

Unlocking Real Estate Capital - Exploring the Strategic Disposal of 249 Queens Quay West

Date: October 13, 2021

To: Executive Committee

From: Deputy City Manager, Corporate Services

Wards: Ward 10 - Spadina-Fort York

REASON FOR CONFIDENTIAL INFORMATION

This report deals with a proposed or pending acquisition or disposition of land by the City of Toronto (the "City").

SUMMARY

CreateTO and Corporate Real Estate Management, in partnership with Economic Development and Culture, the Housing Secretariat, and with support from the Harbourfront Centre, have been pursuing an opportunity to explore the disposal of a stratified interest in the City owned property located at 249 Queens Quay West, shown on the site profile attached hereto as Appendix 1 ("Subject Property A"). Subject Property A was identified by the City of Toronto as an under-leveraged asset that could be better utilized to support other city building opportunities. Subject Property A is owned by the City of Toronto and is tenanted by 1548383 Ontario Limited, o/a Silver Hotel Group (the "Silver Hotel Group"). The Silver Hotel Group operates the Radisson Admiral Hotel Toronto Harbourfront on Subject Property A.

CreateTO and Corporate Real Estate Management, working with the Housing Secretariat, identified the opportunity to dispose Subject Property A to support the 2020 direction from Council to establish an ongoing Municipal Small Sites Rental Housing Acquisition Program. After completing a successful pilot project to protect rooming houses for long-term affordability, the Housing Secretariat is bringing forward a report, *the New Multi-Unit Residential Acquisition (MURA) Program to Protect Existing Affordable Rental Homes* that establishes and outlines the implementation of an acquisition program to Planning and Housing Committee in October 2021. The MURA program will grant funds to non-profit housing organizations or community land trusts to facilitate the purchase and conversion of at-risk private market affordable rental housing

into permanently affordable housing. The net proceeds resulting from the disposal of Subject Property A would be designated as a funding source for MURA.

The City acquired Subject Property A through an implementation agreement (the "Implementation Agreement") dated October 6, 1992 between Harbourfront Corporation (now Harbourfront Corporation (1990)) and Her Majesty the Queen in Right of Canada, as represented by the Minister of Public Works (now the Minister of Public Services and Works) (the "Federal Government"). As part of the Implementation Agreement, the City is to deposit the net income or net proceeds realized by the City from the use of Subject Property A to the Harbourfront Foundation. However, Staff and the Harbourfront Centre have reached agreement on a proposal that would allow the City to satisfy its obligations under the Implementation Agreement and provide significant support to this important cultural institution while at the same time, retain a portion of the net proceeds of the sale to support funding for the Multi-Unit Residential Acquisitions Program.

An initial property to be assessed for acquisition under MURA is the Parkview Arms Hotel, a rooming house offering 58 furnished rooms at 935 Queen Street West ("Subject Property B") as shown on the site profile attached hereto as Appendix 3, also owned by the Silver Hotel Group.

The strategic disposal of Subject Property A and potential acquisition of Subject Property B would support Council's goals set out in the HousingTO 2020-203 Action Plan and direction set in 2020 to establish a program to acquire small sites for affordable housing purposes. These transactions follow the principles set out in the City-Wide Real Estate Model, namely that the City should consider selling a real estate asset if it maximizes its value to the City, and net proceeds are to be invested into real estate assets to support City programs.

RECOMMENDATIONS

The Deputy City Manager, Corporate Services recommends that:

1. City Council authorize the Executive Director, Corporate Real Estate Management and the City Solicitor to negotiate with the Silver Hotel Group for the sale of the Subject Property based on the appraised value of Subject Property A as outlined in Confidential Attachments 1 and 2, and each of the Executive Director, Corporate Real Estate Management and the Director, Transaction Services, Corporate Real Estate Management be authorized severally to accept on behalf of the City an Offer to Purchase from the Silver Hotel Group that meets the requirements set out in Confidential Attachments 1 and 2 and is otherwise in a form and substance acceptable to the City Solicitor.
2. City Council declare a portion of the City-owned property at 249 Queens Quay West surplus, with the intended manner of disposal to be by way of a stratified interest to Silver Hotel Group and City Council direct staff to take all steps necessary to comply with the City of Toronto's real estate disposal process in Article 1 of City of Toronto Municipal Code Chapter 213, Real Property.

