

# Due Diligence Report

## Estonian Centre

Toronto, Ontario, Canada

May 2018



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# 1. EXECUTIVE SUMMARY

The new Estonian Centre project is an initiative of four prominent organizations in the Canadian Estonian community; The Estonian House in Toronto Ltd., The Estonian (Toronto) Credit Union Limited, Estonian Foundation of Canada, and Tartu College (See Appendix I – Proponents). The Estonian Centre (“EC” or the “Centre”) will be an international cultural and community centre for all Estonians.

The project has two major components, the first being the disposition of existing community assets located on Broadview Ave in Toronto, and second being the acquisition of a 0.4 acre land assembly on Madison Ave in Toronto for the construction of a new community facility. The new modern facility will be approximately 30,000 square feet and will incorporate an existing 4,900 square foot designated heritage house. It will be a mixed use complex containing approximately 10,000 square feet of leasable commercial space and 20,000 square feet of community and common space. The Estonian community will have priority over the community space which will also be used to support a commercial event venue business.

Multiple sources of funds have been identified to secure \$25 million for the delivery of the project. They are \$12 million in proceeds from the sale of the Estonian House, \$5 million in seed equity from founding Organizations, and \$8 million from a capital fund raising campaign. The \$25 million cost of EC is comprised of \$4 million in land, \$14 million in construction, \$5 million in soft costs, and \$2 million in contingency and operating reserve funding. It is an all equity development with no permanent debt financing anticipated.

The design of the EC will be led by the celebrated architect, Alar Kongats. The supporting professional consultant team has already been assembled and are under fixed-price contracts. Development of the EC will be supervised on behalf of the Community by a project manager who is a professional engineer in the province of Ontario. Construction will be let to a prequalified reputable contractor under a fixed-price lump sum contract. Performance security measures will be put in place that will govern the construction contract.

The project schedule and cash flow is centered on the closing date of the sale of the Broadview Land Assembly. Preceding the closing is an anticipated 22-month period of municipal rezoning of the Broadview properties upon which the final sale price of the property is dependent. The Broadview land assembly sale price is on a sliding scale that ranges from \$11M to \$15M (exclusive of the EFC houses) as the approved gross floor area ranges from below 140,000 square feet to above 170,000 square feet. The closing is followed by a 15-month lease back period of the Broadview location to maintain space for the community while the new Centre is constructed. On the Madison side of the schedule, the Broadview closing is preceded by a 12-month design and tender phase and a 4-month Committee of Adjustment period for the 9 Madison Ave. site which is scheduled to close in August 2018. Following the Broadview closing there is a 15-month construction period for the new complex on Madison Ave. It is anticipated that the community will move from the Broadview space directly into the new Centre with no requirement for temporary interim space.

Sustainability of the new Centre is of paramount importance. Although Estonian Community usage will be the priority, the Centre will be operated as a professional enterprise commensurate to the capital investment but still within the absolute legal extent allowed under the Centre's legal structure. Revenue for the new Centre will be primarily from two sources; a) long term third party leasing, and b) short term event rentals of the community space. This space will be managed by professionals who are experienced in the event venue industry. Preliminary financial projections indicate that the Centre will generate gross revenue of over \$900K resulting in income of approximately \$200K. The first \$150K of these funds will be banked in a capital reserve account for the protection of the Centre with the remainder being free for use within community programming.

### Project Goals

- Create a financially sustainable Centre for community activities and social interaction (operating without subsidies)
- Create a modern, energy efficient signature building reflecting an Estonian aesthetic
- Consolidate the largest Estonian community in Canada to one location
- A single move for Estonian House tenants relocating to the new Centre allowing for a less costly transition which will not splinter the community
- Create a greater Toronto, national, and international legacy for the Estonian community in North America in recognition of North America's acceptance of Estonian refugees

## 2. BACKGROUND

Southern Ontario is home to one of the largest ex-pat community of Estonians in the world. Estonians have contributed to Canada's and this area's diversity in a range of cultural and economic activities for more than 60 years. However, changing dynamics, demographics, and current and future needs assessments over the past decade at least, have prompted reviews of the community's existing institutions and services. Consolidation has already occurred with community newspapers, guides and scouts with other organizations ceasing operations.

Toronto has two separate community centres not far from each other, one sustainable and the other not. At issue is an ageing Estonian House (EH) at the end of its life cycle, unsustainable, and in debt. Having served the community since 1960, the extent of renovation or repair required is not feasible. Due to lack of modern facilities, space configuration, location and accessibility, use by Estonians of EH has decreased substantially over the years.

Tartu College (TC), at Bloor and Madison Ave is an established and sustainable Estonian cultural centre, student residence and home to the future VEMU museum. Located on Toronto's Bloor Street Cultural Corridor, it already contributes to the academic and cultural vibrancy of the area.

A review of the location and requirements for community space has been underway since the 1990s (See Appendix II – Key Historical Dates). In June 2007, Estonian Foundation of Canada (EFC) purchased 954 and 956 Broadview Ave as a strategic investment. 956 Broadview became EFC's office and 954 Broadview was rented to the EH custodian at a subsidized rent. Within a few months EH launched a "Tulevik" (future) committee in a cooperative effort with the Estonian Credit Union (ECU), Estonian Foundation of Canada (EFC) and Estonian Relief Committee of Canada (ERC) which funded five years of analysis, extensive community consultation and community engagement to 2011.

In 2011, EFC purchased 72 Chester Hill as another strategic investment and EH created a new EH Future committee (EM Tulevik) with a focus on redeveloping the Broadview property. After commissioning a series of reports and undertaking community consultation, EH shareholders approved a resolution in 2012 to solicit proposals for "Eesti Maja 2" by leveraging the value of the existing land asset. EH assumed sole responsibility and carried project costs.

In 2012, the Green P parking lot at 9 Madison, next to TC, and owned by the City of Toronto became available for sale. The City's corporation, Build Toronto (BT), was tasked with selling the property.

In February 2014, 11 Madison was purchased by ECU as a strategic investment and risk mitigation strategy to provide potential space for the Credit Union and the Estonian community on either a temporary or permanent basis.

In 2014, Tartu College, Estonian Credit Union, and Estonian Foundation of Canada began negotiations with Create TO (previously Build Toronto) to purchase 9 Madison.

In October 2016, EH announced the termination of its partnership with developer Alterra, ending options for redevelopment at the Broadview location. In November 2016, ECU, TC, and EFC invited EH to discuss the Madison opportunity. By March 3, 2017, TC, ECU, EFC and Build Toronto had signed a Letter of Intent (LOI) to purchase 9 Madison and a few days later the 3 organizations plus EH communicated this opportunity to the community. On April 25, 2017, two-thirds of EH shareholders voted in support of developing a centre on Madison and selling EH to fund the project contingent on positive due diligence results.

EH currently houses commercial tenants including the Estonian Credit Union and Heinsoo Insurance, and rents space to Estonian community organizations such as schools, choirs, folk dance, scouts, shooting range, and the Consulate. The Grand Hall along with two other smaller halls are available for rent. EH provides space rather than programming. The café is no longer operating in EH. There is a subway stop at Broadview/Danforth. It has 60 parking spots behind the building.

The new Centre on Madison Ave will be located just north of Tartu College. TC is home to the Estonian Studies Centre, along with Estonian fraternities and sororities, Estonian Central Council, and the Estonian newspaper, Eesti Elu. Phase 1 of the future VEMU museum is complete. TC has been successful at providing space and community programming, with lecture series and events held primarily in the main hall. TC has a cafeteria on site. Many of the fraternity and sorority rooms are available for use; however, TC would not have enough room for all the organizations currently at EH. TC is located next to the Spadina subway stop and has 30 underground parking spots with an additional 32 in the parking lot directly contiguous to the east of the 9 Madison parking lot. There exists a total of 206 further parking spots in lots and on the street within a 100 metre radius.

