EMBLEM

November 6th, 2023

Delivered Via Email – clerk@hamilton.ca

Chair and Members of Hamilton's Development Charges Stakeholders Subcommittee.
City of Hamilton
71 Main Street West
Hamilton, Ontario
L8P 4Y5

Dear Sirs/Mesdames:

We are writing this having bought into the long-term vision for the regeneration of Hamilton's Downtown, having invested considerable time and financial resources and having moved forward with proposals across three projects exceeding 1,708,500 square feet of gross construction area and 1,680 residential homes located at 1 Jarvis Street, 41 Wilson Street and 92 John Street North in Hamilton.

Developers in Ontario are universally unified in ensuring that, at the bare minimum, prior to making a significant acquisition or decision (such as a sales launch or starting construction), the project in question is financeable by a traditional construction lender. In a typical development project, 15% of the total costs to develop are financed with developer's equity, another 15% is financed through pre-sale deposits, and the remaining 70% is financed with a construction loan.

The sources of capital are well understood across the industry. That said, it is not a guarantee that lenders will be readily available to provide the 70% loan across all projects. To qualify for a construction loan, lenders are focused on ensuring there is enough margin of safety that if something were to go wrong, there is a path to getting their loan repaid. One of the most critical metrics a prospective lender considers is the development project's margin on cost, which is expressed as total profit / total development costs. The 'sweet spot' for a lender is for a project to see a 15% margin on cost.

With the rapid escalation in costs, including construction costs and development charges, many projects have seen a significant deterioration in margin, compressing the margin on cost to below the 15% threshold desired by lenders. Given the substantially lower revenues associated with a project in Hamilton (versus Toronto), development project's require economic assistance to ensure their viability. To date, that has been provided through tax incentives and development charge rebates.

As can be seen in the sample pro-forma (shared as a separate attachment), even with that relief, new development projects are 'not penciling', as a challenged sales market and significantly higher financing costs have eroded margins to a point where traditional lenders are not willing to provide conventional financing. Stating the obvious, without being able to secure financing, construction cannot commence, and housing supply is invariably eroded.

Eliminating or even modestly reducing any incentives that support the finance-ability of development projects would have the effect of eliminating new supply in the market. Hamilton is right on the cusp of being 'investable' today and requires incentive to continue investment in new housing supply.

Yours truly,

Ryan Millar

VP Development and Planning

Scenario 1A - With Tax Grant and CIPA DC Rate Credit

Hamilton High-Rise Pro-Forma Analysis			
Building Gross Construction Area (SF)		250,000	
Building Efficiency		78.0%	
Net Saleable Area		195,000	
Average Unit Size		650	
Number of Units		300	
Number of Parking	.35 stalls per unit	105	
Revenue		**$PSF Saleable**	**Total $s**
Gross Sales Price		$1,000	$195,000,000
Plus: Parking Revenue	$45,000 per stall	24	4,725,000
Less: Effective HST (incl. rebates)	9.0% Gross Revenue	(92)	(17,124,750)
Plus: Recoveries	$10,000 per unit	15	3,000,000
Plus: Tax Grant	$6,500 per unit	10	1,950,000
Net Revenue ($PSF)		**$957**	**$187,550,250**
Costs			
Land Costs	$40 PSF GCA	51	10,000,000
Hard Construction Costs ($PSF GCA) (1)	$450 PSF GCA	577	112,500,000
Sales and Marketing	7.0% Net Revenue	67	13,128,518
Soft Costs (Excluding Development Charges)	10.0% of Hard Costs	58	11,250,000
Parkland	$5,000 per unit	8	1,500,000
Community Benefit Charge	4% of Land Value	2	400,000
Development Charges			
1 Bedroom	$26,709 per unit	25	4,807,620
2 Bedroom	$37,537 per unit	23	4,504,440
Less: Development Charge Credit	40% of DCs	(19)	(3,724,824)
Financing Costs	$50 PSF GCA	64	12,500,000
Total Costs		**$856**	**$166,865,754**
Margin on Cost			***12.4%***
Minimum Financeable Margin on Cost			**15.0%**

(1) Includes construction management fee and contingency.

Scenario 1B - With Tax Grant and Elimination of DC Rate Credit

Hamilton High-Rise Pro-Forma Analysis			
Building Gross Construction Area (SF)		250,000	
Building Efficiency		78.0%	
Net Saleable Area		195,000	
Average Unit Size		650	
Number of Units		300	
Number of Parking	.35 stalls per unit	105	
Revenue		**$PSF Saleable**	**Total $s**
Gross Sales Price		$1,000	$195,000,000
Plus: Parking Revenue	$45,000 per stall	24	4,725,000
Less: Effective HST (incl. rebates)	9.0% Gross Revenue	(92)	(17,124,750)
Plus: Recoveries	$10,000 per unit	15	3,000,000
Plus: Tax Grant	$6,500 per unit	10	1,950,000
Net Revenue ($PSF)		**$957**	**$187,550,250**
Costs			
Land Costs	$40 PSF GCA	51	10,000,000
Hard Construction Costs ($PSF GCA) (1)	$450 PSF GCA	577	112,500,000
Sales and Marketing	7.0% Net Revenue	67	13,128,518
Soft Costs (Excluding Development Charges)	10.0% of Hard Costs	58	11,250,000
Parkland	$5,000 per unit	8	1,500,000
Community Benefit Charge	4% of Land Value	2	400,000
Development Charges			
1 Bedroom	$26,709 per unit	25	4,807,620
2 Bedroom	$37,537 per unit	23	4,504,440
Less: Development Charge Credit	0% of DCs	0	0
Financing Costs	$50 PSF GCA	64	12,500,000
Total Costs		**$875**	**$170,590,578**
Margin on Cost			***9.9%***
Minimum Financeable Margin on Cost			**15.0%**

(1) Includes construction management fee and contingency.

Scenario 1C - With Elimination of Tax Grant and Elimination of DC Rate Credit

Hamilton High-Rise Pro-Forma Analysis			
Building Gross Construction Area (SF)		250,000	
Building Efficiency		78.0%	
Net Saleable Area		195,000	
Average Unit Size		650	
Number of Units		300	
Number of Parking	.35 stalls per unit	105	
Revenue		**$PSF Saleable**	**Total $s**
Gross Sales Price		$1,000	$195,000,000
Plus: Parking Revenue	$45,000 per stall	24	4,725,000
Less: Effective HST (incl. rebates)	9.0% Gross Revenue	(92)	(17,124,750)
Plus: Recoveries	$10,000 per unit	15	3,000,000
Plus: Tax Grant	$000 per unit	0	0
Net Revenue ($PSF)		**$947**	**$185,600,250**
Costs			
Land Costs	$40 PSF GCA	51	10,000,000
Hard Construction Costs ($PSF GCA) (1)	$450 PSF GCA	577	112,500,000
Sales and Marketing	7.0% Net Revenue	67	12,992,018
Soft Costs (Excluding Development Charges)	10.0% of Hard Costs	58	11,250,000
Parkland	$5,000 per unit	8	1,500,000
Community Benefit Charge	4% of Land Value	2	400,000
Development Charges			
1 Bedroom	$26,709 per unit	25	4,807,620
2 Bedroom	$37,537 per unit	23	4,504,440
Less: Development Charge Credit	0% of DCs	0	0
Financing Costs	$50 PSF GCA	64	12,500,000
Total Costs		**$874**	**$170,454,078**
Margin on Cost			***8.9%***
Minimum Financeable Margin on Cost			15.0%

(1) Includes construction management fee and contingency.