3. City Council authorize the Executive Director, Corporate Real Estate Management to engage a third party property surveyor to determine the stratified interest of Subject Property A to be conveyed as a result of any purchase.
4. The Executive Director, Corporate Real Estate Management, use a portion of the net proceeds from the sale of Subject Property A for due diligence work, including surveying work for both Subject Property A and B, and ensure that the Silver Hotel Group's account in respect of its lease of Subject Property A is reconciled and that the lease is in good standing prior to the closing of any proposed transaction.
5. City Council authorize the Executive Director, Corporate Real Estate Management, in consultation with the Chief Executive Officer, CreateTO, and General Manager, Economic Development and Culture, to work with the Harbourfront Centre and the Federal Government on a mutually agreeable arrangement in relation to the Implementation Agreement with respect to the allocation of the sale proceeds from the Subject Property as set out in Confidential Attachment 2.
6. City Council direct the Controller, City of Toronto, transfer a portion of the proceeds, identified in Confidential Attachment 1, from the disposal of Subject Property A to the Land Acquisition Reserve Fund (XR1012) and designate that these proceeds to be used for the Multi-Unit Residential Acquisitions Program managed by the Executive Director, Housing Secretariat with support from the Executive Director, Corporate Real Estate Management.
7. City Council authorize the General Manager, Economic Development and Culture in consultation with CreateTO develop a strategy with Harbourfront Centre to identify new revenue generation opportunities by leveraging the real estate assets on their site.
8. City Council authorize the public release of Confidential Attachment 1 and 2 following the closing of the transaction.

FINANCIAL IMPACT

The Subject Property A is owned by the City of Toronto and is tenanted by the Silver Hotel Group, which provides rent from Subject Property A in its entirety to Harbourfront Centre as per the Implementation Agreement.

Through the disposition of Subject Property A, the City will provide a portion of the proceeds to the Harbourfront Centre as part of a mutually agreeable arrangement in relation to the Implementation Agreement and the remaining proceeds will be held in the City's Land Acquisition Reserve Fund and utilized to support the Multi-Unit Residential Acquisitions Program.

Corporate Real Estate Management have confirmed that Silver Hotel Group's account is subject to a final reconciliation to ensure their rent is in good standing prior to the closing of the transaction.

Overall, there will be a net positive impact to the City of Toronto as currently the rent from Subject Property A is provided to the Harbourfront Centre.

The remaining financial impact of this report is noted in Confidential Attachment 1.

The Chief Financial Officer and Treasurer has been provided the financial impacts associated with this program for review as part of the 2022 budget process.

DECISION HISTORY

City Council, on October 27, 28 and 30, 2020, adopted PH17.5 - Pilot Project to Protect Rooming Houses for Long-term Affordability - Update, directed the Executive Director of the Housing Secretariat to develop a Municipal Small Sites Rental Housing Acquisition Program that provides dedicated funding and financing to non-profit housing organizations or community land trusts to facilitate the purchase and conversion of at-risk private market affordable rental housing into permanently affordable housing. The full report can be found at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.PH17.5>

City Council, on September 30, October 1 and 2, 2020, adopted PH16.8 - Addressing Housing and Homelessness in Toronto through Intergovernmental Partnership, which outlined the City's 24-Month COVID-19 Housing and Homelessness Recovery Response Plan aimed creating 3,000 housing opportunities for people experiencing chronic homelessness within the shelter system. To support this Plan, Council requested that the federal and provincial governments establish acquisition programs that would support the acquisitions and renovations/ conversions for all types of private market residential properties and other properties, to create new permanent affordable and supportive homes. The full report can be found at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.PH16.8>