TC views the growing Tartu/new development area as an “Eesti Küla” (Estonian Village), and views the new development itself as the “Eesti Keskus” (The Estonian Centre) with many opportunities for TC to collaborate with the new centre as well as the broader Estonian community.

ECU is focused on securing modern, viable facilities for its financial operations in a prime location in close proximity to its primary member base with the Estonian community and its organizations. As a major EH tenant, ECU has had its business operations and brand image disrupted due to the poor state of the building. ECU also paid a significant sum for the installation of an elevator in EH to enable required access for Ontarians with disabilities to its third-floor branch and other areas of the EH. The EH in its current state however still presents significant risk to the operations of the Credit Union and is not sustainable for the Credit Union’s future operations and growth potential. ECU will move its operations to the Estonian Centre.

EFC is focused on securing modern sustainable facilities for the community it funds. EFC provides programming support and rental payments to organizations using EH such as schools, choirs, folk dancing as well as for other events and projects. As EH’s state of disrepair increased along with rents, it created issues for the user organizations and EFC. EFC believes that a central location will allow for a smarter, more efficient use of funding and for its charitable fundraising activities as the community becomes reinvigorated and stronger together.

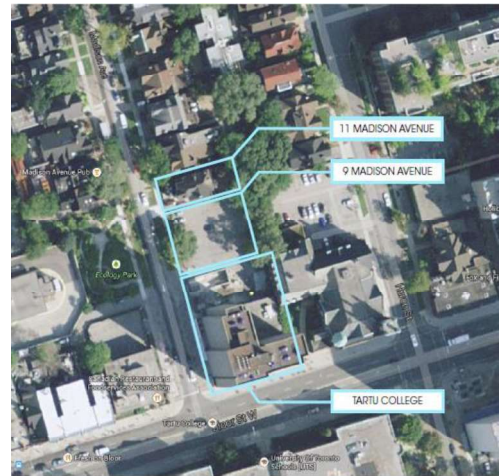
For the new Estonian Centre at Madison to be economically viable, all net proceeds of the sale of the Estonian House have been committed toward the new development.

Ownership and governance of the new Centre is covered in a further section of this memorandum. Key legal issues include EH management of a complex and outdated shareholder registry.

The Madison Centre will allow for increased visibility of the Estonian community in the greater Toronto area as well as Canada and the United States. Opportunities in such a prominent location as Madison Avenue for a land assembly on favorable economic terms are exceedingly rare. Combined with the fact that the site is adjacent to an existing Estonian Centre presents the community with a unique, once-in-a-lifetime opportunity.

### 3. ESTONIAN CENTRE DESCRIPTION

The new Estonian Centre will be located on Madison Avenue just north of Bloor Street near Spadina Road in the heart of the Bloor Street Cultural Corridor. Immediately to the south of the site is Tartu College; a long established hub for Toronto’s Estonian community. The site is comprised of two properties, 9 and 11 Madison Avenue, which when amalgamated will form a rectangular 0.4 acre site. Land at 9 Madison is vacant, currently used as a parking lot while 11 Madison is built up with a large heritage protected home. The heritage home will be fully restored for incorporation into the new Centre.



Although the new Centre will be a mixture of new and old, the design will be very modern and open, using a mixture of glass, metal, and wood. The intent is to capture the Estonian Nordic design aesthetic as much as possible while creating spaces that are warm, inviting, and multifunctional. The proposed building would include a privately-owned publicly-accessible space at grade, in a new courtyard

created by the new “U” shaped building. A new mid-block pedestrian path that would connect Madison Ave. to Huron Street is also part of the plan.



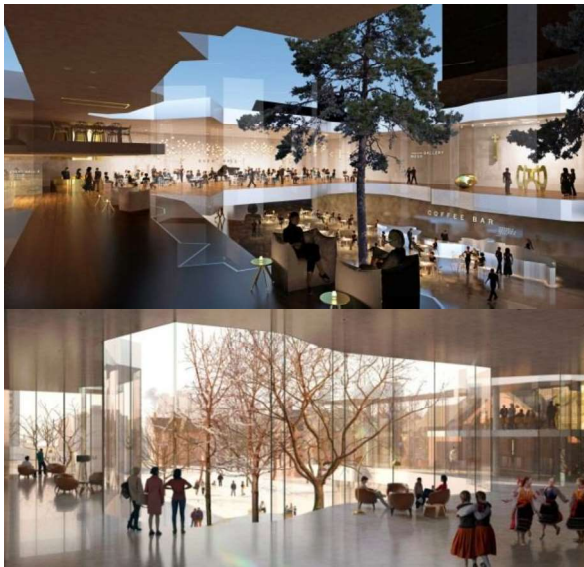
The proposed new building will have a gross floor area of 2,769 square metres (29,805 square feet), resulting in an overall gross floor area of 3,225 square metres (34,714 square feet) including the existing 456 square metre (4,908 square foot) house at 11 Madison Avenue. The proposed development will have a

maximum height of 12.0 metres (39 feet), and an overall density of 2.0 times the lot area.





Entrances to the building will be from Madison Avenue, the courtyard and the mid-block connection to Huron Street. At grade, a retail or office unit is proposed within the existing house, while a café and the Estonian Credit Union are proposed to front the courtyard. The entrance to the core of the building is to be located between the café and the existing house, where a ramp provides access to the main lobby.



The second and third storeys are to be occupied by the community uses such as, an office, antechamber/bar area, flex space, and a 2-storey grand hall on Level 2 and a board room, meeting rooms, and studio space on level 3. A mechanical penthouse is to be located on the roof, massed along the east lot line, while the rest of the roof is to be used as a green roof and amenity terrace (approximately 219 square metres), oriented towards the courtyard. It is currently being contemplated to remove the rooftop mechanical room to reduce the building gross area to approximately 2,788 square metres (30,000 square feet). Additional usable space (2 or 3 units) will be located in the basement level.

There is no on-site parking but there is sufficient pay and street parking all within 300 metres of the Centre. There is also tremendous access to public transport within a minute's walk from the site.

It is intended that the Estonian Centre will provide space for as many community organizations as possible. Groups such as schools, choirs, folk dance, scouts, clubs, and the Consulate will be welcome at the centre. The Grand Hall along with the classrooms and rooftop terrace will be available for rent to Estonians as well as the larger Toronto community. Synergies created by the close proximity of Tartu College will be maximized to increase utilization of both assets as well as to unite the Estonian Community. Tartu College is home to community organizations such as the Estonian Studies Centre, Estonian fraternities and sororities, Estonian Central Council, Archives, choir, and the Estonian newspaper.

## 4. LEGAL STRUCTURE

An expert tax and charity lawyer has been engaged to guide the structuring of the investment and to ensure tax efficiencies relating to the sale of the Broadview properties and the development and operation of the new Centre. Through this work, it was concluded that capital gains taxes could be minimized if the Broadview Property were donated to a charity specifically set up for this purpose. Also, the new structure will be set up to minimize property taxes and HST.

The plan is as follows:

- I.* EH will create a new not-for-profit corporation (NFP). The NFP will ultimately be registered as a charity under the provisions of the Income tax Act.
- II.* EH will be the initial sole member of the NFP.
- III.* As the sole member of the NFP, EH will have the power to determine who the directors of the NFP will be and thus will control the entity.
- IV.* The NFP will assume the purchase obligations under the agreement to acquire 9 Madison, and ultimately will acquire 11 Madison, and build the new Centre, and operate the centre.
- V.* The NFP will be registered as a charity (the “Charity”). Just prior to the closing of the sale of the Broadview Property to Revera, EH will transfer the beneficial interest (but not the legal interest) of the Broadview Property to the Charity.
- VI.* EH will then sell the Broadview property to Revera and receive the cash proceeds of sale in trust for the Charity and satisfy assumed liabilities relating to the outstanding letter of credit in favour of ECU.

