- **Partnerships** with the development community combined with financial incentives can be a very effective development mechanism.
- Participation and engagement amongst all stakeholders is important to develop and communicate the vision and proposed outcomes.

Section 5

Conclusion

Conclusion

Strategic assessment for piers 6, 7 and 8

Residential development potential is limited by restrictive densities which has significant implications for the demand for commercial retail uses

- In February 2014, the City of Hamilton commissioned Dillion Consulting to prepare a report, titled “Hamilton West Harbour Piers 5 – 8 Servicing Study and Pro Forma Analysis. The study examined the feasibility of the development of Piers 5 – 8 under the guidelines of the Setting Sail plan and the anticipated cost to service the lands to a developable level.
- The study concluded that development was feasible under Setting Sail guidelines but only given certain development scenarios. Development on Pier 8 was found to be favorable under hybrid parking scenarios but required higher sale prices and other municipal incentives. Development on Piers 6 & 7 was far more challenging due to parking restrictions and servicing which resulted in development costs exceeding total net revenue.
- From our assessment of the opportunities for the West Harbour lands, its important to reiterate that the approach taken was one of “highest and best use” and may not be entirely consistent with City’s planning and zoning expectations for each of the specific sites. As a result, in order to achieve a marketable opportunity, some of the sites may require planning amendments.
- Hamilton’s residential market has continued to show **significant growth in property values**. This, combined with the completion of the Go Train station and the recently announced rapid transit improvements, have changed the dynamics of the local residential market.
- **Under the current scheme, a commercial development of Pier 6 does not appear feasible at this time**. The limited number of residential units combined with what is considered an over build out of retail space yields a negative PV. The opportunity does exist to service Pier 6 at the same time as the other Pier sites and sell at a future time as a serviced site when demand for retail improves.
- Conclusion is sensitive to construction costs, finished product prices, variations in market supply/demand.

Successful development at present is challenging, with projected sales revenues not offsetting the sizable construction costs occurring due to planning restrictions and servicing. The approach utilized was one of “Highest & Best Use” and the analysis suggests that if density restriction can be amended, then growth in property values in the Hamilton market could allow successful development.

Conclusion (cont'd)

Strategic assessment for piers 6, 7 and 8

Required densities conflict with market demand

- The Setting Sail guidelines limit the development both in terms of maximum density and through building height restrictions. For example, if one of the parcels was built out to the maximum building height, the stated maximum density would yield an average unit size of over 1300 sf. By way of comparison, using an average unit size of 950 sf, the same 8 storey building could yield up to 336 units. In other words, the **developer would have to choose between building out to a lower saleable area or building units well over market expectations** significantly impacting the demand for the project. At a market derived average unit size of 800 to 900 sf, the maximum density under the Setting Sail development, one could satisfy the maximum density per ha with building heights under 8 stories. It is also important to note again that under the Setting Sail guidelines, where there is a discrepancy between the maximum heights and density ranges when applied to specific sites, the maximum height limits are to prevail and be adhered to.
- Eventually the market will catch up to the cost to take the lands to a development ready and marketable opportunity, however, the timing is unknown as are the costs that could ultimately be incurred.

Retail is a challenging aspiration at the start

- It has generally been proven that retail follows roofs. In other words, retailers require that critical mass of residents in a particular target market before locating within that market.
- This becomes a bit of a catch 22 as **retailers require residential density** while the critical mass may not be achieved without residents knowing that there are retailers such as a food store committed to the development.
- Retailers such as Whole Foods, look for new mixed use locations where there are expected to be a minimum of 1,200 units.
- On that basis, the Pier 8 development should be adequate to support a 25,000 to 40,000 sf food store.

The current plan forces developers to produce schemes that miss market appetite, while retail in general will be a challenging aspiration until such time as there are enough residents to support the operations of retailers – the flip side of this is that residents are unlikely to be attracted to an area where there are no local amenities. A carefully planned staged development would be required.

