REPORT FOR ACTION WITH CONFIDENTIAL ATTACHMENT

TPA Rental Property Portfolio Update – First Quarter 2022

Date: February 4, 2021
To: Board of Directors, Toronto Parking Authority
From: President, Toronto Parking Authority
Wards: All

REASON FOR CONFIDENTIAL INFORMATION

The attachment to this report contains positions, plans, procedures, criteria or instructions to be applied to negotiations to be carried out by the Toronto Parking Authority (TPA).

SUMMARY

Toronto Parking Authority (TPA) has a commercial and residential rental portfolio comprised of 35 units accounting for over 7,000 square metres (m) across 17 properties. The tenancies are varied in use including retail, office, car wash operations and residential. The entire rental portfolio generated a Gross Revenue of $693,809 in 2020.

TPA’s rental portfolio has grown over the past 35 years. Intended to animate the streetscape and attract parking demands, retail units were built between 1980 and 2000 into above grade parking structures. TPA has also grown its rental portfolio through the acquisition of properties in areas where high future parking demands have been projected. This strategy was primarily employed during the 2010’s when properties were acquired and held with interim rental units in place while the sites were prepared for the future development or expansion of car parks.

The management of commercial and residential tenancies falls outside of the core services that TPA delivers and has been identified for centralization under Corporate Real Estate Management (CREM) through the City-wide Real Estate Model (CWRE). Although implementation of the centralized real estate model is in progress, the timing in which TPA’s rental portfolio will be assumed by CREM remains unclear.

The purpose of this report is to provide TPA Board of Directors with an update on the status of TPA's rental property portfolio including an overview of the portfolio's holdings, a review of the key issues impacting TPA's management of the rental property portfolio and an overview of new opportunities. Future updates will be provided on a semi-annual basis moving forward.

RECOMMENDATIONS

The President, Toronto Parking Authority recommends that:

1. The Board of Directors of Toronto Parking Authority receive this report for information purposes only.

2. The Board of Directors of Toronto Parking Authority, direct that the confidential information contained in *Confidential Attachment 1* remain confidential in its entirety, as it contains positions, plans, procedures, criteria or instructions to be applied to negotiations to be carried out by the Toronto Parking Authority.

FINANCIAL IMPACT

There is no financial impact associated with the adoption of this report. Additional information regarding the finances of TPA's rental property portfolio can be found in *Confidential Attachment 1*.

DECISION HISTORY

At its meeting of October 2, 3 and 4, 2017, City Council adopted Item EX27.12 which made amendments to Municipal Code Chapter 179 (Parking Authority) to ensure that all real estate transactions are directed through the City's centralized real estate service delivery model, the updated delegated authority approval process and due diligence procedures, effective January 1, 2018, while recognizing the need to preserve their ability to continue with the day to day management of real property assets falling under their respective jurisdictions.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.EX27.12

At its meeting of February 21, 2017, TPA Board of Directors (Meeting Minute No. 17-029) authorized staff to negotiate and enter into new tenant lease agreements and existing tenant lease renewals based on a set of pre-determined market leasing criteria including minimum rents, minimum term, landlord improvements and tenant inducement. This report is included in full in *Confidential Attachment 1*.

COMMENTS

Background:

TPA's rental stock varies in size and location. Currently, 29 units are commercial/retail, five (5) are residential and one (1) is industrial. Units range in size from 28 to 1,790 square m and are located across the City. Additional details on all of the rental units are included in Appendix A. Information on the financial performance of the rental portfolio is included in *Confidential Attachment 1.*

TPA's rental portfolio has grown over the past 35 years primarily through two methods. Retail units were built at street level into above grade parking structures constructed from 1980 - 2000. These units were constructed to animate the streetscape and also provide an additional income source to TPA. TPA has also grown its rental portfolio by acquiring properties located directly adjacent to existing TPA properties or in areas where high future parking demands have been projected. This strategy was primarily employed during the 2010's. Properties were acquired with the intent to demolish existing structures and redevelop the sites into expansions of existing TPA car parks or new car parks.

Up until January 1, 2018, the authority to enter into leases was provided by either TPA Board of Directors or through a delegation of authority previously provided by TPA Board of Directors to TPA. Following this date and through the City's implementation of a City-wide real estate model, TPA now has limited authority to approve and enter into licences and leases in relation to areas or facilities under its jurisdictions. The City's interests in lands has been centralized and these types of agreements are now primarily a matter to be addressed by CREM.