### Governance

While yet to be finalized, it is contemplated that EH will initially be the sole member of the charity and thereby have the power to appoint all of its directors. EH will consider the requirements of the charity and, in accordance with the entity's by-laws, appoint directors to meet the skills requirements necessary to best govern the entity.

Our consultations with the lawyer continue as we seek the best option to minimize income, property taxes and HST, and maximize governance efficiencies.

## 5. SOURCES & USES

Estonian Centre - Sources & Uses	
<b>Sources</b>	
1. Sale of Esto House	12,000,000
2. Three Org Support	5,000,000
3. Donors	<u>8,000,000</u>
	<b>25,000,000</b>
<b>Uses</b>	
1. Land (9&11 Madison)	4,000,000
2. Development	<u>20,000,000</u>
	24,000,000
3. Operating Reserve	<u>1,000,000</u>
	<b>25,000,000</b>

### EXPLANATION OF SOURCES

#### 1. Sale of EH

Net proceeds expected from the Estonian House property are from \$11m to \$15m (net of EFC properties). Property has been sold conditionally to Revera, a large senior care provider, owned by the Public Service Pension Plan.

## *2. 3 Org Support*

EFC – Support of \$2 million.

ECU – Support of \$2 million.

Tartu – Support of \$1 million.

Total - \$5 million.

Note: Support from above 3 organizations will be provided in form of loans to be repaid upon certain events including should the new Estonian Centre ever be sold in future.

## *3. Donors*

Non-binding arrangements representing \$3 million have been executed with the lead Donor. Building naming rights will be granted to this Donor. Of this donation, \$2 million is dependent on matching funds from other donors of which \$1 million is near committed.

## EXPLANATION OF USES

### *1. Land*

This consists of a total of \$4 million for the purchase of 9 Madison, and 11 Madison from ECU.

### *2. Development*

This represents all other costs to create the new Estonian Centre including contingency.

### *3. Operating Reserve*

This represents \$1 million of operating capital/contingency on hand at the start of operations.

## 6. DEVELOPMENT

### Design

The design of the new Estonian Centre will be led by celebrated Estonian Architect, Alar Kongats. His vast institutional experience will serve the project and community well. Under the Architect's supervision is an excellent team of professional consultants. The design of the Centre will be modern and airy, using a mixture of materials such as glass, metal, and wood. The intent is to capture the Estonian Nordic design aesthetic as much as possible while creating spaces that are warm, inviting, and multifunctional.

The architect and consultant team have been fully selected and are currently under fixed price contracts for the completion of the final design. The cost of the entire team totals \$1.4 million for the duration of the project. Using industry rules of thumb, this amount is slightly higher than the +/- 9% of total costs considered normal but this premium is easily attributable to the complication added to the design by the TTC and the caliber of the consultants.

Many of the consultants have worked on similar projects that are in close proximity of TTC infrastructure. Most notably are Terraprobe Inc. and RWDI Inc. Terraprobe, geotechnical engineers, have performed extensive testing on the Madison site to provide data specifically required for the design of deep foundations typical to downtown sites working with TTC complications. The structural engineer has deemed the results of their testing favourable for the intended foundation plan that works around the TTC completely. RWDI Inc. are acoustical and vibration engineers that will not only ensure the community's quiet enjoyment of the Centre between internal spaces but will also design systems to negate noise and vibration interference caused by the TTC. RWDI's early design work has them confident that they will be successful in doing so.

Overseeing the design team is the Building Committee whose impressive project experience is provided by its membership which includes retired architects and engineers, and the project manager. It is intended that they be further supported by a qualified contractor providing preconstruction services. During the design stage, the contractor can provide valuable input on standard building practise, product selection, and provide continuous project costing. This will avoid problematic construction details, unnecessarily expensive materials, and ensure that the design is tailored early on to meet budget.

A significant part of the conceptual design phase has been the community consultation process. Interviews have been conducted by the Architect with over forty user groups anticipated to call the new Centre home. Their input regarding use, needs, and wishes has imparted great influence on the design. Their ideas have been incorporated into the next iteration of drawings so that the user groups can be invited back to critique the advanced design. Once fully understood, the community's needs will be documented into a Statement of Requirements ("SOR"). This SOR will form a working set of guidelines for use by the entire design team.

## Construction Delivery

Community representation during the construction of the new Centre will be provided by the current Project Manager who is already under contract with the project. The Project Manager's efforts will be supported by the Building Committee, the Architect's consultant team, as well as the Project Accountant.

Day to day inquiries requiring owner input will be handled by the Project Manager as the first line of contact with construction forces. Inquiries that require further input than the Project Manager can immediately provide will be put to the Building Committee for response. Larger issues of significant project impact will be put to the Steering Committee accompanied by a Building Committee recommendation. A monthly report prepared and approved by the Building Committee will be provided to the Steering Committee to keep them informed of construction progress as well as act as written record of the construction oversight process. The content of this report will also be used by the Communications Committee to provide monthly community construction updates.

It is recommended that the physical construction of the new centre be awarded to a qualified contractor using a construction management form of contract. Specifically, this would entail the joint execution of a CCDC 5b contract as opposed to a general CCDC 2 (lump sum) contract. There are significant advantages with this type of contract structure with the most predominant being flexibility in project delivery at the discretion of the owner. The CCDC 5b contract has built in provisions to convert to a fixed price lump sum contract which after the trades are tendered would be the intent with the Estonian Centre project. Prime contractors would be identified, pre-qualified and then subjected to competitive tender based on their construction management fee and initial project budget. Once awarded the entire project would be tendered to the prime contractor on an open book basis. The Project Manager would have full access to all bids and would participate in all sub-trade contract negotiation and awards. In the event the owner decides to start construction before the Broadview closing, this contract structure would allow the flexibility to do this easily on a limited basis (award only the project's foundations for example) without contractual obligation to the rest of the project. Once the balance of the project is fully tendered and negotiated it can be converted to a fixed price lump sum contract at any time using provisions already in the CCDC 5b contract. This will provide the Steering and Building Committees the certainty they are seeking with respect to construction cost but still allow staggered delivery of the construction if desired without risk of multiple mobilization and delay claims.

Under a CCDC 5b the sub-trades are still contracted directly with the prime contractor from whom they will take their daily direction. This makes the prime contractor the Constructor under law for the Workplace Safety and Insurance Board (WSIB) as well as the Ministry of Labour. This reduces the Owner's exposure to workplace safety risk in the event of an onsite accident.

The contract chain in this fulfilment model will place the majority of the project accounting duties onto the prime contractor. It will be mandated that the owner receive a detailed monthly draw report with back up capturing all construction related expenditures into a single payment. The reduced supplier interaction will integrate well with the existing project accounting resources.

## Performance Security

Efforts toward performance security will be undertaken during design, tender, and construction phases of the project. Engaging a qualified contractor for preconstruction services can be done under a simple contract often at no cost. They can provide valuable input during the design stage on standard building practise, product selection, and also provide continuous project costing. This will avoid problematic construction details, unnecessarily expensive materials, and ensure that the design is tailored early on to meet budget. This allows delivery of the centre to run more smoothly by being more predictable from a constructability and costing point of view. It will ensure that the initial tender is at or near budget which saves both the time and expense of redesign and retender.

The new Estonian Centre is also fortunate to have a great depth of experience in construction management at its disposal. The project manager selected is backed by the extensive experience of the architect and engineers on the Building Committee, the large team of professional consultants, and the even further resources from within the Estonian community that are yet to be utilized. There should be a high degree of confidence that the project team in place can readily and successfully deliver this project.

The project will be awarded to an experienced contractor selected from a short list of thoroughly prequalified companies. Only contractors with proven track records will be considered for the project. The contract with the successful contractor will ultimately be a fixed price lump sum contract. This will provide comfort early on that the project is on solid financial ground. Although it may be difficult to obtain from the contractors because of TTC's involvement, contractual delay penalties will be considered to help ensure completion within the lease back period.

