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City of Toronto
Zoning and Committee of Adjustment
City Hall, 19 East

RE: EHON Major Streets Financial Feasibility – Small-Scale Apartment Analysis Up to 60 Units

Based on direction from the City's Planning and Housing Committee and building on the analyses previously completed in our *EHON Major Streets: Financial Feasibility* study of December 2023, Parcel Economics Inc. ("Parcel") has now been asked to consider the financial feasibility of small-scale apartment buildings of up to 60 units along the City's *Major Streets.*

Parameters

We have based our pro forma analyses on the following assumptions, based on consultation with City Staff and the pre-existing structure / assumptions established in our original study:

- The **built form** is based on the small-scale apartment building statistics from our previous study, with the addition of one storey (i.e., increasing the buildings from 5 to 6-storeys) to the overall gross floor area.

- **Unit sizes** were adjusted downward, and the **unit mix** was adjusted slightly to be reflective of the active application at 72 Amroth Avenue. This resulted in a higher unit yield.

Unit Type	Average Unit Size		Unit Mix	
	(Old)	(New)	(Old)	(New)
1-Bedroom	60 sqm	50 sq m	50%	54%
2-Bedrooms	75 sq m	70 sq m	40%	37%
3-Bedrooms	93 sq m	85 sq m	10%	10%

- **Revenue assumptions** were held constant on a per square foot basis from our previous study. This resulted in a lower price by unit type due to the smaller unit sizes.
- **Cost assumptions** were held constant from our previous study, including hard costs per square foot, soft costs (e.g., City fees, consultants, etc.) and land costs by District.

A Word of Caution About Costs…

Since our previous study was completed, both hard and soft costs have continued to rise. This includes increases to hard costs, as well as City Planning Fees and Development Charges. Although these costs were held constant from our previous study for the sake of simplicity and ease-of-comparison, we note that the results of these updated analyses, and those previously completed in December 2023 should be revisited in this regard.

In light of these cost increases, it is **likely that returns will decrease if revenue growth does not keep pace**. As such, the potential return metrics contained herein should not be relied upon as a predictor of achievable profit potential, but rather for the purposes of comparing development typologies and scenarios.

Findings

Overall Feasibility

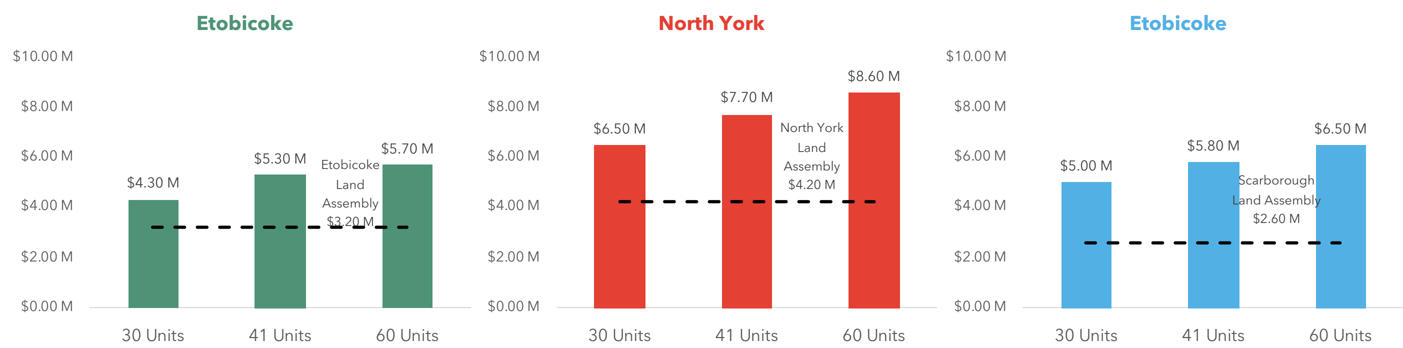
The following key findings were observed across all three Districts, based on our updated analysis:

- The reduction of unit sizes combined with the additional floor of gross floor area resulted in the small-scale apartment **unit yield increasing from 30 units to 41 units in all three districts**.
- To achieve 60 units within the contemplated building envelopes, the unit mix would have to include only studios and 1-bedroom units. Increasing the gross floor area beyond the contemplated building envelopes would allow for some 2 and 3-bedroom units, however, buildings would need to be taller than 6-storeys or have a larger floor plate requiring the costly assembly of additional adjacent lots.