While implementation of the CWRE model is in progress, centralization of lease administration and property management activities has not yet been completed. TPA continues to work with CREM to develop a plan and the requisite service level agreement for the future migration of TPA's rental portfolio to CREM, however, no timelines have been identified as of yet. Until the transfer is completed, TPA will continue to be responsible for property maintenance at its rental properties.

Current Status of Portfolio:

As of February 1, 2022, 22 of 35 units are occupied for an occupancy rate of 60 percent. The bulk of vacant units are currently retail and commercial units. The rental portfolio generated $693,809 in Gross Revenue in 2020. This figure represented a sharp decline from 2019 revenue levels due to the effects of the COVID-19 pandemic. Additional information on the financial performance of the rental portfolio is included in *Confidential Attachment 1.*

The number of vacancies in TPA's rental portfolio has sharply risen over the past two years due to the effects of the COVID-19 pandemic on small businesses as well as the result of various City programs underway including ModernTO. In Spring 2021, TPA retained Avison Young through CREM's roster of commercial real estate brokers to assist TPA with leasing matters at its vacant properties. This relationship has already resulted in one new completed tenancy and several active negotiations/offers on vacant units. It is expected multiple new leases will be signed in 2022 and TPA will continue to work with CREM and Avison Young on securing tenants for TPA's vacant units.

Impacts of COVID-19 Pandemic:

TPA's rental portfolio has been affected adversely by the COVID-19 pandemic in multiple ways, but most significantly in outstanding rent accumulated. In May of 2020, City Divisions and Agencies with tenancies managed rent relief requests by allowing tenants to defer the rent from April (retroactively) to September 2020. Between April and September of 2020, 16 of 23 tenants took advantage of the rental deferral program. Deferrals were only offered to tenants in good standing and whom are not corporately owned.

The City of Toronto, and by extension TPA, are not eligible to participate in the Canada Emergency Commercial Rent Assistance (CECRA) program. CECRA was designed to provide relief for small businesses experiencing financial hardship due to COVID-19 by offering unsecured, forgivable loans to eligible commercial property owners. The program was not designed to assist municipalities and their agencies.

Beginning in October 2020, the Federal Government created the Canadian Emergency Rent Subsidy program (CERS). The program allowed tenants to directly apply to the Federal Government for a rent subsidy which covered up to a maximum of 65 percent of their monthly rent and up to a maximum of 90 percent if the business had to close due to the second and third wave of lockdowns Toronto experienced during 2020 and 2021. As this benefit was quite financially generous, CREM/TPA did not offer any additional rent subsidy or relief from the period of October 2020 – October 2021 when CERS was available. Tenants were expected to apply for CERS and use those funds to pay their rent owing.

Following the conclusion of the CERS program in October 2021, TPA tenants were expected to pay their full monthly rent. TPA and CREM continue to monitor the COVID-19 pandemic situation and assess how to properly aid tenants should financial assistance be required due to additional lockdowns or public health measures. Additional information about the finances of the tenant portfolio, including deferred rent amounts can be found in *Confidential Attachment 1.*

Property Management / Facilities Maintenance:

The management of TPA's rental portfolio raises a number of challenges that extend beyond TPA's core business, including property management issues and an aging building portfolio.

TPA is responsible for property management at all rental locations and is required on a regular basis to address matters such as personal safety and security, pest control, the maintenance of water and sanitary sewer lines, HVAC repairs, structural, mechanical and electrical issues, as well as, rental abatement requests abandonments, liquidations, etc. Although TPA works closely with CREM to triage and address issues as they arise, this arrangement is problematic because it involves dependencies on CREM and third-party contractors retained by TPA for the resolution of time-sensitive matters.

Under the City's CWRE model, the management of City-owned rental properties, including lease administration and property management requirements, is being centralized under CREM. While this centralization has been planned for a number of years, migration of TPA's tenant portfolio to CREM continues to be delayed due to a lack of resources within CREM as well as other competing priorities that have emerged in response to the COVID-19 pandemic.

