

## **An Overview of the Development Including a Response to the Majandusklubi. Open Letter to Raivo Remmel, President of Estonian House in Toronto Limitede in Toronto Limited.**

*Esmaspäev, 24 Aprill 2017 18:22 Eesti Elu / Estonian Life Online*

This letter is an attempt to clarify some of the issues and questions that have arisen since the Town Hall meeting held at Estonian House (EH) on March 29, 2017. It is encouraging to see an engaged community discuss and comment on various aspects of what was presented at the Town Hall.

The Madison opportunity came about because of a confluence of events. First the 9 Madison property, currently a parking lot beside Tartu College, was declared surplus by the City of Toronto. This meant that the City's Corporation, Build Toronto, was allowed to sell the property to purchasers who would develop it in keeping with Build's mandate of City Building. Several members of the three organizations (3Orgs), Estonian Credit Union (ECU), Estonian Foundation of Canada (EFC), and Tartu College (TC), began informal discussions to see if it would be possible to acquire the parking lot. This group was then advised that neighbouring 11 Madison would be put up for sale. In February 2014, the Estonian Credit Union, as one of the informal group, acted quickly to purchase the property as a strategic investment. Having two Estonian community organizations owning property on both sides of 9 Madison gives the Estonian community the opportunity to focus its resources and energies into one central location in Toronto.

### **Summary of Key Points to Date**

Let's summarize what some of the key points are to date.

First, the Board of Directors of Estonian House have worked diligently in an effort to come to an agreement with at least two developers to accommodate EH on the current site on Broadview Avenue. These efforts were not successful as the developers required the Estonian House to take on unacceptable levels of financial risk. The Board has also told its shareholders at its annual meetings over the past several years that the long term economic viability of EH is not sustainable. In his Auditor's Report in the Estonian House in Toronto Ltd 2016 Financial Statements, the external auditor of the Estonian House draws attention to Note 4 in the financial statements "which describes the uncertainty related to the unpredictability of major repairs and expenses. This condition indicates the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern." There is insufficient incoming revenue from both its activities and donations. Further, advice from numerous impartial experts regarding the prohibitive costs associated with replacing EH's at or near end of life building systems (e.g. steam heating system, cooling system, plumbing, electrical, building envelope etc.), and the need to do this while also dealing with asbestos remediation issues, has brought the Board to the firm conclusion that continued operation is neither sustainable nor realistic for the future.

The current deficiencies of EH are experienced by its full time tenants the Estonian Credit Union and Heinsoo Insurance as well. It should be remembered that the Board of EH has a fiduciary

duty to act in the best interests of the corporation and not individual shareholders or interest groups. The risk going forward for EH is that it has insufficient funds to carry out these improvements especially if there is a need for emergency repairs. Significant monies, into the millions of dollars would be required to correct these problems.

Second, we need to understand that the Madison Avenue project, is part of a defined process. A Letter of Intent has been negotiated with Build Toronto, and has been signed by both Build Toronto and the 3Orgs. The next step is to sign a Purchase and Sale Agreement with Build Toronto. We have approximately 8 months of due diligence work to compress into a 6 month window. The estimated budget costs for this due diligence is \$750,000. The due process will provide conceptual drawings that will detail more specifically for the City's zoning, planning and building departments our intent as well as provide the TTC with important information on our construction plans. The due diligence process will answer many of the questions that have been asked by the community as well as Majandusklubi regarding operating projections and financing. An important consideration is that the 3 Orgs financing the \$750,000 also have a fiduciary duty to their shareholders / members and will not make this investment without a commitment from the EH shareholders to move forward with the process. By voting in favour of the resolution brought forward by the EH Board, shareholders will provide the 3 Org's with the necessary assurance and commitment to proceed with the due diligence required to prove out the feasibility of the proposal. The property at 958 Broadview will not be sold unless the Madison proposal is shown to be viable and within our means.

#### **Let's answer some specific questions put forth by Majandusklubi:**

##### **1) Cost**

The \$18M budget for 25,000 square feet includes the purchase of the land, the purchase of 11 Madison from ECU, the cost of construction (this includes additional costs for building over two subway tunnels), soft costs (legal, fees, etc.), bridge financing during the construction period, a budget for EH to cover shortfalls in operations, legal fees, furniture, fixtures and equipment, and HST. This is a preliminary budget estimate and will be updated during the due diligence period after the conceptual drawings have been completed. An alternative and pragmatic approach to this project, to reduce risk, would be to build this project in phases. Phase 1 (the complete renovation and expansion of 11 Madison only) would cost about \$13M and provide 18,000 square feet.