Further performance security can be sought through the purchase of Contractor Default Insurance (CDI). Better and more practical than traditional contract bonding; CDI protects the owner against contractor bankruptcy or default. CDI provides global coverage of every subcontractor on the project as opposed to having to bond them individually which is often not feasible. The \$9/\$1K premium is based on overall project cost and carries a deductible of \$500K. In the event of a claim it is the responsibility of the prime contractor to pay the deductible. Similar to household disaster insurance where owners have immediate access to recovery contractors, CDI allows immediate replacement of the contractor in default without the long drawn out process of perfecting a bond. It allows the project to recover quickly and stay on pace with minimal disruption. The subcontractors would also have to be prequalified by the CDI underwriter which ensures the prime contractor only deals with reputable subs.



## Project Budget

<b>International Estonian Centre</b>		<b>PROJECT BUDGET</b>	
<b>9 &amp; 11 Madison Avenue, Toronto, Ontario, Canada</b>			
<b>PROJECT COSTS (in \$1000's)</b>	<b>Low</b>	<b>High</b>	
Land	4,255.2	4,450.0	
Hard Cost	14,825.1	15,247.8	
Soft Costs			
Development	1,315.7	1,381.5	
Consultants	1,563.0	1,676.0	
Admin & Marketing	2,296.7	2,342.6	
Finance Charges	63.9	426.0	
<b>PROJECT BUDGET (range)</b>	<b>24,319.6</b>	<b>25,523.9</b>	
<b>GROSS PROJECT BUDGET</b>		<b><u>25,000.0</u></b>	

**Notes to Budget:**

- 1) Approximately 10% Contingency included in numbers above
- 2) Project is anticipated to be an all equity deal, finance charges for interim financing as required
- 3) Cost of borrowing assumed to be 6% (Prime + 1.5%)
- 4) HST not included; HST assumed to be a flow through cost
- 5) Estonian House expenses are included in budget



## Cash flow

The cash flow was modelled by following the schedule shown in the schedule section below. It entails a conservative approach to the delivery of the new centre with no construction taking place prior to the completion of Broadview's rezoning. This has the closing of the Estonian House, the EFC houses, and 11 Madison all occurring in January 2020. The design of the centre will be complete and tendered for the start of construction. This approach results in an overall budget of \$24M matching our project budget above and a closing balance of \$1M for a legacy fund. It also avoids the requirement for interim construction financing altogether. Just prior to the critical milestone of closing the sale of the Broadview land assembly it shows a \$4.1M exposure for cost to date. This exposure could grow to nearly \$5M depending on the payment timing of the development fees and building permits. Ignoring the month of closing with multiple real estate transactions, the project's cash demand peaks in around September 2020 with a monthly requirement of just over \$1.9M.

The cash flow was modelled based on the following assumptions;

- The project starts with \$3M seed money Month 1 (May 2018) funded by the 3 Organizations.
- The capital campaign provides injections of \$1M in July 2018, \$2M in July 2019, and finally \$2M in January 2021.
- The further \$2M equity injection from the 2 Organizations is made when the sale of the Broadview land assembly closes in January 2020.
- EFC is paid for their houses immediately on the Broadview closing in January 2020.
- ECU is paid for 11 Madison Ave. on Broadview closing in January 2020.
- 9 Madison closes August 2018.

## Construction Financing

Although interim construction financing isn't required under the proposed cash flow model, projections were undertaken to explore the possibility of starting construction before the sale of the Broadview land assembly closing. Under this scenario, interim construction financing would be required. The facility would need to be in the order of \$5M with the actual cash requirement being about half that amount for a term of approximately 6 months. The facility is purposely oversized in relation to the cash requirement to provide cushion in the event the Broadview closing is delayed. This financing would cost the project approximately \$200K and likely could be accomplished without encumbering the 958 Broadview Ave. property.

## Schedule

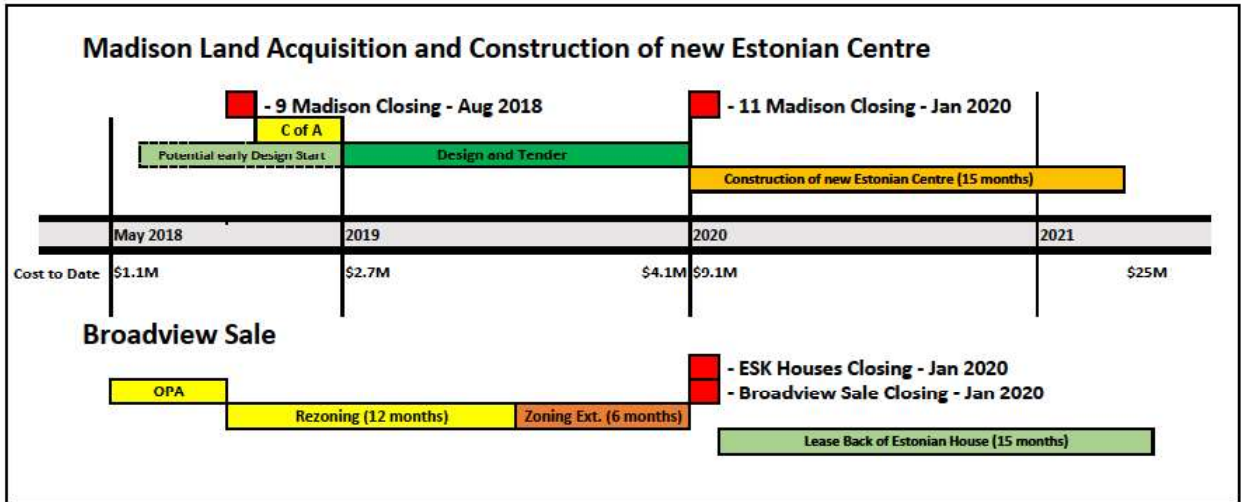
The new Estonian Centre really represents two projects in one with both occurring simultaneously. The first project is the disposition of the Broadview land assembly and the second is the acquisition of the Madison Ave land assembly and the construction of the new centre. The Broadview activity is depicted on the bottom half of the schedule while the Madison activity is displayed on the top. The top half of the schedule is highly dependent on the milestones shown on the bottom half with particular emphasis on the Broadview Sale Closing.

The schedule has been laid out in a conservative manner in that no construction is deemed to start until the Broadview rezoning is complete, zoning/purchase price are known and Broadview closing is underway. This approach mitigates closing risk (failure to close) as much as possible but in turn puts pressure on the lease back period (and the “one move scenario”) by only separating the Madison construction start and the commencement of the lease back by one month. Also conservative is the delay in starting the Design and Tender stage for Madison so to deliver the stage just in time for the construction start in January 2020.

Alternatively, the start of the Design and Tender stage could be accelerated to provide some management flexibility in triggering the delivery of the new centre. This approach is shown in the schedule as dashed box ahead the solid Design and Tender stage. One can see that “sliding” the Design and Tender stage to the left would open up a gap of time between it and construction. This would allow for an early construction start upon receiving sufficient clarity into Broadview’s zoning to bolster confidence in its closing and purchase price. Construction could start ahead of Broadview’s closing and result in relieving pressure on the lease back period and one move scenario. It also avoids being caught off guard in the event Broadview’s zoning goes extremely well and comes to completion unexpectedly early. Bringing the Design forward in time drags cash demand forward as well which would affect the timing of equity injections of the Organizations and shorten the schedule for the Capital Campaign. Bringing the construction forward would most certainly introduce the need for interim construction financing.

Of course accelerating the project would be preferred but it comes with increased risk. It is recommended that accelerating design be considered with an eye to shortening the schedule but that the decision to potentially also accelerate construction be done in the future with a most conservative mind set.

