

## The Towns (South East Lands) Development Project - Status Update 2019

<b>Date</b>	February 12, 2020
<b>To</b>	Executive Committee
<b>From</b>	Financial Strategy & Sustainability
<b>Service Area</b>	Land & Real Estate
<b>Item No.</b>	EX20-4

### RECOMMENDATION

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It is recommended that Executive Committee:

Receive and file this report.

### ISSUE

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The purpose of this report is to provide an update on the financial results and current development activity of the Towns South Land Development Project (Towns).

### IMPACTS

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The recent economic downturn has placed downward pressure on the financial performance of the Towns South. Efforts are underway to seek efficiencies in the land use plan in order to improve profitability. Efforts are also underway to drive aesthetic improvements that support the overall goal of community building and therefore marketability.

### OTHER OPTIONS

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None with respect to this report

### COMMUNICATIONS

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None with respect to this report

## DISCUSSION

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The Towns was initiated in 2012, with the acquisition of lands in South East Regina formerly known as the Saskatchewan Housing Corporation (SHC) Lands. The purchase of the land committed the City to continue to develop the land or sell it back to SHC, as SHC retained the first right of refusal.

Following the approval to purchase the South East Lands, development strategy options were investigated including, selling the un-serviced land, entering into a joint venture to develop the land, contracting a land development manager or developing the land with internal City resources.

In March 2015, City Council approved proceeding with an external land development consultant (CR-28) for the Towns South. In September 2015, through a Request for Proposal process, Terra Developments Inc. was awarded the development consultant contract.

Subsequent to Secondary Plan and Concept Plan approvals in 2015, under the guidance of Terra, physical infrastructure construction and investment of the Towns Neighbourhood development started in Spring 2016. Marketing and sales of serviced lots was initiated in late 2015.

The Towns is divided into two concept plan areas, the Towns South and the Towns North. The Towns South comprises 137.1 acres and is currently approved for development within the City of Regina's 235K Growth scenario. The Towns North is 110.1 acres and is part of the 300K Growth scenario. Subject to market conditions, the anticipated build-out year for the Towns South is 2030. This estimate is based on 70 lot sales per year. It is noted that it is very difficult to anticipate long term market conditions, and this estimate will vary.

The 2016 original financial projection estimated the following:

Revenue	\$ 142.1 M
Cost	\$ 113.6 M
Net Income	\$ 28.5 M
Return on Revenue	20.1 %

The original projections were based on revenue assumptions escalating over time from \$4,034 per saleable front foot (f.f.) to \$5,250/f.f. This contrasts with current market conditions of \$3,800/f.f.

Current Total Financial Projection:

Revenue	\$ 115.6 M
Cost	\$ 108.5 M
Net Income	\$ 7.1 M
Return on Revenue	6.1 %

Although there are many variables that can financially impact a land development proforma, a notable change to the performance of the Towns is the estimated revenue. As noted above, the original forecasted revenue was in the range of \$4,000 - \$5,250/f.f. Feedback from the housing industry and Terra Developments is that the market is supportive of approximately \$3,800/f.f. The financial modeling has been adjusted to reflect same. In addition to changes to the revenue assumptions, it has been identified that the current concept plan is relatively inefficient in terms of revenue and cost. Efforts are currently focused on re-creating the concept plan to increase the saleable front feet and decrease the total cost of infrastructure. Further, the cost estimates from which the 2016 overall projection was built, were based on high level assumptions. The most recent estimates are based on current data. It is further noted that land development projects are inherently dynamic, with a multitude of variables that can change and improve or weaken the overall financial performance.

**Financial Results from project inception to Dec. 31, 2018:**

Revenue	\$ 14.55 M
Cost	\$ 13.23 M
Net Income	\$ 1.32 M
Return on Revenue	9.1 %

Revenues are based on 122 total lot sales from inception. Average revenue per front foot to Dec. 31, 2018 is \$4,155/f.f. Modest increases to development costs were realized from project inception to Dec. 31, 2018. Margins in early stages of development projects are typically lower than later stages as investment is required to initiate projects and it is desirable to recoup these investments as soon as possible. It is noted however that the current total projection identifies a lower overall margin. It is reiterated that improvements to the efficiency of the concept plan should increase revenue and decrease cost, and therefore improve the overall projection.

**Total inventories to December 31, 2018 are noted below:**

**Serviced Lot Inventory**

Lots Sold	122
Lot Deposits	187
Unsold Inventory	45
Total Lots Produced	354

Lots are developed on a pre-sale basis. It is not uncommon to develop a stage of lots without having all the lots pre-sold. The net result is unsold inventory. To the end of December 31, 2018, there were 45 lots of unsold inventory, which represents less than a one-year supply under normal market conditions. A one-year supply is considered healthy. Developed unsold lots are sold to builders on an as need basis.

**Multi-Family Parcel Inventory**

Parcels Sold	0 acres
Parcel Deposits	3.7 acres
Unsold Parcels	0 acres
<b>Total Parcels Produced</b>	<b>3.7 acres</b>

In August 2016, an option agreement was entered with North Ridge Developments for multi-family Parcel “H” in Stage 1C for 3.7 acres. This parcel closed in the 2019 fiscal year and therefore will be reflected as a “Sale” in the Multi-Family Parcel Inventory in the 2019 Towns Annual Update. The Parcel was developed in the 2018 construction season.

Current Development Activity

1. *2019 Development Program*

Fifty-seven lots are currently being developed under the 2019 Towns development program in Phase 1 – Stage G & Phase 1- Stage GA. Forty-two of these lots are under contract with a builder. The lots are expected to be fully serviced by spring 2020, this will add 15 lots to inventory. (Map - Appendix A)

2. *2020 Development Program*

Significant servicing of land is not contemplated for 2020 as the demand for serviced land is very low. An option agreement is in place for sale of the Commercial Parcel J1 in Phase 1 – Stage FA to a local commercial developer. Upgrades to Woodland Grove Drive are contemplated as part of the servicing for this Parcel. Servicing of the land is scheduled for completion in summer 2020. (Map - Appendix A)

3. *Development Strategy – OCP Alignment*

The recent weakening of the economy and housing market has driven a change in development strategy. Efforts are currently focused on improving neighbourhood character. Neighbourhood design has evolved over recent years and will continue to evolve as markets fluctuate and consumer demand changes. What has not changed however, is the demand for an attractive, safe place to live. Through Terra Developments, enhanced architectural guidelines are being developed as well as a tree planting program. It is the view of the Land Development Branch and Terra Developments that strong architectural flavour is vital to neighbourhood character as well as planting as many trees as possible. These initiatives provide alignment to the OCP goal D5-1, “Enable the development of complete neighbourhoods.”

Integral to neighbourhood character is open space development. In conjunction with Parks Recreation & Cultural Services and Terra, planning and design of Municipal Reserve 4 (MR4) is underway. MR4 will be the first park built in the Towns with construction anticipated for 2021.

As noted above, initiatives are also in place to improve profitability including improving land use efficiency and profitability. It is anticipated that changes to the plan can also improve neighbourhood character.

## **DECISION HISTORY**

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None with respect to this report

The recommendations contained within this report are within the delegated authority of the Executive Committee.

Respectfully Submitted,



Shauna Bzdel, Director  
Land & Real Estate

Respectfully Submitted,



Barry Lacey, Executive Director  
Financial Strategy & Sustainability

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## **ATTACHMENTS**

Appendix A - The Towns Concept Land Use Plan