City Council, on September 30, October 1 and 2, 2020, adopted PH16.5 - Improving Outcomes for Toronto Residents through Implementation of HousingTO 2020-2030. In Section 7 of the Implementation Plan (Ensure Well-Maintained and Secure Homes for Renters the City) committed to develop a strategy to acquire multi-unit dwellings and low-rise apartments. The full report can be found at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.PH16.5>

COMMENTS

Background

In response to direction from Council to develop an affordable housing acquisition program, CreateTO, Corporate Real Estate Management, and the Housing Secretariat identified an opportunity to leverage the disposal of Subject Property A to support a new

Multi-Unit Residential Acquisition ("MURA") Program to protect existing affordable rental units such as rooming houses. A portion of the proceeds from the disposition of Subject Property A is to be used to fund the MURA through designating funds within the City's Land Acquisition Reserve Fund. The fund would be managed by the Housing Secretariat with support from Corporate Real Estate Management respecting existing delegated authorities for real estate transactions and related activities.

As per the City-wide Real Estate Model, when City Council determines that a sale of a real estate asset is the best way to maximize its value to the City, net proceeds will be reinvested into real estate assets to support the current and future ability to deliver City programs, which includes funding the purchase of new real estate assets and expanded capacity. A report on the City-Wide Real Estate model, *City-wide Real Estate - Next Phase of Implementation* is being presented at Executive Committee in October 2021.

The Harbourfront Centre and the 1992 Implementation Agreement

Subject Property A located on the Harbourfront Centre Campus, along with other properties located on Toronto's waterfront, is the subject of a 1992 Implementation Agreement between Harbourfront Corporation (1990) and the Federal Government. Although the City owns the Subject Property A, there is an obligation for the City to pay the net income or net proceeds realized by the City from the use of the Subject Property A to the Harbourfront Foundation.

The Harbourfront Foundation and Harbourfront Corporation are not-for-profit charitable organizations that operate the Harbourfront Centre. For over 45 years, the Harbourfront Centre has provided the public with cultural, recreational and educational programming at this campus (map in Appendix 2) on Toronto's waterfront. The Harbourfront Centre welcomes millions of visitors annually for a diverse range of programming and provides many local employment as well as volunteer opportunities. The Centre also promotes Toronto-based and Canadian artists nationally and internationally and hires over 1000 artists every year. Through this work, the Harbourfront Centre demonstrates its commitment to creating jobs and supporting local economic development.

Pursuant to the Implementation Agreement, the City is to deposit the net income or net proceeds realized by the City from the use of the Subject Property to the Harbourfront Foundation. Staff and the Harbourfront Centre have reached an agreement on a proposal that would allow the City to satisfy its obligations under the Implementation Agreement, while using a portion of the net proceeds to fund MURA. Providing the Harbourfront Centre with a portion of the proceeds instead of the full proceeds would help the Centre with a capital contribution to address a state of good repair backlog and support public realm enhancements at their site, which is heavily used by Toronto residents and visitors. Details on the mutually agreeable arrangement between the City of Toronto and the Harbourfront Centre are in Confidential Attachment 2.

Strategic Disposal of Subject Property A

When the City acquired the Subject Property A, pursuant to the Implementation Agreement, the City assumed the lease restated as of December 1, 1989 between Harbourfront Corporation as landlord, and Pier 4 Storehouse Limited as tenant (the "Lease"). The term of the Lease is 60 years, expiring on March 17, 2045. In 2000, 1548383 Ontario Limited, o/a Silver Hotel Group ("Silver Hotel Group") assumed the Lease from Pier 4 Storehouse Limited.

The Subject Property A consists of a building containing a 50,301 square foot, 157 rooms, Radisson branded hotel building and 20,305 square foot of mixed-use commercial space and a 379 stall parking garage below grade. The existing improvements on Subject Property A represent the highest and best use. The Silver Hotel Group has been operating hotels in Toronto for several decades and with the Harbourfront Centre, a leading tourist destination on the central waterfront, there is a demand for hotels in the local area. The Silver Hotel Group has indicated that the remaining 20-year term on the lease is insufficient to recover the costs required to maintain the Subject Property in a state of good repair.

