

Proposed Transaction between City of Toronto and Lanterra 234 Simcoe Realty Ltd. - 121 St. Patrick Street (Municipal Carpark 221)

Date: March 14, 2018

To: Government Management Committee

From: Acting President, Toronto Parking Authority
and Director, Real Estate Services, Internal Corporate Services

Wards: Ward 20, Trinity-Spadina

SUMMARY

The purpose of this report is to obtain City Council's approval of the property transaction described below.

Toronto Parking Authority ("TPA") and Real Estate Services ("RES") have negotiated major business terms of a property transaction and municipal parking development with Lanterra 234 Simcoe Realty Limited (the, "Developer") involving the City-owned property located at 121 St. Patrick Street, currently occupied by a 36-space surface parking lot known as Municipal Carpark 221 (the "City Owned Lands") and adjacent lands owned by the Developer at 234 Simcoe Street ("Developer Lands") (collectively, "Project Lands").

The proposed transaction involves the sale of the City Owned Lands to the Developer, save and except for a strata area sufficient to accommodate an underground parking garage which will provide a minimum of 75 spaces, up to a maximum of 125 spaces, on the Project Lands (based on preliminary designs, the public parking garage would comprise 81 spaces). The Developer will construct a mixed-use development consisting of residential, retail and office space, the underground public parking garage, and public parkland of approximately 1,000 square meters (10,764 square feet) (collectively, the "Development"). Ownership of the completed public parking garage will be transferred to the City of Toronto. The public parking garage is to be constructed in accordance with TPA specifications and operated by the TPA as a municipal parking facility.

The proposed transaction has been developed under the new City-wide real estate model and assessed in accordance with RES' due diligence procedures. RES is supportive of the proposed transaction. The local Councillor, Parks, Forestry and Recreation ("PF&R"), and City Planning have been consulted through the process.

RECOMMENDATIONS

The Acting President, Toronto Parking Authority and Director, Real Estate Services, recommend that:

1. City Council authorize:

(a) the sale of City Owned Lands located at 121 St. Patrick Street to Lanterra 234 Simcoe Realty Limited (the, "Developer"), save and except for a strata area sufficient to accommodate an underground parking garage; and

(b) the City of Toronto to enter into an agreement with Lanterra 234 Simcoe Realty Limited (the, "Developer") to construct an underground public parking garage with a minimum of 75 spaces and a maximum of 125 spaces on the retained City Owned Lands (strata area at 121 St. Patrick Street);

pursuant to the terms and conditions set out in Appendix 'B' - Summary of Major Business Terms, contained in the report hereto and on any other or amended terms and conditions satisfactory to the Acting President, Toronto Parking Authority and Director, Real Estate Services, all in a form satisfactory to the City Solicitor.

2. City Council authorize such other ancillary agreements or documents as may be, in the opinion of the City Solicitor, desirable or necessary to give effect to the transactions set out in Recommendations 1.(a) and 1.(b) above, on terms and conditions satisfactory to the Acting President, Toronto Parking Authority and Director, Real Estate Services.

3. City Council authorize the City Solicitor to complete the transaction on behalf of the City, including paying any necessary expenses, delivering any notices, amending the closing, due diligence, and other dates, and amending and waiving terms and conditions, on such terms and conditions as she may, from time to time, determine.

FINANCIAL IMPACT

The City and TPA negotiated a sale price of \$9,900,000 for the sale of the City Owned Lands, save and except for a strata area sufficient to accommodate the underground parking garage in the Development. A fair market value appraisal of the property obtained by Bosley Farr Associates Ltd. resulted in a value of \$10,430,000. The negotiated sale price is within a reasonable negotiating range (5%) of the fair market value appraisal of the City Owned Lands. Proceeds from this sale will be allocated as per the Net Income Sharing Agreement between the City and the TPA.

The public parking garage will be constructed by the Developer to TPA standards and specifications as a component of the transaction and will be acquired by the City and operated by TPA at an agreed price of \$67,500 per stall (\$68,648 net of HST recoveries), for a total cost ranging from \$5,062,500 (\$5,148,563 net of HST recoveries) for the minimum 75 spaces, up to \$8,437,500 (\$8,580,938 net of HST recoveries) for a maximum of 125 spaces, plus closing/transaction costs currently estimated at \$250,000.