CREM is presently working on defining the future state service delivery model and associated implementation roadmap in alignment with the goals of the CWRE transformation. Successful delivery of the service delivery model requires CREM to develop the capabilities and the capacity to centralize and subsequently harmonize the delivery of existing real estate services. Concurrently, CREM will develop the transition plan for real estate services among divisions and agencies. TPA is working with CREM to define the timing of the transition and will report back to the next meeting of TPA Board of Directors with more information.

In the interim, CREM will continue to lend support to the TPA in respect of all real estate matters emerging within the portfolio. To ensure that TPA has access to the appropriate resources and capabilities during this interim period, TPA has issued a Request for Quotations (RFQ) for property management services. Once selected, the property management firm(s) will conduct management of all rental properties and will be the first point of contact for any property management issues involving tenants at the properties.

Lease Administration

TPA's rental portfolio is currently a mix of agreements executed by TPA and CREM as some leases executed prior to January 1, 2018 are still in effect. TPA is working with CREM to review all of its commercial and residential leases with its tenants to ensure that market lease rates and lease agreements are all up to date. As of February 1, 2022, there are eight (8) tenants who currently have leases that are in overholding status (e.g. terms and conditions are being observed, but the leases have expired). TPA/CREM are in active negotiations with all these tenants and expect to have resolutions by the end of 2022.

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SIGNATURE

W. Scott Collier, President
Toronto Parking Authority

ATTACHMENTS

Appendix A - TPA Rental Portfolio as of February 1, 2022

Confidential Attachment 1 – Confidential Information

APPENDIX A - TPA RENTAL PORTFOLIO AS OF FEBRUARY 1, 2022

CP	Address	Units	Total Sq. m	Vacancies	Uses	Next Steps
1	20 Charles St. E. /25 Hayden St.	3	340	0	Retail	TPA is resolving arrears disputes with two tenants at this property. One unit will become vacant following settlement of the dispute and TPA will work towards listing it on the market.
26	33 Queen St. E./40 Richmond St. E.	4	244	1	Retail	Property is part of ModernTO development. Vacant possession of the site is required in Q2 2023. TPA currently has a lease offer on the single vacant unit.
26	50 Richmond St. E.	6	1,352	6	Office	Property is part of ModernTO development. Vacant possession of the site is required in Q2 2023. TPA is actively seeking short-term tenants for all six (6) units.
36	100 Queen St. W.	1	255	0	Car Wash	Tenant was relocated from CP 58 to this location in March 2020.
42	91 Via Italia	1	28	1	Office	TPA enforcement staff are currently using this unit as a field office.
58	9 Bedford Rd.	1	71	1	Car Wash	This car park is undergoing significant renovations for the next five (5) years. Due the renovations, the car wash unit will not be leased out during this period.
68	161 Baldwin St.	6	206	0	Retail	A new lease agreement for the last remaining vacant unit was recently executed. The new tenant took possession February 1, 2022.
157	1511 Bayview Ave.	1	764	0	Retail	N/A
216	207 McCaul St.	1	167	0	Retail	New tenant took possession of the unit on November 1, 2021.
276	138 Hamilton St.	1	167	1	Residential	Unit previously occupied by Bike Share for storage. TPA internally deciding on next steps for the property.

CP	Address	Units	Total Sq. m	Vacancies	Uses	Next Steps
281	598 Gerrard St. E.	2	390	1	Retail, Residential	Vacant unit will not be rented out due to health and safety concerns surrounding the condition of the unit. CreateTO is assessing the viability of this site for affordable housing purposes.
282	838 Broadview Ave.	2	378	0	Retail	Property has been sold and will be redeveloped into a proposed 8-storey mixed use building that includes affordable housing and a 33-space TPA underground carpark in the coming years.
411	213 Roe Ave.	1	167	0	Residential	N/A
535	5 Chartwell St.	1	138	0	Residential	Property under review by CreateTO
661	437 Rogers Rd.	2	385	0	Retail, Residential	Property under review by CreateTO
674	2623 Eglinton Ave. W.	1	206	1	Retail	TPA actively looking for a tenant.
TBD	21 Connell Crt.	1	1,790	1	Industrial	TPA is reviewing opportunities to accommodate the storage of custodial equipment and deployment of staff from this location.
	Totals	35	7,047	13		