STAFF REPORT
ACTION REQUIRED

Purchase of Stratified Interest in 300 to 308 Queen Street West

Date: April 25, 2016
To: Government Management Committee
From: President, Toronto Parking Authority
Wards: Ward 20 Trinity-Spadina
Reference Number: TPA File No.: 5262-00

SUMMARY

The purpose of this report is to obtain Council's authorization to complete a purchase and sale agreement (“PSA”) involving a transaction between the Toronto Parking Authority (the “TPA”) and 2206181 Ontario Inc., Queen Street Retail Inc., 2230017 Ontario Inc., and Sweeny Holdings Inc. (collectively referred to as the “Vendor”). The Vendor is the property owner of the lands municipally known as 300 to 308 Queen Street West (the “Property”). The transaction involves the acquisition by the City of a stratified interest in a below-grade strata of the Property within which a municipal parking facility is to be located and form part of a mixed commercial / retail development.

RECOMMENDATIONS

The Toronto Parking Authority recommends that:

1. Council authorize the acquisition by the City from the Vendor of a below-grade strata portion of the Property together with the Vendor’s interest in the below-grade portion of Soho Street, in accordance with the terms and conditions of the PSA which are substantially set out in Appendix ‘A’;

2. Council authorize the City to enter into the ancillary transactions contemplated under the PSA which require the City to be party, solely in its capacity as land owner, including the easements and reciprocal cost sharing agreements, restrictive covenant agreements, redevelopment buy-back options, closing and other agreements to implement the PSA, substantially on the terms and conditions set out in Appendix ‘A’, together with such other terms and conditions as the Chief
Corporate Officer, in consultation with the TPA may deem appropriate, and in form satisfactory to the City Solicitor.

3. Council direct that prior to closing the transactions described in Recommendations 1 and 2, the City Solicitor shall be in receipt of appropriate title opinions, from the solicitor for the TPA, in form and content satisfactory to the City Solicitor.

4. Council direct that the lands acquired under the PSA to be used for the municipal underground parking garage be designated for municipal parking purposes and managed by the TPA.

5. Council authorize the City Solicitor to complete the transactions contemplated under the PSA, deliver any notices, pay any expenses and amend the closing and other dates to such earlier or later date(s) on such terms and conditions as the City Solicitor may determine from time to time.

6. City Council authorize and direct the appropriate City Officials to execute all documents and take the necessary actions to give effect thereto.

**FINANCIAL IMPACT**

The total estimated costs of this purchase are $9.450 million. As part of the transaction, the Vendor will construct a below-grade municipal parking garage to TPA specifications containing up to 125 parking spaces with a total capital cost not to exceed $9.0 million plus closing and land transfer fees, estimated at $0.450 million.

The 2016-2025 Approved Capital Budget and Plan allocates $10.5 million in funding for this property acquisition in 2017. The TPA is expecting the acquisition of the municipal parking garage at 300 to 308 Queen Street West to close in early 2018, when actual payment will take place.

A financial analysis undertaken by the TPA indicates that based on historical activity for comparable sized garages in similar locations and rate structures, this project will achieve an Internal Rate of Return (IRR) which meets TPA’s minimum required IRR of 5.0% over the 50 year period, which is consistent with TPA’s revenue return expectations.

Based on past net profit history, the current 10-Year Capital Plan anticipates an operating impact of this project of $0.525 million in net revenues annually, starting in 2018. Once construction schedule and completion date is determined, these estimates will be revised and all expenses and revenues associated with the operations of the parking garage at 300 to 308 Queen Street West will be included in the TPA's future year operating budgets.

The TPA has retained the services of an independent cost consultant which has reported that the purchase price to be paid for the Property based on a per stall basis and estimated not to exceed $9.0 million for a 125-space below grade municipal parking garage, is reasonable and reflective of fair market value.

The Deputy City Manager & Chief Financial Officer has reviewed this report and agrees with the financial impact information.
DECISION HISTORY

In 2014, the property owner approached the TPA to discuss the planned redevelopment of the Property which would include commercial / retail uses above grade and a below-grade public parking garage.

At its meeting of May 28, 2014 (TPA Board Minute No.: 14-076), the TPA Board of Directors authorized TPA staff to proceed with negotiating the terms and conditions of a PSA with the Vendor involving the acquisition by the City of a stratified interest in a below-grade strata of 300 to 308 Queen Street West. The Vendor will construct and convey to the City a below-grade parking structure in accordance with TPA specifications that will form part of a mixed commercial / retail development at the Property.

A PSA dated March 17, 2016 has been fully executed between the TPA and the Vendor which contains conditions in favour of the TPA and the Vendor which both parties are working on to satisfy, one of which is obtaining City Council approval of the transaction.