Based on the current preliminary development plans, it is anticipated that 81 spaces (at a cost of \$5,467,500 (\$5,560,448 net of HST recoveries HST) will be provided in the public parking garage, the cost of which are included in the summary of major terms presented in Appendix 'B'. This will represent an addition of 45 spaces to the existing carpark. Any additional spaces will be sold to the TPA at the Developer's discretion.

The closing of the sale of City Owned Lands if approved would be anticipated for the summer of 2019, while the completion of the public parking garage and the subsequent payment is anticipated for 2021. The TPA will continue to operate the existing surface parking facility as a municipal parking lot (based on a proposed lease-back agreement with the Developer at no cost) until construction commences. During the construction period of the public parking garage which is anticipated to last 2 years, TPA will experience a temporary loss of revenue of approximately \$270,000, annually, which will be reflected in the respective years' Operating Budget Submissions.

The 2018-2027 Approved Capital Budget and Plan for TPA allocates funding of \$5,160,000 (net of HST recoveries) for the acquisition of underground parking spaces in this location, with a cash flow of \$100,000 and \$5,060,000 in 2018 and 2019 respectively, based on an earlier construction schedule and anticipated minimum number of 75 spaces. The TPA will include all additional acquisition costs and revised schedule for this transaction in its 2019-2028 Capital Budget and Plan Submission, since no actual payment will be required before that time.

The operating and maintenance costs associated with this new acquisition will be fully offset by the revenues from the new underground garage spaces. Over a 20-year horizon, and based upon the agreed purchase price and forecasted operating cash flows, TPA estimates an Internal Rate of Return ("IRR") of 7.4% for the acquisition of the public parking garage, which is over the 5% rate specified as TPA's benchmark criteria. Further detail on the financial analysis and assumptions are provided in Appendix 'C'.

The 2018-2027 Approved Capital Budget and Plan for TPA includes an estimate of approximately \$149,100 per year in incremental parking income from this location. This estimate will be revised and included in the 2019-2028 Capital Budget and Plan Submission, as more information becomes available.

Under the Development conditions, the City will also receive public parkland of approximately 1,000 square meters (10,764 square feet) which is over the required parkland dedication by approximately 400 square meters (4,306 square feet), at no cost, and valued at approximately \$357,500, as per City RES valuation terms of reference.

The Acting Chief Financial Officer has reviewed this report and agrees with the financial impact information.

DECISION HISTORY

At its meeting of July 28, 2016, the TPA Board of Directors approved major terms and conditions of a conditional agreement of purchase and sale agreement between TPA and the Developer involving the sale of the City Owned Lands to the Developer, save and except for a strata area sufficient to accommodate an underground public parking garage (Minute No. 16-119). The City did not satisfy its conditions and terminated this agreement in August 2017.

At its meeting of March 5, 2018, the TPA Interim Board of Directors, in considering Item PA8.3, *Property Transaction/Parking Development: City of Toronto and Lanterra 234 Simcoe Realty Ltd. - 121 St. Patrick (Municipal Carpark 221*, approved the submission of a joint report by the Toronto Parking Authority and City Real Estate Services Division on the proposed transaction for consideration by Government Management Committee ("GMC") at its meeting of April 3, 2018.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.PA8.3>

COMMENTS

Background

TPA has been operating a 36-space surface parking facility on the City Owned Lands since September 2003. The Developer Lands are immediately to the south of the City Owned Lands at 234 Simcoe Street. The Developer approached TPA to negotiate a parking development arrangement involving acquisition of a portion of the City Owned Lands as part of its Development. A conditional agreement dated June 7, 2016 was entered into with the Developer for the sale of a portion of the City Owned Lands. The Developer had waived all conditions on July 22, 2016. TPA's conditions expired on August 29, 2017 and were not satisfied; the agreement was therefore deemed terminated and confirmed by third party counsel.

Given the financial and service-oriented merits of the proposal (including additional public parking spaces and public parkland in areas of significant deficiency), and the substantial progress achieved in meeting planning principles, RES and TPA recommenced negotiations with the Developer on a new agreement of purchase and sale, the major terms of which are presented in this report.

Site Location & Particulars

The City Owned Lands constitutes a narrow rectangular lot which extends the length of the entire block offering vehicular access from both St. Patrick Street to the west and Simcoe Street to the east (see Appendix A). The City Owned Lands have frontage along St. Patrick Street of 18.1 meters (59.2 feet) and along Simcoe Street of 9.27 meters (30.4 feet).