Conclusion (cont'd)

Strategic assessment for piers 6, 7 and 8

Potential oversupply of retail space based upon projected residential numbers

- With 1,509 units on Pier 8 and an average 2 people per unit, the population would be inadequate to support the proposed level of retail development called for under the Setting Sail plan. Thus, the **development of retail space on the Pier would be dependent on the secondary market to remain sustainable**. The eventual densification of the lands to the south of the West Harbour area will eventually support retail on Piers 7 and 8, however, this will take time. Thus, any retail on Pier 6 and 7 and to a certain degree Pier 8 will need be a "destination" or an "experience" retail location. Examples include public markets, waterfront pubs or restaurants.
- The success of Pier 6 in particular, will be highly dependent on the ability to draw the public to the area.
- The Downtown Business Association's efforts to attract retail to the downtown core could significantly impact the success of any Pier 6 and/or 7 development focused upon retail.
- The **Hamilton office market is adequately serviced by the existing inventory of office space** in the downtown core plus any future employment based redevelopment that may take place over time in the Bayfront industrial area. The location is not seen as a satellite office location, although some minor office uses (medical, professional, institutional) may be supportable.
- For Pier 6 and 7, consider the inclusion of more residential towards the eastern end next to Pier 8 to add a continuum between the two sites. The **development of Piers 6 and 7 will be highly sensitive to the ability to draw the public to the waterfront**. Thus, the inclusion of community attributes such as those referenced in the example of successful waterfront developments noted earlier in this report, will be critical.

- The extent of retail envisioned would require a successful residential development in the immediate area. The success of the retail development could also be adversely impacted by various retail business attraction policies for the downtown core.
- Hamilton does not require additional office space at this time and is well-served by existing inventory.

Conclusion (cont'd)

Strategic assessment for Piers 6, 7 and 8

Considerations for successful retail development

- The **mix of retail uses will also be critical**. Examples of successful developments include public markets with complementary artisan retailers, restaurants or entertainment venues. In some instances, a boutique hotel may be supportable. In this instance, the location combined with the existing inventory of hotel rooms in the downtown core and neighbouring tourist areas minimizes the likelihood of a successful hotel development.
- Parking will be an issue as any development will be heavily contingent on the ability to accommodate non locals. Improved public transit infrastructure will aid but will not compensate for the need for adequate on site parking.
- **Key influencers:**
  - Continued investment in infrastructure
  - Focus on Bayfront for additional employment development
  - Continuance with downtown development
  - Managed competition in other areas of planned redevelopment
  - Controlling exposure to risk

Conclusion (cont'd)

Strategic assessment for Jamesville, Barton-Tiffany and 500 MacNab Street North

Barton-Tiffany, MacNab Street and Jamesville present an opportunity to expand affordable housing while unlocking desirable market development opportunities

CHH is currently examining means by which to not only maintain the inventory of affordable housing in the area but at the same time, grow the number of affordable housing options over time.

- **Jamesville:** The site includes a townhouse complex currently improved with a 90 unit affordable housing complex, that is in need of significant capital investment to bring the improvements up to an acceptable level. The question becomes whether or not the investment required into the improvements is an effective use of capital given the age of the improvements and the likelihood that additional repairs will be required with time. Alternatively, CHH could also choose to dispose of the property and reallocate capital for affordable housing at another site such as Barton-Tiffany.

- **Barton-Tiffany:** Using the residential components of the two Barton-Tiffany parcels of land for affordable housing uses could replace/expand the existing units at Jamesville with new, more efficient housing, reducing operating costs over the mid term. Given the location, the James Street site could be used for market housing use, with the proceeds of the sale unlocking significant capital for the City or CHH to be used to invest in additional affordable housing options elsewhere.

- **MacNab Street:** CHH has suggested that the existing high rise apartment building at MacNab would require $6 Million to bring the building up to a livable level. The City of Hamilton Planning Department has advised that the density permitted on the site would be equal to the density as it exists on the site now with additional buildable area possible based on new floor area ratios. The property has historically been used for affordable housing and could be used in such a manner moving forward (if the property is brought up to standard). Alternatively, CHH could also choose to dispose of the property and reallocate capital for affordable housing at another site such as Barton-Tiffany.

Conclusion (cont'd)

Strategic assessment for West Harbour properties

West Harbour provides a challenging but potentially transformational "city building" opportunity for Hamilton

For Hamilton's West Harbour area, development will be challenging but there is a tremendous opportunity to transform this area of the City if properly planned over the next decade. Furthermore, West Harbour's transformation can provide the necessary catalyst for City building activities for Hamilton overall. However, there are constraints that must also be accounted for. The city is a significant land owner but total land supply is limited which makes the cost of land acquisition high. Total cost for any potential action will be significant as the cost of construction is high and refurbishment will require a significant capital re-investment. Finally, while CHH is not the only housing provider in the West Harbour or the city, the opportunities to partner with the private sector are unclear.