Part of the building at 249 Queens Quay West consists of a residential condominium and accordingly, given the divided ownership of the building, is subject to various reciprocal easements for access, support and maintenance, in favour of the City and similar easements in favour of the condominium corporation, as well as an agreement between the Condominium Corporation and the City governing the use of various shared facilities (including various walkways and driveways, the underground parking garage and the swimming pool located on the Subject Property A) and the sharing of various costs associated with the shared facilities. These encumbrances significantly limit any development potential of the site and ultimately, restrict any city building potential.

The facilities on the Subject Property A do not support any direct City services or programs. The Lease, along with the aforementioned encumbrances, limit the strategic value of Subject Property A for any significant city building opportunities and as a result, the site is an under-leveraged asset in the City's portfolio. City Building Committee provided formal direction to deem the Subject Property surplus to the City's needs, in accordance with City processes. As a result, the Subject Property A is considered to be a non-essential asset in the City's real estate portfolio that if disposed, would result in significant revenue as outlined in Confidential Attachment 1, and can be leveraged to support other City priorities.

Disposal of Subject Property A will be used to contribute funding for the Multi-Unit Residential Acquisitions Program and secure affordable housing, a key strategic opportunity for the City of Toronto. The disposal allows the City to reposition its capital to support the higher order need for housing.

As part of the strategic disposal transaction, the Silver Hotel Group has agreed to provide the City with a restrictive covenant on title that would bind the Subject Property A to the current zoning permissions and does not allow for any zoning amendments including height and density. In addition, as part of the transaction, Silver Hotel Group has agreed to withdraw the appeal they have filed at the Local Planning Appeal Tribunal

regarding the City's recent change to the definition of "dwelling room" which was done in order to prevent the conversion of properties that have a hotel use but, operate as a rooming house and as such form an important part of the city's affordable housing stock. This appeal was filed in relation to Subject Property B which Silver Hotel Group believe would have been subject to the new definition and as such restricted their development rights.

Establishment of funding for MURA using the Land Acquisition Reserve Fund

As part of the HousingTO 2020-2030 Action Plan, the City of Toronto has taken a number of actions to protect rooming houses and tenants through partnerships with non-profit housing providers and other levels of government. These actions have included a rooming house acquisition pilot project for Ward 4 - Parkdale-High Park, an area of the City where there have been a disproportionately large number of conversions of these types of homes. The Housing Secretariat is bringing forward a report, *New Multi-Unit Residential Acquisition (MURA) Program to Protect Existing Affordable Rental Homes*, to October 2021 Planning and Housing Committee that establishes and outlines the implementation of the Program to continue to protect affordable housing across Toronto.

MURA establishes a designated funding source within the City's Land Acquisition Reserve Fund, managed by the Housing Secretariat. Governance for use of the fund will align with existing delegated authorities and the City's Strategic Acquisition Policy being presented in the report *City-wide Real Estate - Next Phase of Implementation*.

Further, establishing funding to acquire smaller housing sites supports the objectives of the HousingTO 2020-2030 Action Plan and City Council direction set in October 2020. This program will increase the opportunity for low-income, vulnerable and marginalized individuals, including Indigenous Peoples, seniors, women, the LGBTQS2+ community, Black people, and People of Colour to access and maintain safe, healthy and adequate homes.

Assessment of Subject Property B

The Silver Hotel Group is also the owner of Subject Property B, a 58-unit rooming house at 935 Queen Street West. Corporate Real Estate Management is conducting due diligence on Subject Property B and once complete, the rooming house may be acquired using funds from MURA. If acquired, Subject Property B would be considered a strategic acquisition that supports City Council direction to protect affordable housing such as rooming houses. Corporate Real Estate Management has secured a first right of refusal on Subject Property B for twelve months in the event that acquisition is pursued. City staff will report to City Council on the acquisition of this and any other sites following established protocols and procedures.