At its meeting of March 22, 2016 (TPA Board Minute No.: 16-045), the TPA Board of Directors approved the PSA with the Vendor involving the acquisition by the City of a stratified interest in a below-grade portion of 302 Queen Street West. A summary of the major terms and conditions of the PSA as approved are detailed at Appendix ‘A’.

COMMENTS

SITE LOCATION AND PARTICULARS

The Property, located within the ‘Queen West’ commercial district, a short distance east of Spadina Avenue, benefits from a prominent street-front positioned on the north-west corner of Queen Street West and Soho Street (see attached Site Location Map). The site is square shaped with dimensions of 116.8 feet (35.6 meters) along Queen Street West and 176.3 feet (53.7 meters) along Soho Street and measures approximately 20,720 sq. ft. (1,925 sq. m.). A municipal laneway bounds the Property immediately to the north. Predominant land uses in the area include retail and restaurants along Queen Street with residential uses immediately to the north. The site is currently operating as a 97-space surface parking facility managed by the TPA as Municipal Carpark 262 (see attached Appendix ‘B’ – Property Photo and Aerial Image of Surrounding Neighbourhood).

Development Proposal

The Vendor intends to construct a 54,747 sq. ft. GFA (5,086 sq. m.) three-storey commercial / retail development complete with a three level below grade parking garage containing between 110 and 125 spaces (the “Project”) (see attached Appendix ‘C’ – Project Rendering and P1 Parking Plan). Mountain Equipment Co-op (“MEC”) will occupy the first two floors (37,306 sq. ft. or 3,466 sq. m.) while a daycare (9,979 sq. ft. or 927 sq. m.) and ancillary offices (3,482 sq. ft. or 323 sq. m.) will be located on the third floor of the Project. The Vendor will retain ownership of the above grade portion of the Project while the City would acquire the below grade strata for the purposes of TPA operating a municipal parking garage.
In order to ensure that the below-grade municipal parking garage is designed and built to meet TPA operational standards, the Vendor will need to acquire a portion of the below-grade Right of Way lands along Soho Street (the “ROW Parcel”) from the City of Toronto. The ROW Parcel measure approximately 865.4 sq. ft. (80.4 sq. m.) with dimensions of 176.2 feet (53.7 meters) along Soho Street, a width of 4.9 feet (1.5 meters), and an upper horizontal limit 3.9 feet (1.2 meters) below grade (see attached Appendix ‘D’ – Ground Level Development Plan). The Vendor is currently in final negotiations with the City to acquire the ROW Parcel as a fee simple interest at a cost of approximately $435,000.00. Under the PSA, the ROW Parcel will be transferred from the Vendor to the City on closing along with the below-grade strata on the Property. The Vendor will retain the lands below the parking garage on the Property, but all of the ROW Parcel will be re-acquired by the City.

The Vendor is currently working to satisfy site plan approval requirements. All minor variances have been approved for the Project and the Vendor submitted their second round site plan submission in early April 2016. The Vendor is expecting to receive a Notice of Approval Conditions (NOAC) for the Project by the end of May 2016. Construction of the Project is expected to begin in early August 2016; taking approximately 18 to 20 months to complete with the opening of the public parking garage scheduled to occur in early 2018.

Parking Supply and Demand

This is an area that currently is deficient in the adequate supply of parking. Primary demand for parking to the area is largely from short-term parkers travelling to this area to visit nearby businesses, theatres, boutiques, restaurants, night clubs, and galleries. The proposed redevelopment of the site as a commercial / retail use project will further increase the demand for transient parking in this area.

Ownership Profile

The ownership profile of the Vendor is described as follows:

2206181 Ontario Inc. is a single purpose entity acting as nominee for the beneficial owners of the Property / project. Queen Street Retail Inc., 2230017 Ontario Inc. and Sweeny Holdings Inc. are the beneficial owners of the Property and each have an equal 1/3 interest in the property.

2230017 Ontario Inc. is a company controlled by Owen Lawson who is the founder of Parallax Investment Corporation (www.parallaxcorp.ca) which is a Toronto based real estate development company founded in 1980.

Sweeny Holdings Inc. is a company controlled by Dermot Sweeny who is the founder of Sweeny &Co. Architects Inc. (www.sweenyandco.com) which is a large architectural firm based out of Toronto.

Queen Street Retail Inc. is a company controlled by Moray Tawse who is one of the founding partners of First National Financial (www.firstnational.ca) which is Canada’s largest non-bank mortgage lender.
Purchase and Sale Agreement (PSA) – Summary of Terms and Conditions

Summarized at Appendix ‘A’ are the major terms and conditions of the PSA between the TPA (as “Purchaser”) and 2206181 Ontario Inc., Queen Street Retail Inc., 2230017 Ontario Inc., and Sweeny Holdings Inc. (collectively referred to as the “Vendor”).