Strengths

- Hamilton is currently one of the hottest residential markets in the country
- West Harbour has a new Go Train station
- Growing demand for multiple residential uses
- Potential for a well designed mixed use waterfront community development
- Flexible zoning
- Supportive city

Weaknesses

- Proximity to heavy industry and therefore negative perception
- High servicing costs
- Zoning does not allow for full market potential of lands
- Remediation requirements
- Peripheral location for retail
- Potentially higher than average parking construction costs

Opportunities

- Potential for a well integrated mixed use urban re-use of the waterfront
- Lands could be sold in bulk or by individual development sites
- Potential catalyst for additional redevelopment opportunities in the area
- Opportunity to transform image and branding of Hamilton waterfront capturing new residents and businesses

Threats

- Potential for cost over runs for both on and off site work requirements
- Shift in demand away from condominium developments
- Retail development is generally contingent on successful residential build-out
- Continuation of non compatible uses in general area
- Risk of longer absorption periods for finished product

Section 6

Disposition strategy

Disposition strategy for Piers 6, 7 and 8

Key criteria and summary recommendation

Strategy Considerations

In setting out a strategy for the future of these sites, we considered Piers 6 and 7 as distinct from Pier 8, although the two are of course part of an integrated area. Specific considerations for each, along with the potential methods of disposition appropriate to each and an associated timescale are set out below.

Criteria		Description
1.	Potential financial value	The potential proceeds that could be realized from disposal of the property.
2.	Range of potential uses	Whether the site has the potential to support a range of land uses and/or mixed use development.
3.	Strategic importance	Whether the site has, by virtue of its size, location and/or proximity to other development projects or existing uses, the requisite characteristics to accommodate specialized users/uses that the City would want to locate in the downtown, now or in the future.
4.	Synergistic effects	Whether the development of the site(s) might increase the attractiveness/marketability of neighbouring sites.
5.	Impact of other projects/investments	Whether the site value and/or range of development opportunities will be impacted by public infrastructure or development projects or by proposed development on neighbouring sites.

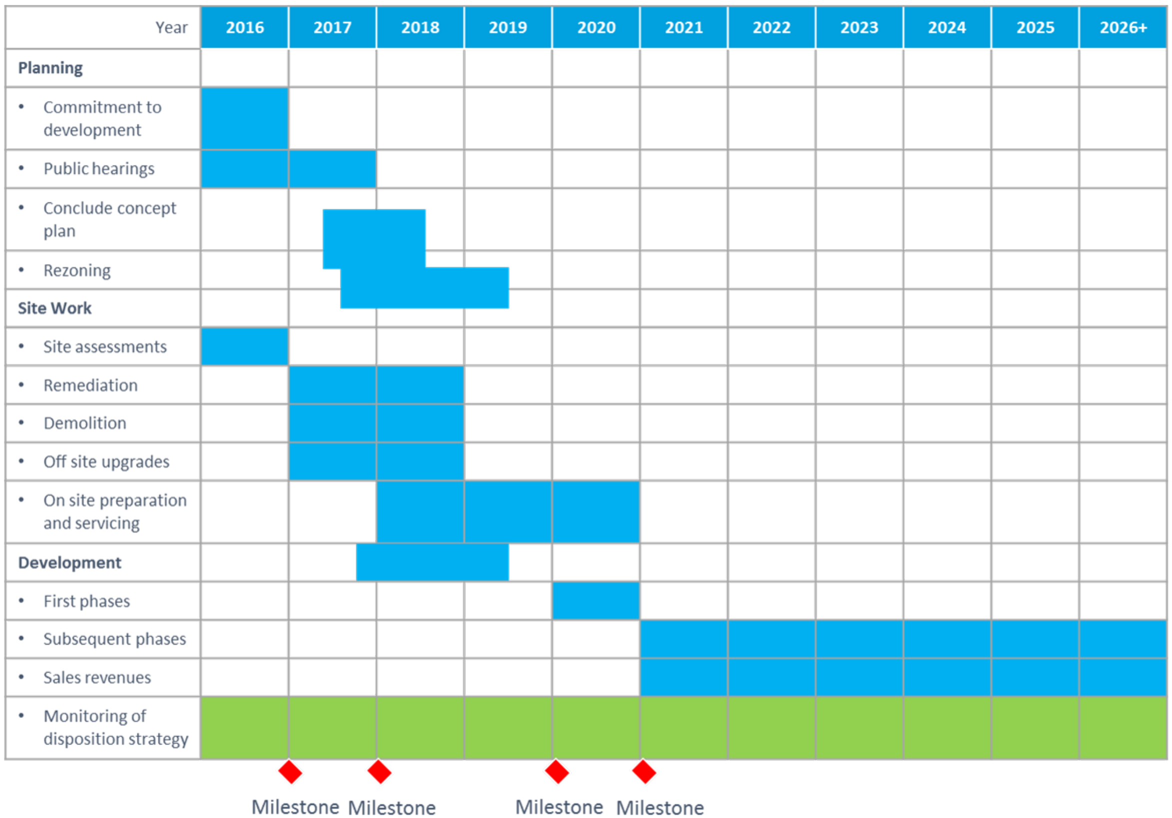
A phased disposition strategy is recommended, focusing first on “Quick Wins” with sites that have less potential from strategic perspective, but, if developed, would set the tone for the future and lead to the establishment of a critical mass of population within the West Harbour area. Over time, this will create the opportunity for supporting retail and other non-residential uses in the area.