Conclusion

The City-Wide Real Estate Model along with the principles for strategic real estate investment developed by City Council in 2017, the HousingTO Action Plan 2020-2030

and Council direction to explore sources of funding to contribute to the acquisition of small sites for affordable housing purposes have guided the recommendations presented by City Staff to City Council on the strategic disposal of Subject Property A. The proposed disposal demonstrates the how strategic real estate investment principles can be applied on a city-wide basis and lead to efficient utilization and optimization of available capital to support City-Council adopted strategies.

CONTACT

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SIGNATURE

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ATTACHMENTS

Appendix 1 - Site Profile of Subject Property A
Appendix 2 - Campus Profile, Harbourfront Centre
Appendix 3 – Site Profile of Subject Property B

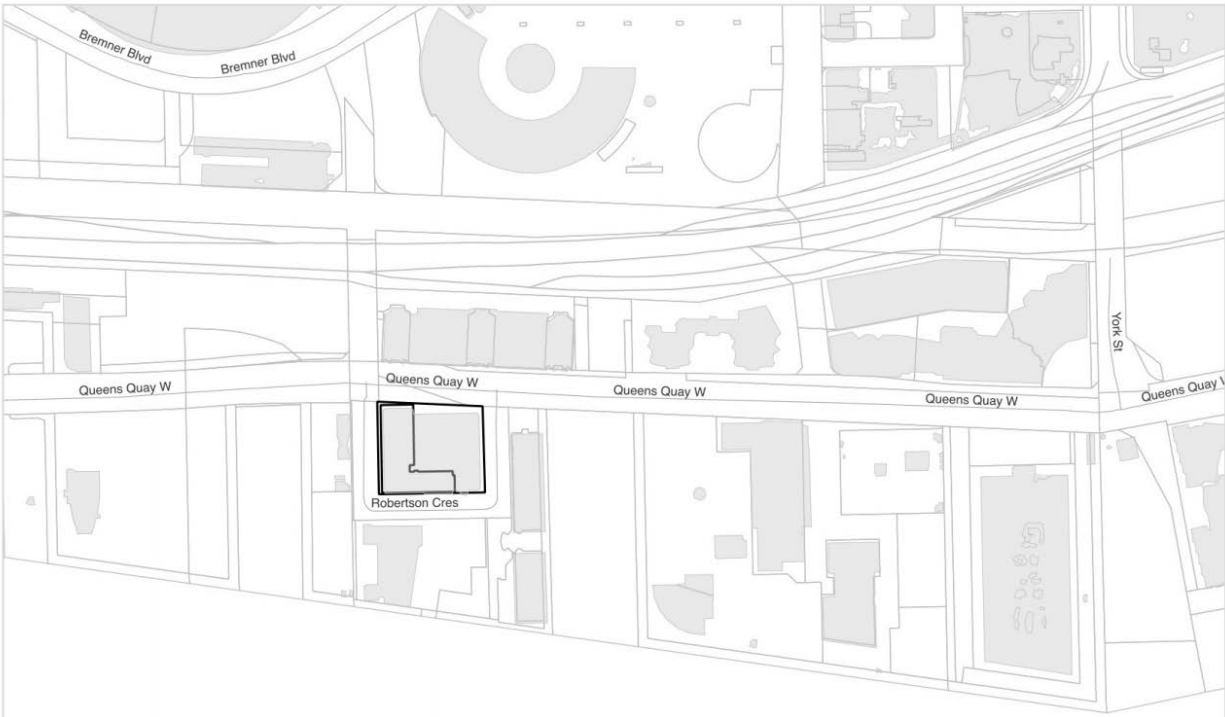
Confidential Attachment 1

Confidential Attachment 2

Appendix 1: Site Profile of Subject Property A