##### **2) Financing**

Each of the 3 Org's have conditionally pledged financing towards the project on Madison. They have not asked for an equity position in return. The 3Org's have been careful to ensure that all of their own financial obligations to the community will be manageable despite Madison costs, as well as ensuring regulatory and legal requirements have been adhered to whether it be ECU, a credit union; EFC, a registered national charity; or Tartu College, a member based not for profit. As a very preliminary estimate, the Estonian House could obtain proceeds in the range of \$7M to \$16M from the sale of their site. This would form the initial financing for this project. However, the proceeds possible from the sale of the Broadview Avenue property can only be determined through a tendering process which would be part of the due diligence process.

### **3) Ownership**

The preliminary advice from our legal team is that the Estonian House should continue as a legal entity and own and develop the two properties on Madison as a Not for Profit (NFP) corporation. This would be the easiest way to direct the proceeds from the sale of Estonian House to the Madison project. This avoids possible issues arising with respect to capital gains taxes on the sale of EH or the potential of having the courts/Public Guardian becoming involved with the resolution of shareholder issues. The objective is to maximize the proceeds available through the sale and minimize the leakage of funds to the government. Should the existing Estonian House corporation own the Madison Properties (as opposed to a new NFP corporation with EH as the owner) EH still needs to update its By laws and Letters Patent to be in compliance with the proposed Ontario Government legislation for NFP corporations. Since the proposed legislation proposes elimination of NFP corporations with share capital, there would be no rationale for issuing new shares to raise capital.

### **4) Business Case**

A formal business case will be developed as part of the due diligence process when better information will be available from the City on the details of the development agreement, when we have conceptual drawings of the building and the civil engineering work required, understand the TTC requirements, and further reduce the risks associated with building this project. Preliminary cash flow forecasts on the project have been calculated to understand the bridge financing needs and the subsequent total project costs. We do agree and recognize that a business case is required which justifies the project before proceeding. We are comfortable with our assessment of the financial risks to date and believe that they are manageable. In addition, an experienced broker has provided advice regarding market lease rates on Bloor Street West. We have been informed that an annual \$200,000 net rental fee (tenants pay utility and operating expenses in addition) for Class A space is feasible for a 5,000 sf tenant in 11 Madison Avenue. We have conservatively shown that only 5,000 sf would be leased in the building, but this number could be adjusted once a proper space planning exercise has been completed to determine space utilization by our community.

### **In Conclusion**

Please appreciate that a lot of effort has been put into the Madison Avenue project to date, which has enabled us to obtain a negotiated Letter of Intent with Build Toronto. Countless hours were spent in negotiation with Build over the past three years, with several development proposals having been presented to the City. Achieving the Letter of Intent is a tangible and legal agreement with the City indicating our intention to build and their intention to approve construction on the site. It was not possible to present this proposal to the community until this tangible result had been achieved as we were under strict non disclosure agreements.

Numerous meetings have echoed an additional constant theme by all of the Organizations involved: the new facility must be sustainable. As we move forward on this project, that objective will not be compromised.

We believe that this project is achievable and that it is in the best interests of the community to pursue it at this time and undertake due diligence. Estonian House, Estonian Foundation of

Canada, Estonian Credit Union, and Tartu College are encouraged by the work and results to date. We are working together and are prepared to commit resources to this end. The Madison project provides an opportunity to provide for the future needs of the community in a prime Toronto location in a building which is representative of the progress and accomplishments of our Estonian community, not only in the Toronto area, but across Canada.

We hope all shareholders of the Estonian House will attend the Special Shareholder Meeting on April 25th and be supportive of this development opportunity.

On behalf of our Boards

**Jaan Meri**, President of Tartu College

**Ellen Valter**, Chair Estonian (Toronto) Credit Union Limited

**Eva Varangu**, President, Estonian Foundation of Canada

**Raivo Rimmel**, President, Estonian House in Toronto Limited