Disposition strategy for Piers 6, 7 and 8 (cont'd)

Example timeline

Further discussion required in respect of potential timelines

Although this is obviously a complex development situation and there are many variables that require consideration, we have set out below a potential timeline for consideration – this would require further detailed input from the City, however illustrates the general process we would suggest could be followed.



Disposition strategy for Piers 6, 7 and 8 (cont'd)

Options for consideration

As shown by the feasibility analysis, current costs limit the site's opportunities under the existing planning structure. As a result, while the opportunity to accommodate significant redevelopment in the area exists, there are some significant risks. Within this context, there are four main options.

1. **Sell the lands on an as is basis, en bloc**. Benefits to the City would include the transfer of all risk to the market, quicker revenue from taxes and development charges and fewer city resources for implementation.

2. **Complete all off site servicing, commence on site works and other infrastructure investments and sell lands on a phased basis.** Benefits to the City include control over the phasing of development, the potential to achieve important Quick Wins and ability to adjust to market feedback. Increased exposure to risk from rising costs and potentially softer market demand, however, are downside concerns.

3. **Undertake the above strategy for Pier 8 while retaining the non residential components on Piers 6 and 7 as a source of rental income.**

4. **Enter into a Joint venture or partnership with the private sector to develop the lands.** Benefits to the City include a partial transfer of risk to the market and the opportunity to maintain control over the public interest and implementation of the vision for the area.

Of the four, Option 1 is not recommended. Selling the lands on an as-is basis would likely not maximize value and is contrary to the City's long established plan and strategy for development of the area. Similarly, Option 4 would tend to be of limited appeal to the private sector due to the limited experience public entities have in the development industry and the potential for increased public interference.

Options 2 and 3 or a combination of the two, are preferred, but dependent upon anticipated absorption and the appetite for development partnerships as opposed to fee simple land sales.

Disposition strategy for Piers 6, 7 and 8 (cont'd)

Proposed implementation plan – Option 1

Option 1: Sell on an 'as is' basis

Within the context of the main options, this approach is not recommended. Selling the lands on an as-is basis would likely not maximize value and is contrary to the City's long established plan and strategy for development of the area.

The market would apply significant discounts to the value to account for the uncertainties with respect to remediation and servicing costs, construction costs and market demand.

While Piers 7 and 8 would generate a positive return to the City, a high level analysis of the current vision for Pier 6 suggests the site would yield a negative return. Combined, the development under the current Setting Sail vision is not considered optimal for an opportunity of this magnitude. The City would in all likelihood, incur significant costs through concessions in fees, property taxes during construction or other means in an attempt to incentivize the development industry to undertake a project of this nature. Developers would also require a significant premium to the required rate of return for the risk factors.

Disposition strategy for Piers 6, 7 and 8 (cont'd)

Proposed implementation plan – Option 2

Option 2: Service and sell

Within the context of the main options, the feasibility analysis and results of the market soundings, the following high-level implementation plan is proposed:

- Undertake all site preparation and servicing requirements. With all site preparation and servicing costs complete, developers would typically require less of a risk premium and higher NPV's could ultimately be achieved.
- For Pier 8, commence with the sale or development of Block 6 in the Phase 1 parcel and Block 7 within the Phase 2 parcel.
- As the market accepts the concept of a waterfront community in this location, move in the direction of the waterfront with the sale or development of Blocks 4 and 5.
- The sale or development of Blocks 1 to 3 should be the last phases undertaken and only after significant momentum has been achieved with respect to both residential and supporting retail and service commercial uses.
- For Piers 6 and 7, the development of both Blocks 8 and 9 should be phased in as market absorbs the new retail space.