## Estonian Centre Project Schedule



## 7. OPERATIONS

Located in the heart of Toronto as part of the Bloor Street Culture Corridor and just minutes from the downtown core, The Estonian Centre will offer an excellent location for the Estonian community, its long-term tenants, and its event business.

In simple terms, the business plan is to generate enough revenue from long term tenants and the event business to cover both a) the provision of subsidized space for the Estonian community and b) the costs of operating and maintaining the facility into the future.

### Estonian Community Use

The new centre will make space available as its first priority and on a subsidized basis, to Estonian community organizations such as schools, choirs, and folk dance groups, in a similar fashion to what has been provided at the existing EH. The space that Estonians will enjoy includes the new grand hall, lobby and bar area, possible library, music room, and sauna, as well as the 3<sup>rd</sup> party tenanted café/bistro.

### Long Term Tenants

The anchor tenant for the Centre will be the Estonian Credit Union ("ECU") with expected space of approximately 5,800 square feet. ECU seeks modern, viable facilities in a prime location in close proximity to its primary member base with the Estonian community and its organizations. As the primary tenant in the EH, hidden away on the third floor behind a maze of corridors and stairwells, ECU is difficult to find and faces frequent disruptions to its business from ongoing infrastructure failures of leaking roofs, electricity outages, and elevator malfunction.

A street front location only steps to Bloor Street, the University of Toronto, and the Annex neighbourhood will position the credit union for future growth and financial strength to continue as a pillar of the Estonian community in Toronto. The signature Nordic Estonian architecture of the new centre will effectively communicate the modern, technologically savvy operations and brand image the credit union is building to attract the next generation in the Estonian community and beyond.

Other tenants envisioned include the café/bistro and small business office tenants, such as insurance, or law that can support the Estonian community.

### Business Accelerator

The Steering Committee has endorsed the inclusion of a business accelerator in the Estonian Centre to provide space to entrepreneurs with Estonian heritage to start new businesses and to provide space to Estonian entrepreneurs who want to establish a beach head in North America. The purposes include attracting young people to the Centre and expanding its international business appeal. Andy Prozes, the lead donor for the Estonian Centre, is committed to a five-year lease of 1000 square feet for the accelerator.

## Event Business

The Centre will offer event planning, catering and rental services through carefully selected preferred event planners, caterers and suppliers who will contract directly with clients, leaving Estonians out of the details of the event business for the most part. However, an event support team will be hired (partially on a commission basis) to offer a seamless planning experience from inquiry to execution, coordinating with the preferred event planners.

## Shared Functions (TARTU, VEMU, EC)

The new Estonian Centre will be located next door to Tartu College with possible direct access to the yet to be built VEMU space. This does suggest that there are ways to possibly share the functions as well as some of the costs associated with running the space.

There are possibilities to share resources. For example, the maintenance and custodial contracts could conceivably be shared as could be many of the outside service contracts (electrical, plumbing, HVAC, security systems, IT equipment). Also, Tartu College maintains a person on the reception desk 24 hours per day. Having the outdoor security cameras of the Estonian centre monitored from this location would make sense.

A detailed review of the synergies that may exist between the entities will be undertaken prior to opening to determine the financial benefits to both organizations that may arise.

## Sustainability

It will take a few years for the Centre to achieve economic sustainability (revenues covering costs) with ongoing awareness required including marketing, social media, and word of mouth to the broader community. For this reason, we will source a \$1m operating reserve to ensure liquidity in the first few years. This operating reserve covers nearly three years of operating expenses (prior to event revenue but including gross income from leasing tenants), providing a very strong buffer.

The proforma which follow shows a steady state condition (2 years out) with revenue from tenants and events showing an annual surplus over costs of \$199,149. From this, a portion will be reserved annually for capital repairs, thus providing a growing capital reserve fund to take care of capital repairs over the life of the Centre. For the proforma, 1% of hard costs or \$150,000 is forecast for the capital repair reserve based on industry standards.

## 8. RISKS AND MITIGANTS

- **CAPITAL GAINS TAX** of \$2 million to \$3 million due to sale of 958 Broadview; **Mitigant** – pursuit of tax efficiencies has been reviewed with an esteemed tax lawyer with plans to put a registered Charity/NFP structure in place solving issue;
- **PROJECT FUNDING SHORTFALL**; **Mitigant** - strong prospect for adequate funding derived from sale of Broadview to strong covenanted Purchaser and fund-raising led by already committed lead donor representing \$3 million or 37.5% of required donor proceeds;

We have developed a contingency case to demonstrate the viability of building a scaled down development in the unlikely event that there is a shortfall in funding. This would necessitate a lesser build-out of the Project in the first instance, effectively developing the Centre via two phases i.e. postpone building portion of building behind 11 Madison (the “Annex”) until funds were available in the future.

More specifically, this contingency case assumes the Revera sale price achieved is \$11,000,000 versus \$12,000,000 and donations total \$6 million versus \$8 million. With this \$3 million shortfall in receipts, the building out of the Annex would be deferred.

Under this scenario, the event business would not be significantly impacted with the Grand Hall and roof top terrace still being constructed in Phase One. The reduction in 3rd party tenant revenue would be offset by a reduction in overall operating costs for the Centre. Thus sustainability for the Centre will be maintained

- **ZONING ACHIEVED LESS THAN 120,000 SQFT**; Purchaser can walk from deal; **Mitigants**: Purchaser is senior care provider which is considered desirable use for Province, City and community; achieving 160,000 sf of desirable senior care use is deemed high probability according to planning experts; note, City submission for an Official Plan amendment was 230,000 sf;

In unlikely event that less than 120,000 sf is achieved, Revera has right to “walk” from deal. If Revera “walks”, Estonians would be able to sell property to an alternate Purchaser at a non-rezoned market value, estimated at \$12 million plus and the above described two phased approach could be followed. Note, if Estonian’s pursue an abort scenario due to Purchaser walking from deal versus implementing a phased approach, project expenditures would total \$4.1 million. For this reason and due to the viability of a phased development, an abort scenario is less desirable than a phased approach.

- **CONSTRUCTION BUDGET OVERRUN**; **Mitigant** – fixed price contract with detailed design to preclude change orders;
- Onerous **TTC REQUIREMENTS** for monitoring of construction; **Mitigant** – Engineering consultants have comprehensive experience relating to TTC requirements and Contractor cost

projection has conservatively included monitoring costs; Note, Build Toronto confirmed with TTC prior to putting property for sale that reasonable and normal construction is expected despite presence of TTC. We have confirmed a Level 4 technical review by the TTC for the project based on discussion with Build Toronto and our engineering consultants.

- **NOT SUSTAINABLE; Mitigant** – long term lease for anchor tenant (Credit Union) is planned and conservative estimate of event revenue to reach sustainability was utilized for the proforma; also an operating reserve of \$1 million allows for gradual progression to sustainability;
- **PURCHASER DEFAULT; Mitigant** – Purchaser is reputable and total deposit of \$1 million would be exposed;
- **MISSED ITEM OF SIGNIFICANCE IN DUE DILIGENCE; Mitigant** - professional project managers hired conversant in risk mitigation; Also, multidimensional Steering Committee including accountants, lawyers, and engineers overseeing Project;
- **RISK OF LAWSUITS IN PROJECT AND IN PURCHASE AND SALE TRANSACTIONS; Mitigant** – in both case of Broadview sale and Madison purchase, counter party not naturally litigious (pension fund-backed Revera and City of Toronto, respectively); also expert legal counsel engaged for both transactions and general project matters;
- **TIME AND SCHEDULE OVERRUNS RELATING TO NEW CONSTRUCTION OF CENTRE; Mitigant** – risk will be transferred to Contractor via contract for new construction;

# APPENDICES



## APPENDIX I - PROPONENTS

### **Estonian House Ltd. (EH)**

EH is a Not-For-Profit corporation with share capital, and owner of 958 Broadview Avenue. Mandate is to own and operate real estate to provide space for the community's activities and has been doing so since 1960. The original building was built in 1880 and used as the Chester School house. In 1963, a hall seating 600 people, a basement classrooms and a cafeteria were added. In the late 1970s a further addition was added to the front of the building, creating 7,500 square feet for retail and office tenants. There are approximately 2,450 individual shareholders and 55 organizations that own shares in the Estonian House.