Upon closing, the City will acquire title to the subject lands and, as registered owner of the subject lands, the City will be a necessary party, solely in its capacity as land owner, to the various closing agreements set out in Appendix ‘A’, including reciprocal easements and cost sharing agreements, restrictive covenants, and buy-back option agreements. The TPA however will be responsible for all operational and financial matters under the closing agreements, including repair and maintenance obligations, cost sharing expenses, and any costs under any buy-back option agreement.

Financial Analysis and Conclusion

TPA staff undertook a financial analysis to determine the returns that would be realized from the new underground parking facility. As part of the transaction, the Vendor will construct a below-grade municipal parking garage to TPA specifications at a cost to the TPA not to exceed $9.0 million for a 125-space parking garage. The Vendor pays all realty taxes with respect to 75 parking spaces in the Parking Garage for the full term of TPA ownership of the Parking Garage. The resulting internal rate of return (IRR) meets TPA’s minimum required IRR of 5.0% over the 50 year period using a conservative estimate of $7,500 per space (current dollars) in annual revenue. The financial analysis of the deal reveals that the TPA’s benchmark criteria used to assess the merits of this transaction remain intact and have been achieved. The total capital cost for the garage will be paid by the TPA following the TPA’s standard procedures for the turnover of the garage.

The TPA has retained the services of an independent cost consultant which has reported that the purchase price to be paid, being the sum of $9.0 million for a stratified interest in a below-grade strata of the Property within which a 125-space municipal parking facility is to be located, is reasonable and reflective of fair market value.

The Vendor has had ongoing discussions with the local area Councillor for Ward 20 Trinity – Spadina, Joe Cressy who is supportive of the proposed development. TPA staff have also contacted the Councillor and he has indicated his support of the purchase.

Conclusion

This acquisition opportunity provides a number of financial benefits that add value for the TPA, and therefore of benefit to the City and the TPA, namely:

- The consideration to be paid by the TPA for the Parking Garage are considered to be at a fair market rate;
- TPA’s benchmark criteria used to assess the merits of this transaction have been achieved;
- A significant portion of the risk associated with any increases in property taxes are transferred to the Vendor; and
The caliber and certainty of having MEC as the future destination retailer for the Project supports the economic viability of the proposed underground parking garage at the Project.

CONTACT
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lpersiko@toronto.ca

SIGNATURE

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Lorne Persiko, President

ATTACHMENTS
Site Location Map
Appendix ‘A’ Major Terms of Purchase and Sale Agreement
Appendix ‘B’ Property Photo and Aerial Image of Surrounding Neighbourhood
Appendix ‘C’ Project Rendering and P1 Parking Plan
Appendix ‘D’ Ground Level Development Plan
SITE LOCATION MAP

Staff report for action on the Acquisition of a Stratified Portion of 300 to 308 Queen St W
### APPENDIX ‘A’

**Major Terms of Purchase and Sale Agreement**

<table>
<thead>
<tr>
<th>1. Vendor</th>
<th>2206181 Ontario Inc., Queen Street Retail Inc., 2230017 Ontario Inc., and Sweeney Holdings Inc.</th>
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<tbody>
<tr>
<td>2. Purchaser</td>
<td>Toronto Parking Authority (title to be registered in the name of City of Toronto)</td>
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<tr>
<td>3. Project</td>
<td>Vendor intends to construct a 55,000 sq. ft. three-storey commercial/retail development complete with a three level below grade parking garage. Mountain Equipment Co-op will occupy the first two floors while a daycare and ancillary offices will be located on the third floor of the Project.</td>
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<tr>
<td>4. Purchased Property</td>
<td>The property being purchased is a below-grade strata portion of 300-308 Queen Street West and all of the Vendor's interest in the below-grade portion of Soho Street (the &quot;ROW Parcel&quot;), together with the Parking Garage. The ROW Parcel is along Soho Street measuring approximately 865.4 sq. ft. (80.4 sq. m.) having dimensions of 176.2 feet (53.7 meters) along Soho Street, a width of 4.9 feet (1.5 meters), and an upper horizontal limit 3.9 feet (1.2 meters) below grade.</td>
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<tr>
<td>5. Parking Garage</td>
<td>Vendor to construct at their sole cost and expense, a three level below grade parking garage in accordance with TPA design specifications for a typical below grade parking garage which will form part of the Project and contain between 110 spaces and up to 125 spaces.</td>
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<tr>
<td>6. Purchase Price</td>
<td>The TPA will pay the Purchase Price, not to exceed $9.0 million for a Parking Garage containing up to 125-spaces. The consideration to be paid is based on the Vendor paying all Realty Taxes with respect to 75 parking spaces in the Parking Garage for the full term of TPA ownership of the Parking Garage, which obligation will be secured under an agreement on closing. Purchaser to pay Vendor the Purchase Price upon Closing and the turnover of the Parking Garage.</td>
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<tr>
<td>7. Purchaser's Conditions</td>
<td>The obligation of the Purchaser to complete the purchase transaction is subject to the Purchaser being satisfied with the following:</td>
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<td>satisfactory due diligence;</td>
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<td>TPA Board approval;</td>
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<td>satisfactory disclosure of Vendors identities;</td>
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<td>satisfactory review of encroachment agreement and tie back agreement in respect of neighbouring property;</td>
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<td>Mountain Equipment Co-op lease for first 2 floors of the Project having a 25 year term;</td>
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<td>Vendor to have commenced construction of the Project within 2 years of the date of the PSA; and</td>
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<td>satisfactory access to the Parking Garage.</td>
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8. **Vendor’s Conditions**