This approach will enable the City to take a controlled and measured approach to the redevelopment opportunity and potentially adjust to changing market conditions over time.

Disposition strategy for Piers 6, 7 and 8 (cont'd)

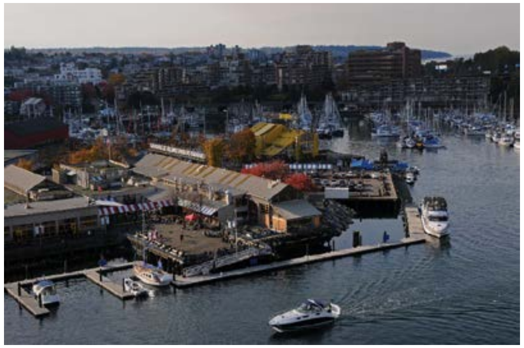
Proposed implementation plan – Option 3

Option 3: Service and sell Pier 8 lands, retaining Piers 6 and 7

A hybrid of the Service and Sell option would be to sell the serviced sites on Pier 8 and retain Piers 6 and 7 for holding income or future sales revenues. This approach would enable the City to take a **controlled and measured approach** to the redevelopment of Piers 6 and 7, potentially **adjust to changing market conditions** over time and ensuring that public space is a key part of the overall West harbor development.

- Undertake all site preparation and servicing requirements.
- For Pier 8, commence with the sale or development of **Block 6** in the Phase 1 parcel and **Block 7** within the Phase 2 parcel.
- As the market accepts the concept of a waterfront community in this location, **move in the direction of the waterfront** with the sale or development of Blocks 4 and 5.
- The sale or development of **Blocks 1 to 3 should be the last** phases undertaken and only after significant momentum has been achieved with respect to both residential and supporting retail and service commercial uses.
- For Piers 6 and 7, the development of both Blocks 8 and 9 should phased in as market absorbs the new retail space.
- As the build out of Piers 6 and 7 evolves over time, utilize a leasing strategy to attract tenants complimentary to the waterfront concept and to each other for the purposes of generating a long term income stream to the City. The rental income could be in excess of $1.5 million per annum.
- The residential units could either be sold or retained as rental units.

Based on a high level analysis of the properties, the City would incur a significant cash outlay during the development and construction stages but generate a reasonable cash flow to the City over the longer term.



Disposition strategy for Piers 6, 7 and 8 (cont'd)

Proposed implementation plan – Option 3 modified

Option 3 modified: Service and sell the Pier 7 and 8 lands, holding Pier 6

The sale of the lands on Piers 7 and 8, either on an as-is basis or phased as serviced sites will yield positive returns to the City. Pier 6 on the other hand offers limited opportunities under the current Setting Sail vision. The City could consider the retention of this site with the longer term vision of focusing public amenities on this site to help draw residents and visitors to the area to the waterfront. With the anticipated expansion of the existing marina, the retention of this site could also open up future retail or mixed use opportunities.

As the site is not seen as a profitable retail development in the current marketplace, its retention with a longer term view of public or private uses gives the City the opportunity to control what will eventually become a key piece of the puzzle when building towards the creation of a successful waterfront redevelopment, as demonstrated within each of the case studies referenced herein.

Disposition strategy for Jamesville

Summary

The redevelopment of Jamesville

Jamesville is likely a **prime private-sector redevelopment opportunity**, given the five+ acres are well situated within the West Harbour neighborhood. The major consideration is the need for a transition plan and provision of alternate housing for the current residents who require accommodation when the project is being redeveloped. Intensification of land use is key in today's market and an historical lack of focus on density is illustrated here, where very low density was achieved.

Options, considerations and outcomes

Proposed Options

- Retain townhomes in current state
- Invest in current townhomes and bring to good condition
- Sell to private sector for redevelopment

Key considerations

- Affordable housing policy
- Financial feasibility
- Locational Considerations
- City building aspirations

Potential outcomes

- Retrofit the existing 90 townhomes through a capital expenditure program to bring the units to "good" condition.
- Sell property for land value
- Engage developer to redevelop Jamesville

Jamesville Property Details

Metric	Result
Site Size	5.41 acres / 2.19 hectares
Total Units	90 Townhomes

Jamesville represents a prime redevelopment opportunity to build to higher and better uses due to proximity to the West Harbour GO station and the waterfront. **Therefore we recommend a redevelopment of this property** to accelerate the West Harbour Setting Sails strategy. The City and CHH need to **consider the form and extent of this development**, and how/if affordable housing should be integrated from a policy perspective compared with mandating the developer(s) to providing funding for affordable housing on alternate sites.