### **Tartu College (TC)**

TC is a Not-For-Profit corporation operated and owned by the Estonian academic community to advance Estonian scholarship, contemporary studies, archival research and cultural activities. TC's 460-room student residence has been in the community since 1969. TC is engaged in a multi-year renovation program of its 40-year-old building to modernize student suites, and to renew ageing infrastructure. This work allows TC to increase rents, remain sustainable, and to continue to fund its sister organization, the Estonian Studies Centre, for its cultural programs and academic research in promoting Estonian community activities. TC has no shares in EH.

### **Estonian Credit Union (ECU)**

ECU is a Credit Union in the business of lending out member deposits to earn income to pay interest on these deposits; to build capital in relation to asset growth; to cover the expenses of running the credit union; and to give back to the community. The credit union is subject to exacting regulatory standards with audits to verify compliance. ECU is a major tenant with its sole location in EH. ECU owns 10% (714) of EH shares and provides 28% of the total EH revenue through commercial lease payments.

### **Estonian Foundation of Canada (EFC)**

EFC is a registered charity incorporated in 1974 with a mandate to support Estonian cultural and heritage initiatives across Canada. EFC manages and invests the capital derived from donations and bequests for the good of the Estonian community subject to charities law and CRA regulations. EFC provides financial support to its agents, organizations and special projects across Canada such as language instruction, schools, choirs, folk dancers, Estonian camps. EFC provides annual rental payments to EH through EFC Agent organizations. EFC owns 129 shares in EH.

## APPENDIX II – KEY HISTORICAL DATES

EH pursues redevelopment or relocation options assisted by other orgs

EFC purchase of 954 and 956 Broadview Ave - 2007

EH creates “EH Tulevik” committee

EFC purchase of 72 Chester Hill – 2011

EH revises “EH Tulevik” committee – Shareholders approve proposal to redevelop at Broadview - 2012

9 Madison declared surplus by City of Toronto, offered for sale - 2012

ECU purchase of 11 Madison Feb /14

TC, ECU, EFC start negotiations with BT re: 9 Madison – June9/14

EH shareholders approve LOI with Tribute to redevelop 958 Broadview– Jan/15

Negotiations with Tribute end – August/15

EH shareholders approve LOI with Alterra to redevelop 958 Broadview – Sept/15

EH announces end of partnership with Alterra ending options for redevelopment at Broadview location - 21 Oct/16

Meeting of ECU, TC, EFC, EH to discuss Madison opportunity – Nov 17/16

Discussions with EH and 3 organizations continued to March 2017

LOI signed by ECU, TC and EFC and signed back by BT on March 3/17

Media release about Madison opportunity by all 4 organizations March 6/17

Community Town Hall summary of EH efforts & Madison proposal March 29/17

Intense EH shareholder group/community meetings by 4 orgs Mar – Apr 25/17

Open House at 11 Madison/ Tartu College re: Project - April 23/17

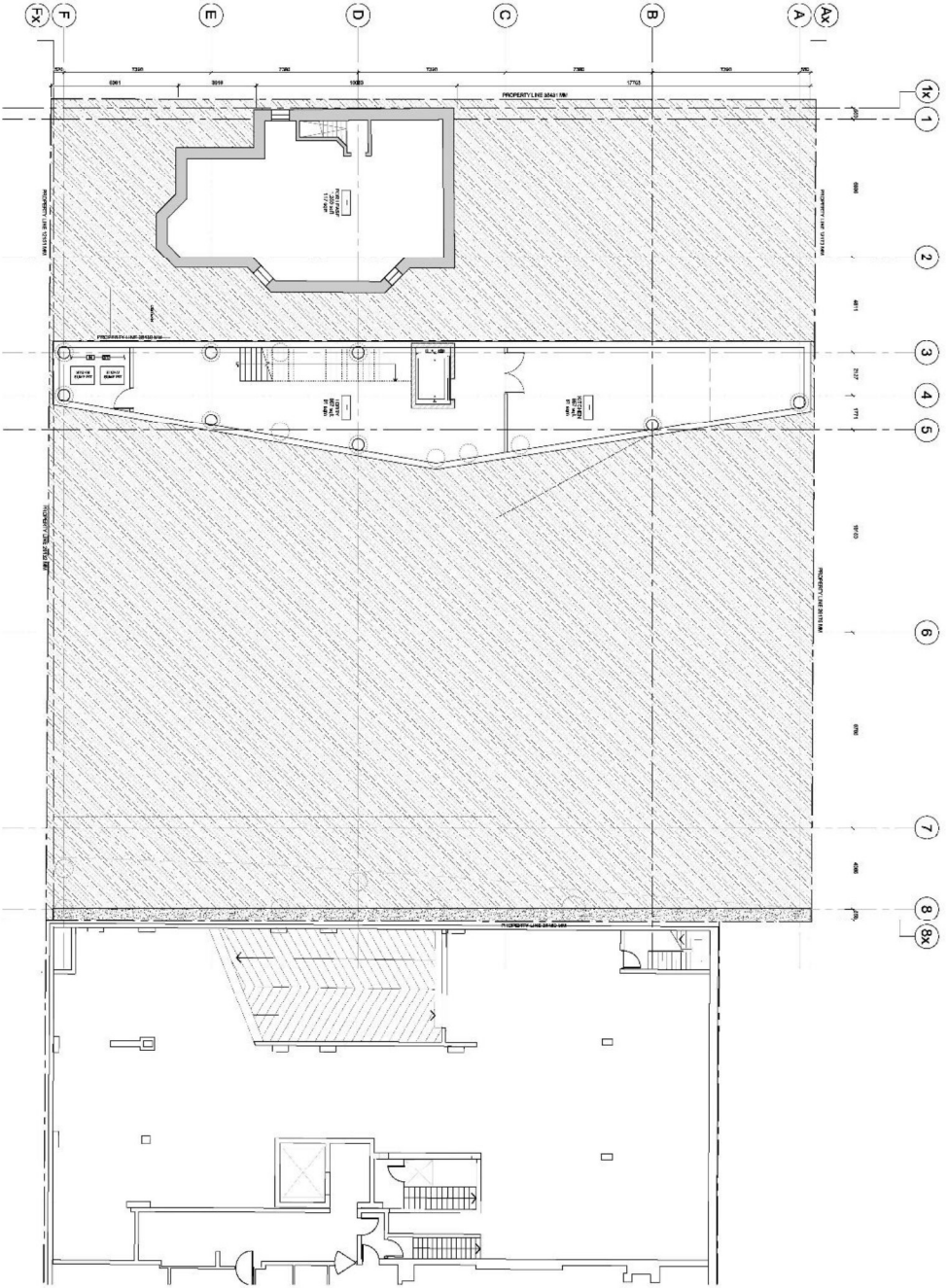
EH AGM, shareholders elect directors, vote 2/3 supporting EH sale - Apr 25/17

Public communication from 4 organizations limited during April – June /17

Estonian Minister of Culture tours EH, Madison properties, TC on Toronto visit - June 17/17