The obligation of the Vendor to complete the sale transaction is subject to the Vendor being satisfied with the following:

- terms of approval ("NOAC"); issuance of building permits for the Project; and minor variance approvals;
- acquisition of fee simple interest in the ROW Parcel; receipt of construction and access licences from the City.

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<th>9. <strong>Due Diligence Date and Council Approval Date</strong></th>
<th>The TPA has no later than 4 months from date of the PSA to complete its due diligence. The TPA has a further period of up to 2 additional months to obtain Council approval.</th>
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<tr>
<th>10. <strong>Closing Date and Outside Date</strong></th>
<th>The closing shall be on the 15th business day following substantial completion. The outside date for closing is 48 months following the commencement of construction, with a possible extension of up to 18 additional months.</th>
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| 11. **Closing Agreements: Easements, Cost Sharing, Restrictive Covenants, Buy-Back Options** | On closing, the City, solely in its capacity as land owner, together with the Vendor and Purchaser, will be party to various closing agreements including the following agreements. The TPA will assume the financial and operational obligations under the agreements:

**Reciprocal Easements and Cost Sharing Agreements**

Easements and cost sharing agreements in respect of the Parking Garage and the balance of the Project, including support, access, egress, mechanical systems, utilities, repairs, maintenance and cost sharing. The agreements will include the obligation of the Vendor to pay the realty taxes in respect of 75 parking spaces.

**Restrictive Covenant Agreements**

The Purchaser will agree to a restriction for a term of 100 years that the Purchased Property will not be used for any purpose other than a public parking garage. The Vendor will agree that there will be no parking within the balance of the Project and that there will be no commercial parking lot on any adjoining lands owned by the Vendor.

**Buy-Back Option Agreements**

**50-100 years after Closing:**

At any time following the 50th anniversary of the Closing Date but before the 100th anniversary of the Closing Date, should the Vendor have a bona fide redevelopment planned, the Vendor has an option to buy-back the Parking Garage (and related lands) excluding the ROW Parcel (which will be retained by the City) for $1.00 plus any unamortized portion of any capital expenditures, additions or improvements to the Parking Garage. The original Purchase Price would have been fully amortized by the 50th anniversary of the Closing Date. If construction of the redevelopment has not commenced within 12 months of the exercise of the option, the Purchaser has the option to repurchase the property at the same price.

**25-50 years after Closing:**

At any time following the 25th anniversary of the Closing Date but before the 50th anniversary of the Closing Date, should the Vendor have a bona fide early redevelopment planned, the Vendor has an option to buy-back the Parking Garage (and related lands) excluding the ROW Parcel (which will be retained by the City) for $1.00 plus any unamortized portion of any capital expenditures, additions or improvements to the Parking Garage. If construction of the redevelopment has not commenced within 12 months of the exercise of the option, the Purchaser has the option to repurchase the property at the same price.
capital expenditures, additions or improvements to the Parking Garage, plus the unamortized portion of the Purchase Price. Further, the Purchaser will have an option to acquire all public parking contained in the redevelopment (if applicable) at prevailing market terms. If construction of the redevelopment has not commenced within 12 months of the exercise of the option, the Purchaser has the option to repurchase the property at the same price.
APPENDIX ‘B’

Property Photo and Aerial Image of Surrounding Neighbourhood

Municipal Carpark 262 (300-308 Queen Street West)

Aerial Image of Surrounding Neighbourhood
APPENDIX ‘C’

Project Rendering and P1 Parking Plan

300 – 308 Queen Street West
APPENDIX ‘D’

Ground Level Development Plan

Staff report for action on the Acquisition of a Stratified Portion of 300 to 308 Queen St W