If affordable housing is considered on this property, **CHH needs to conduct a demand analysis** to determine the format/extent required. **An RFEOI for market development should be prepared at a later date once policy objectives are clarified.**

Disposition strategy for 500 MacNab Street North

Summary

The redevelopment of 500 MacNab Street North

The 500 MacNab property offers a high value "city building" opportunity to initiate the transformation of the West Harbour neighborhood, and to connect the new GO Station with the community and waterfront. It is apparent that the City and CHH do not yet have all the facts and it is **unclear how much capital is required to bring the building up to current standards** for future affordable housing, due to the bachelor apartment configuration, poor building systems etc. There are a variety of options open to the future use of this asset, however it is clear that whatever is planned, a transition plan would be required for existing tenants.

Options, considerations and outcomes

Proposed Options

- Retain site in it's current form
- Invest in current units and bring to good condition
- Sell to private sector for redevelopment

Key considerations

- Affordable housing policy
- Financial feasibility
- Locational Considerations
- City building aspirations

Potential outcomes

- Sell to a developer to redevelop to high rise apartment condominiums
- Redevelopment to rental property with 17 stories
- City redevelops property for affordable housing
- City invests in current building for affordable housing

500 MacNab Street North Property Details

Metric	Result
Site Size	1.06 acres /0.43 hectares
Total Units	146 apartment units

CHH needs to consider the long term viability of this property to meet the demand requirements of the affordable housing population. The analysis assumes that the building is not viable due to physical constraints and this needs to **be verified through property/architectural feasibility reports**. Assuming that the property fails to meet demand requirements cost effectively, **we recommend the redevelopment for multi-residential units** – for either market or affordable housing. This course of action will allow the site to become a catalyst for the West Harbour redevelopment program. **The City should issue an RFEOI at a later date to gauge market interest**.

Disposition strategy for Barton-Tiffany

Summary

The development of Barton-Tiffany

The Barton-Tiffany lands represent a **tremendous opportunity to create a medium to high density residential community** within the West Harbour Neighborhood, on City-owned lands benefiting from existing residential zoning. The lands are currently vacant but **could be utilized to deliver affordable housing** for CityHousing Hamilton. Alternatively, the **property could be sold to the private sector** for build-out which could catalyze development in the surrounding areas.

Options, considerations and outcomes

Proposed Options

- Development of affordable housing
- Property is sold to private sector for development

Key considerations

- Affordable housing policy
- Access to funding
- Environmental considerations
- City building aspirations

Potential outcomes

- Development of 200 residential units with 36,900sf of retail space at grade
- Development of 400 residential units with 36,900sf of retail space at grade
- Property is sold to private sector for development

Barton - Tiffany Property Details

Metric	Result
Site Size	10.10 acres / 4.19 hectares
Total Units	Currently Vacant Land (Potential to build 200 – 400 units)

The City needs to **conduct a thorough environmental assessment and property site plan** for technical analytics to input the feasibility process. As, Barton-Tiffany can deliver 200-400 affordable housing units depending on form/extent of requirement. This is a viable marketplace solution for affordable housing within West Harbour and leads to City Building for the area overall. Alternatively, an **RFEOI and RFP process could be facilitated** to determine the market's interest in this project.

Limiting conditions

Limiting conditions

Unless stated otherwise within the body of this report, Deloitte relied upon information provided by City, and third party sources, which Deloitte believe to be reliable. Deloitte is not a guarantor of the information upon which Deloitte has relied in preparing the report and, except as stated; Deloitte has not audited or otherwise attempted to verify any of the underlying information or data contained in this report. Although, we have deployed our efforts to ensure a conservative, realistic and transparent approach, the surveyed results and analysis depends on the input from a number of third parties whose opinions may influence the conclusions.

Where required, Deloitte incorporated in the analysis working assumptions based on its understanding of commercial practices as of the date of this report.

All analysis, information and recommendations contained herein are based upon the information made available to Deloitte as of the date of this report and are subject to change without notice.

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