- Unsurprisingly, increasing the gross floor areas and unit yields increases the residual land value, however, we note that residual land values were already above the assumed land assembly costs analyzed for the 30-unit buildings (see page 10 of our previous study and the figure below).

Figure 1

Residual Land Value Comparison



Source: Parcel

- Similarly, financial returns also improve with increased floor areas and unit yields, however, once again we note that the baseline financial returns of the previously analyzed 30-unit buildings were already strong (see pages 26 – 28 of our previous study and the figure below). The addition of these units can best be described as **"more of a good thing"**.

Figure 2

Return Metrics Comparison

	Etobicoke			North York			Scarborough		
	30 Units	41 Units	60 Units	30 Units	41 Units	60 Units	30 Units	41 Units	60 Units
Profit	$4.78 M	$7.17 M	$7.78 M	$6.42 M	$9.33 M	$10.55 M	$6.55 M	$8.83 M	$9.75 M
IRR	42%	52%	54%	43%	53%	56%	54%	62%	65%
Equity Multiple	2.01x	2.33x	2.41x	2.24x	2.63x	2.80x	2.43x	2.67x	2.81x

Source: Parcel

- Based on the additional density and unit yield, **the small-scale apartment typology now has the potential to generate the highest profit and–in most Districts–the highest IRR and equity multiple**

(EMx). As such, this is likely the preferred choice for developers looking to maximize returns, however, small-scale apartments continue to have more risk and more complexity than townhomes and stacked townhome typologies. Townhomes remain an 'easy win'.

- As was the case with our previous analyses, higher construction costs, the inclusion of affordable units, 10% lower revenues and retail at-grade will all result in lower returns than estimated for both the 41 and 60-unit small-scale apartments buildings.

Rental

Revisiting the Etobicoke rental scenario from page 14 of our previous study, we note that a rental building of 60 studios and 1-bedrooms would achieve improved returns, however, upon completion it is still likely to yield less than a low-risk government bond and remains heavily reliant on the sale of the building some 15 years into the future to generate more than 87% of future cash flows. That said, some patient, long-term investors may be interested in undertaking such a project as yield is likely to increase over time and the potential for steady, positive cash flow exists.

Figure 3

Rental Comparison

Etobicoke Rental Comparison (10-yr Hold)

	30 Units	60 Units
Profit	$4.23 M	$17.13 M
IRR	3%	10%
Equity Multiple	1.46x	3.36x
Yield (Year 1)	1.7%	3.0%

Source: Parcel

To make rental work at these higher yields still requires costs savings, such as: **discounted land**; **full DC rebate**; and/or **no parkland dedication**.

Affordability:

Can larger small-scale apartments accommodate 25% affordable units?

At 25% affordable, 10 of the 11 additional units would need to be affordable, significantly offsetting the benefits of the additional density for financial feasibility. These 10 affordable ownership units—based on the City's 2024 affordability levels—would likely reduce profit from $8.8 Million to $3.97 Million. Equivalent to the conclusions on page 17 of our previous study, the combined metrics of $3.97 Million in profit, 34% IRR and 1.77x EMx **may be enough for some to undertake this scale of project**.

In a building of 60 studios and 1-bedrooms, the inclusion of 25% affordable ownership units (15 units) is likely to decrease profit from $9.75 Million to $5.08 Million, with the potential for 39% IRR and 1.95x EMx. A small-scale condo building comprised **exclusively of smaller units** has the potential to deliver 25% as affordable ownership and still deliver attractive returns.

Affordable rental units remain challenging to deliver at this scale.

We hope that you find this updated information helpful and please do not hesitate to contact us with any questions.

Sincerely,

Parcel

Parcel Economics Inc.

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Principal

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