Project Management Agreement executed – June 23/17

APPENDIX III – ARCHITECTURAL DRAWINGS



**K&S**  
K&S ARCHITECTURE INC.

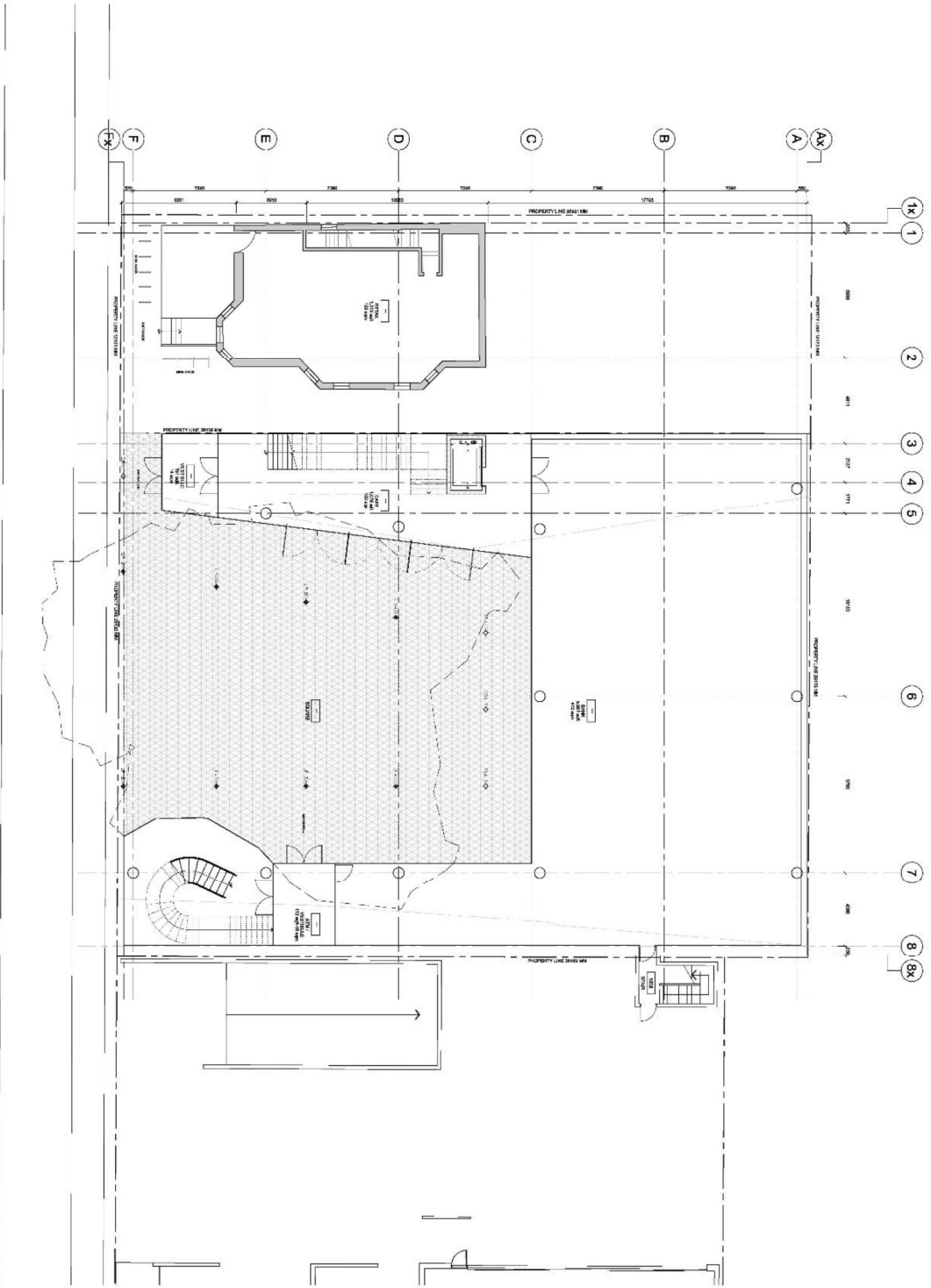
2100 SHEPPARD AVENUE EAST  
SUITE 100  
SCARBOROUGH, ONTARIO M1S 1T6  
TEL: (416) 291-8888  
WWW.KANDSARCHITECTURE.COM

PROJECT: TORONTO ESTONIAN CULTURAL CENTRE  
DATE: 10/20/2018  
DRAWING NO.: A2.01

**TORONTO ESTONIAN CULTURAL CENTRE**  
BASEMENT FLOOR PLAN

DATE: 10/20/2018  
DRAWN BY: J. KALININ  
CHECKED BY: J. KALININ  
PROJECT NO.: 18-001

CONTRACTOR:  
ELECTRICAL  
MECHANICAL/ELECTRICAL  
PLUMBING (M.E.P.)  
CONCRETE  
STEEL  
WOODWORK  
GLASS  
PAINT  
FINISHES  
MECHANICAL/ELECTRICAL  
PLUMBING (M.E.P.)  
CONCRETE  
STEEL  
WOODWORK  
GLASS  
PAINT  
FINISHES



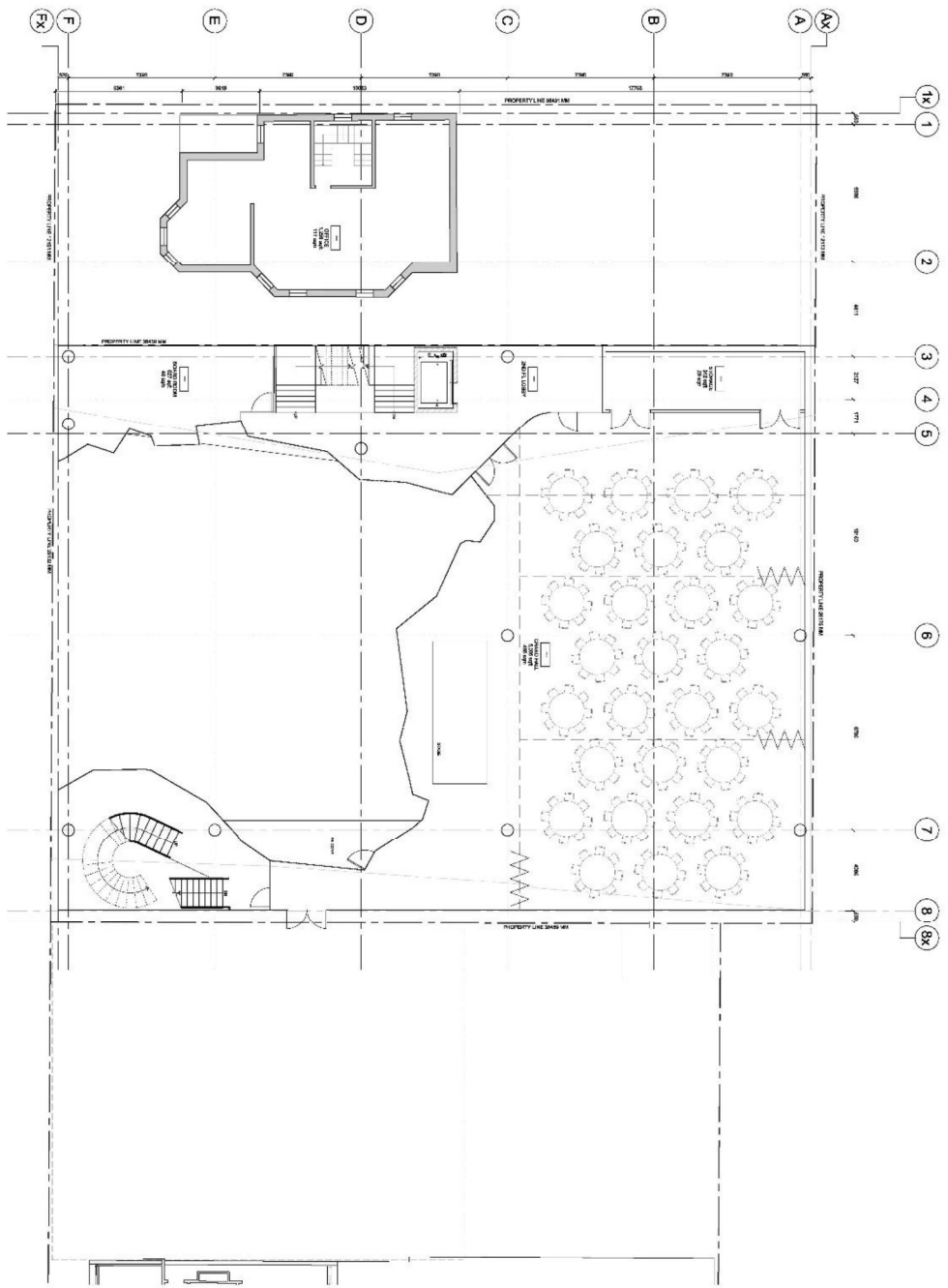
**K&S CONSULTANTS INC.**  
 1000 SHEPPARD AVENUE EAST, SUITE 100  
 SCARBOROUGH, ONTARIO M1S 1T7  
 TEL: (416) 291-8888  
 FAX: (416) 291-8889  
 WWW.KANDS.COM