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A description of each of the properties that comprise the Project Lands follows:

Property	Site Size (Square Feet / Square Meters)	% of Total Size (approx.) of Project Lands	Existing Use
121 St. Patrick St. ("City Owned Lands")	10,900 / 1,012	15%	Municipal Carpark 221 A 36-space surface parking facility
234 Simcoe St ("Developer Lands")	61,000 / 5,667	85%	A three storey 125,000 sq. ft. commercial office building leased to the Bank of Montreal

In addition, the Developer is currently proposing to purchase a 1.7 meter wide strip of land along the south perimeter of the Developer Lands to be included as part of the Development.

Development

The proposed Development consists of 39-storey, 35-storey, and 17-storey mixed-use buildings with 73,063 square meters (786,443 square feet) of total GFA: 65,917 square meters (709,524 square feet) of residential GFA, 1,409 square meters (15,171 square feet) of retail GFA, and 5,737 square meters (61,748 square feet) of office GFA. The below-grade garage will contain a 75 to 125-space (current estimate is 81-space) public parking garage to be built to TPA standards and specifications. In addition, the Development will provide a 1,000 square meter (10,764 square foot) public park that will be owned by the City and operated by Parks, Forestry and Recreation ("PF&R"). The Developer has submitted a Zoning By-Law Amendment application. A Final Report from City Planning on the Zoning By-Law Amendment application to permit the Development is scheduled to be considered by Toronto and East York Community Council at its meeting on April 4, 2018.

Business Case

The City Owned Lands are within an area that continues to be deficient in the adequate supply of public parking and public parkland with demand stemming from the recent significant level of development of both residential and commercial intensification that has occurred within the immediate neighbourhood. The proposed transaction allows TPA and PF&R to address the significant service deficiencies and meet their mandates while unlocking and maximizing the land value of City lands.

The current surface carpark is operating over-capacity. Given that the existing neighbourhood is evolving and the consistently high usage in the catchment area of the City Owned Lands, the development of an improved and expanded public parking facility (which will provide at a minimum, an additional 39 spaces) will help accommodate the existing parking demand and support future demand.

The size of the City Owned Lands is 1,012 square meters (10,900 square feet). The Developer has agreed to transfer approximately 1,000 square meters (10,760 square feet) of unencumbered land back to the City as new public parkland space which is to be operated by PF&R resulting in virtually no net loss for the City in terms of land area.

The City has been able to unlock and maximize value from a City owned parcel that would be undevelopable on its own, while meeting the service mandate of both PF&R and TPA.

CONTACT

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SIGNATURE

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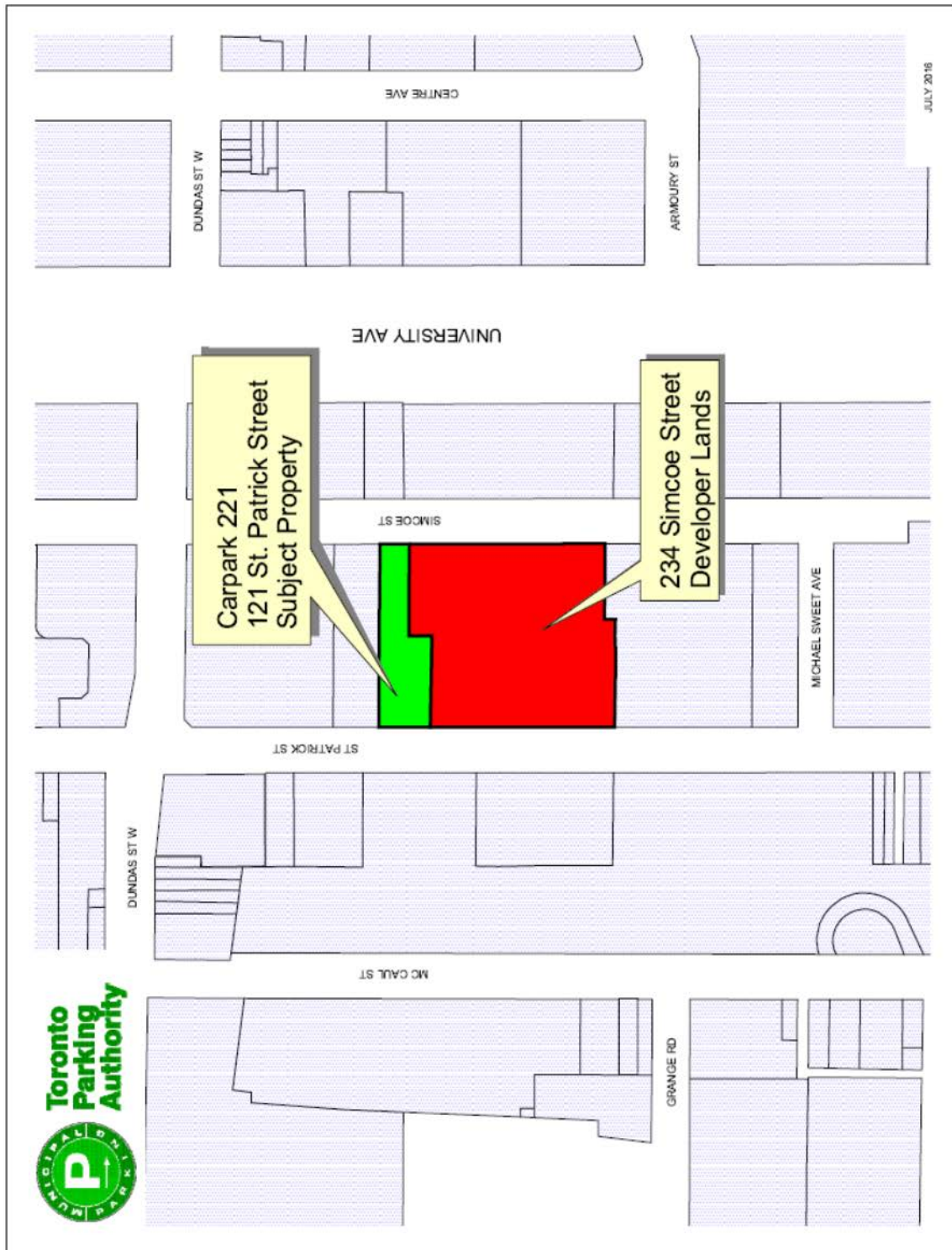
David Jollimore
Director, Real Estate Services, Internal Corporate Services