PROPERTY PROFILE: 249 Queens Quay W

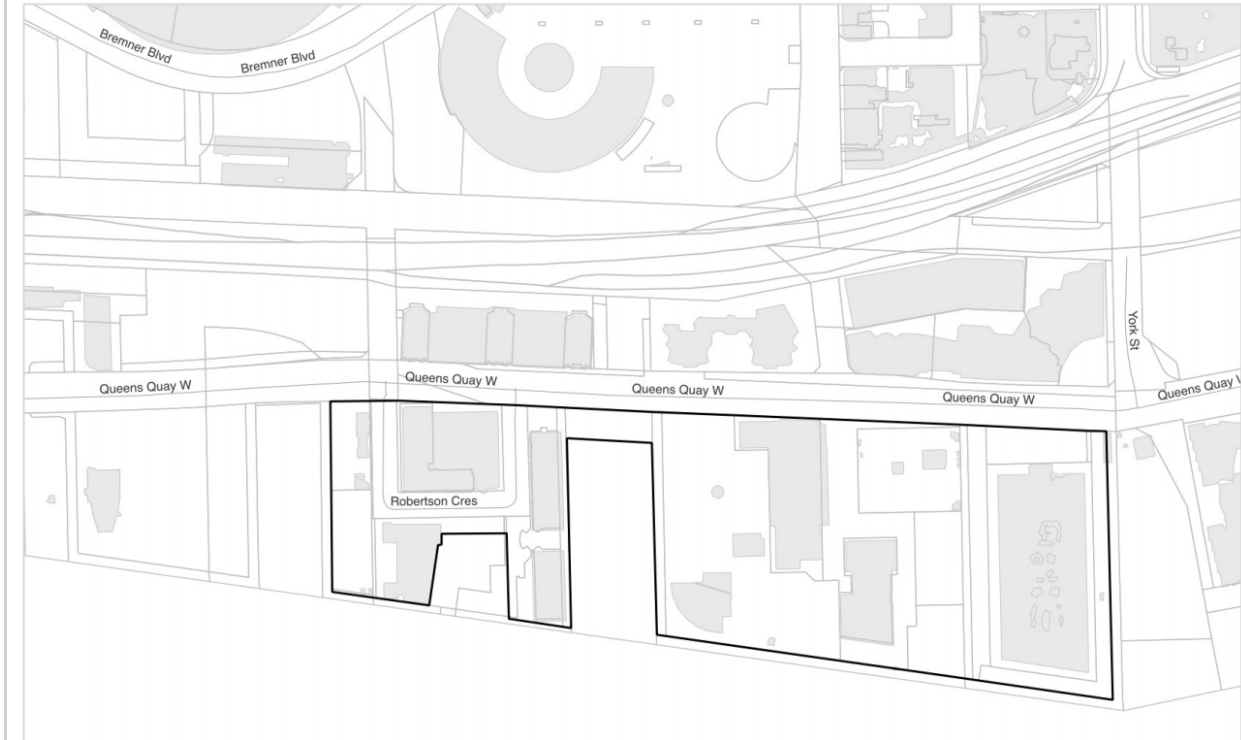
PROPERTY DETAILS		
District: South	Jurisdiction:	Official Plan: Mixed Use
Ward: 10 Spadina-Fort York, Councillor Joe Cressy	Current Use: Hotel	Zoning: Former By-law (Comm. Res.)
Intersection: Queens Quay & Lower Simcoe	Occupants: Radisson Blu	Site Area: 30,678 sf



Appendix 2: Campus Profile, Harbourfront Centre

PROPERTY PROFILE: Harbourfront Centre

PROPERTY DETAILS		
District: South	Jurisdiction:	Official Plan: Mixed Use, Parks
Ward: 10 Spadina-Fort York, Councillor Joe Cressy	Current Use: Park, Studio, Hotel, Police Station, Recreation, Retail	Zoning: Former By-law (CR, G)
Intersection: Queens Quay & Lower Simcoe	Occupants:	Site Area: 829,200 sf



Appendix 3: Site Profile of Subject Property B

PROPERTY PROFILE: 935 Queen St W

PROPERTY DETAILS		
District: South	Jurisdiction:	Official Plan: Mixed Use
Ward: 10 Spadina-Fort York, Councillor Joe Cressy	Current Use: Hotel & Rooming House	Zoning: Commercial Residential
Intersection: Queen St W & Strachan Ave	Occupants: Parkview Arms	Site Area: 4,740 sf