NO.	REVISION	DATE

- Consultants:**
- ARCHITECTURE: K&S CONSULTANTS INC.
  - ENGINEERING: K&S CONSULTANTS INC.
  - MECHANICAL/ELECTRICAL/PLUMBING: K&S CONSULTANTS INC.
  - STRUCTURAL: K&S CONSULTANTS INC.
  - ENVIRONMENTAL: K&S CONSULTANTS INC.
  - LANDSCAPE ARCHITECTURE: K&S CONSULTANTS INC.
  - ACoustic CONSULTANTS: K&S CONSULTANTS INC.
  - ENERGY CONSULTANTS: K&S CONSULTANTS INC.
  - TRAVEL CONSULTANTS: K&S CONSULTANTS INC.
  - VEGETATION CONSULTANTS: K&S CONSULTANTS INC.
  - SOIL CONSULTANTS: K&S CONSULTANTS INC.
  - WATER CONSULTANTS: K&S CONSULTANTS INC.

**TORONTO ESTONIAN CULTURAL CENTRE**  
 GROUND FLOOR PLAN

**DATE:** 2018.08.28  
**BY:** J. KALVANS  
**CHECKED BY:** J. KALVANS  
**SCALE:** AS SHOWN



**K&S Architecture Inc.**  
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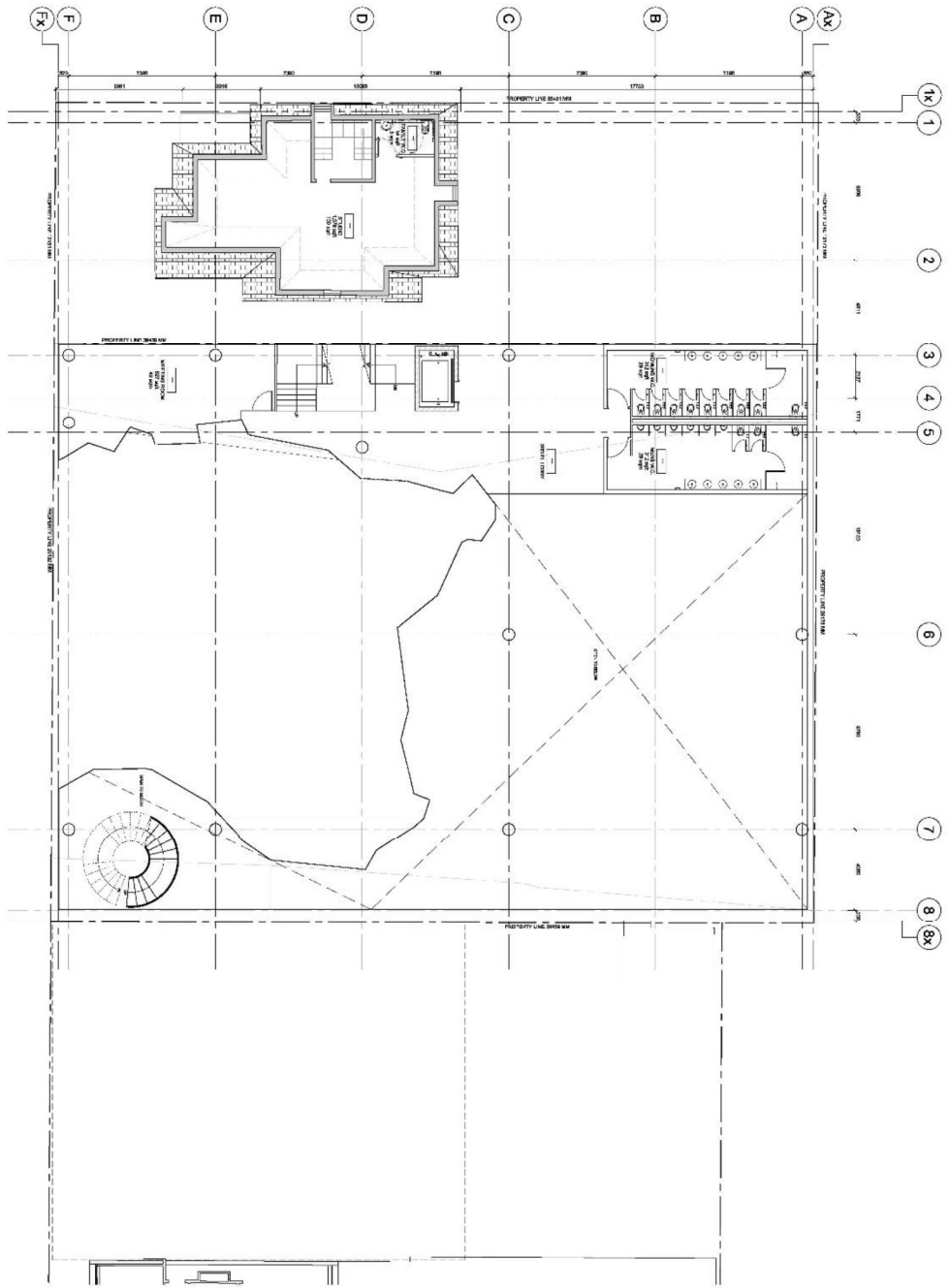
NO.	REVISION	DATE

- Consultants:**
- ARCHITECT: K&S ARCHITECTURE INC.
  - ENGINEER: [REDACTED]
  - ELECTRICAL/ELECTRONIC: [REDACTED]
  - MECHANICAL/HVAC: [REDACTED]
  - PLUMBING: [REDACTED]
  - STRUCTURAL: [REDACTED]
  - INTERIOR DESIGN: [REDACTED]
  - LANDSCAPE ARCHITECTURE: [REDACTED]
  - ENVIRONMENTAL: [REDACTED]
  - ACoustic: [REDACTED]
  - ARCHITECTURAL PHOTOGRAPHY: [REDACTED]
  - MARKETING: [REDACTED]
  - LEGAL: [REDACTED]
  - FINANCIAL: [REDACTED]

514 MIDLAND AVENUE  
**TORONTO ESTONIAN  
 CULTURAL CENTRE**  
 2ND FLOOR PLAN

**PREPARED BY:**  
 DATE: 17th SEP 2013  
 DRAWN BY: J. KALAN  
 CHECKED BY: [REDACTED]  
 PROJECT NO: 13-001

**A2.03**



K&S  
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Project: \_\_\_\_\_ Date: \_\_\_\_\_

Sheet: \_\_\_\_\_

- Consultants:
- ARCHITECTURE
  - ENGINEERING
  - Mechanical/Electrical
  - Structural
  - Interior Design
  - Landscaping
  - Lighting
  - Acoustic
  - Fire Protection
  - Security
  - Signage
  - Specialty

3RD FLOOR PLAN  
TORONTO ESTONIAN CULTURAL CENTRE

DATE: 12/15/2011  
DRAWN BY: J. KALININ  
CHECKED BY: M. KALININ  
PROJECT NO.: 111000000

A2.04