ATTACHMENTS

Appendix 'A' - Site Location Map
Appendix 'B' – Summary of Major Business Terms
Appendix 'C' – Financial Analysis

APPENDIX 'A'

Site Location Map



APPENDIX 'B'

Summary of major terms

Purchaser	Lanterra 234 Simcoe Realty Limited
Vendor	City of Toronto
City Owned Lands	Part of 121 St Patrick Street, Toronto, ON, save and except the retained lands
Retained Lands	The lands to be retained in the City's ownership are the fee simple interest in that portion of the Project Lands whereon the public parking garage will be located
Public Parking Garage	The Developer shall construct the public parking garage consisting of no more than 125 spaces with a minimum of 75 spaces for public parking, based on the standard sizing prescribed by the TPA standards and specifications, including legal access to, or ownership of, all or some portion or portions of the ramps, stairs and corridors for pedestrian and vehicular access and egress thereto
Purchase Price	The Purchase Price for the City Owned Lands is Nine Million Nine hundred thousand (\$9,900,000.00).
Closing	The Closing of sale of the City Owned Lands, save and except for portions sufficient to accommodate the underground public parking garage, shall take place following the date the Purchaser has obtained excavation permits for the Development or 2 years from the execution of the agreement of purchase and sale. The Closing of the public parking garage is expected to take place the earlier of: a) substantial completion of the public parking garage; or b) 5 years from the Closing of the City Owned Lands.
City's Reserved Easement	On Closing, the City will reserve easements and rights over the City Owned Lands in favour of the Retained Lands for access and egress and support, including, without limitation, such access (inclusive of air crane passage), egress and support as may be necessary or desirable to facilitate the construction of the parking garage or any other use permitted by zoning with respect to the Retained Lands, such easements to continue until the Reciprocal Easements have been transferred and registered on title.

Construction Bonds and Letter of Credit	<p>The construction and completion of the Parking Garage shall be secured on Closing by:</p> <ul style="list-style-type: none"> - an irrevocable letter of credit from a bank approved by the City and TPA, acting reasonably, in the amount of 110% of the anticipated Construction Cost to complete the entire Parking Garage - a 50% performance bond (which performance bond shall not be released until one year after Substantial Completion of the Parking Garage) and a 50% labour and material bond which bonds shall be provided by the Purchaser in respect of the excavation, shoring, forming and concrete, electrical, mechanical and waterproofing contracts, in amounts representing 50% of the anticipated cost of such contracts.
Reciprocal Agreement	<p>On or before the Closing, the Developer (on behalf of the future condominium corporation), together with the City / TPA will execute and deliver to each other a reciprocal cost-sharing and easement agreement setting out the terms of the cost-sharing, responsibility for maintenance and repairs, decision-making and other similar matters, as between the parties, in order to enable each of the Developer (on behalf of the future condominium corporation) and the City / TPA to effectively own and operate their respective portions of the Parking Garage.</p>
Construction Procedures Agreement	<p>The Developer and the City shall enter into a construction procedures agreement on Closing, which agreement shall set out the guidelines and procedures for construction of the public parking garage.</p>
Interim Parking Lease Agreement	<p>The Developer will lease to the City and TPA the existing surface parking facility located on the City Owned Lands for use by the TPA as a commercial parking lot for the lease term commencing on the Closing Date and until construction commences, at no cost.</p>

Public Parking Garage Consideration	<p>The City shall pay to the Developer the sum estimated to be Five Million Four Hundred and Sixty Seven Thousand and Five Hundred (\$5,467,500.00) (plus HST) based on 81 spaces as consideration for the construction of the Public Parking Garage. In the event that the Development provides for more or less than 81 parking spaces for the Public Parking Garage, then the Public Parking Garage Consideration shall be adjusted accordingly by way of an increase/decrease to the Public Parking Garage Consideration by multiplying the sum of \$67,500.00. The Public Parking Garage will consist of not less than 75 spaces. The City will purchase any increase in spaces in the Public Parking Garage in excess of 75 parking spaces up to 125 parking spaces.</p>
Environmental	<p>The Agreement includes an acknowledgment by the Developer that it is purchasing the Property on an “as is, where is” basis including its environmental condition, state of repair, deficiencies and encroachments.</p> <p>The Developer shall also provide an indemnity in favour of the TPA and the City from and against all claims in connection with the environmental activities or omissions of the Developer, the City Owned Lands, the Retained Lands or any of the Developer's obligations</p> <p>The Developer releases the TPA and the City from all claims arising out of the Pre-Existing Environmental Conditions.</p>

APPENDIX 'C'

Financial Analysis

TPA Staff completed a financial analysis to forecast the internal rate of return expected via the acquisition of the public parking garage over a 20-year time frame. A summary of the key assumptions is provided in Table 1.0 - *Summary of Key Assumptions*, below.

Table 1.0 - Summary of Key Assumptions

Input / Variable	Detail / Assumption	Comments
No. of Parking Spaces	81	Anticipated parking spaces, as per current development plans
Base Case Stabilized Annual Revenue	\$737,100 (\$9,100/stall)	Based on 35% reduction of 2017 annual revenues per stall, inflated by 2.5% per year for 3 years (est. time of garage opening)
Base Case Stabilized Annual Operating Expenses	\$202,500 (\$2,500/stall)	Based on TPA garages of similar size
Base Case Stabilized Annual Property Taxes	\$121,500 (\$1,500/stall)	Based on TPA garages of similar size
Revenue & Expense Growth Rate	2.5%	Based on anticipated inflation
Capital Reserve	8% of Annual Revenues	Based on historical trends
Initial Set Up Capital Costs	\$125,000	Based on est. signage costs, machine costs and other TPA operational requirements
Purchase Price	\$5,467,500	Based on agreed upon price for 81 spaces
Closing/Transaction Costs (incl. land transfer tax, HST, lawyer, and other closing and due diligence costs)	\$250,000	

Input / Variable	Detail / Assumption	Comments
Terminal Value (@ Year 20) Less 5% provision for selling and closing costs	\$8,511,179	Based on inflationary year-over-year increase of 2.5% of the initial purchase price

Please note that the 35% reduction to 2017 values assumed in the 'Base Case Stabilized Annual Revenue' figure reflects our experience that underground parking garages achieve a lower relative usage rate compared to surface parking spaces, resulting in a per stall reduction of revenues. Due to the dynamic nature of parking demand, the following provides a sensitivity analysis on the Stabilized Annual Revenue figures in Table 2.0 - *Sensitivity Analysis on Stabilized Annual Revenue*.

Table 2.0 - Sensitivity Analysis on Stabilized Annual Revenue

Reduction in 2017 Base Revenue	Forecasted 20 Year - Internal Rate of Return ("IRR")
25%	9.0%
35%	7.5%
45%	5.7%

The sensitivity analysis indicates that a worst case scenario of a 45% reduction in the per stall parking revenues relative to 2017 values would still produce an IRR that meets the benchmark criteria of 5% established by TPA policies and guidelines.