

Strategic Opportunity at 267 and 275 Merton Street

Date: May 30, 2024

To: Planning and Housing Committee

From: Executive Director, Housing Secretariat and Executive Director, Corporate Real Estate Management

Wards: 12 - Toronto-St. Paul's

REASON FOR CONFIDENTIAL INFORMATION

The attachments to this report contains information regarding a proposed or pending acquisition or disposition of land by the City of Toronto.

SUMMARY

This report provides City Council with information on a strategic opportunity to leverage the City-owned lands at 275 Merton Street (the "City Site") to create new purpose-built rental homes, including a minimum target of 30% affordable rental homes. Through negotiations led by CreateTO, in consultation with Corporate Real Estate Management and Housing Secretariat, staff have finalized the terms of a development partnership with Collecdev-Markee Limited Partnership (the "Developer"), which advance a development on the City Site, as well as the adjacent site, 267 Merton Street (the "Developer Site"), which is owned by a subsidiary of the Developer.

This report outlines the opportunity to leverage the City Site in a way that would deliver a substantial number of new affordable rental and rent-controlled market homes in support of the City's [HousingTO 2020-2030 Action Plan](#) targets to approve 65,000 new rent-controlled homes by 2030; and leverage underutilized City-owned properties to create new affordable housing. This report requests Council authority to proceed with the related real estate transactions required to advance this strategic development, along with additional City incentives to support affordable housing, as endorsed by the CreateTO Board on February 16, 2024, the details of which are outlined in Confidential Attachment 1.

RECOMMENDATIONS

Executive Director, Housing Secretariat and Executive Director, Corporate Real Estate Management recommend:

Land Considerations

1. City Council authorize the Executive Director, Corporate Real Estate Management, in consultation with the Executive Director, Housing Secretariat, to negotiate and execute on behalf of the City the agreement of purchase and sale with Markee Missing Middle (Merton) GP Inc. and Markee Missing Middle (Merton) Limited Partnership (the "Vendor") in respect of 267 Merton Street and the lease with the Markee Missing Middle (Merton) Limited Partnership (the "Tenant") in respect of 267 Merton Street and 275 Merton Street, and any documents ancillary thereto, on forms approved by the City Solicitor.
2. City Council authorize the public release of Confidential Attachments 1 and 2 to this report following the completion of the developments contemplated in Confidential Attachment 2, at the discretion of the Executive Director, Corporate Real Estate Management.

Affordable Housing

3. City Council authorize the affordable rental housing units described in Confidential Attachments 1 and 2, to be constructed on the lands known as 267 and 275 Merton Street, to be eligible for waivers of fees for planning applications, building permits, parkland dedication and development charges exemptions, unless already paid or exempted by provincial legislation.
4. City Council authorize an exemption from taxation for municipal and school purposes for 99 years for the affordable rental housing units described in Confidential Attachments 1 and 2, to be located on 267 and 275 Merton Street.
5. City Council authorize City staff to cancel or refund any taxes paid after the effective date of the exemption from taxation for municipal and school purposes as set out in the Contribution Agreement.
6. City Council authorize the Executive Director, Housing Secretariat, to negotiate and enter into, on behalf of the City, a municipal housing facility agreement (the "Contribution Agreement") with the Tenant for the development of affordable housing to be constructed on 267 and 275 Merton Street, to secure the financial assistance being provided and to set out the terms of the operation of the new affordable rental housing, on terms and conditions satisfactory to the Executive Director, Housing Secretariat, and in a form approved by the City Solicitor.
7. City Council authorize the Executive Director, Housing Secretariat to execute, on behalf of the City, any security or financing documents required by the Tenant to secure construction and conventional financing and subsequent refinancing, including any postponement, tripartite, confirmation of status, discharge or consent documents where and when required during the term of the Contribution Agreement, as required by normal business practices, and provided that such documents do not give rise to

financial obligations on the part of the City that have not been previously approved by City Council.

8. City Council authorize the City Solicitor to execute, postpone, confirm the status of, and discharge any City security documents registered as required by normal business practices.

FINANCIAL IMPACT

The financial impact of the proposed transaction is outlined in Confidential Attachment 1 to this report.

The Chief Financial Officer and Treasurer has reviewed this report and agrees with the financial implications as contained in the Financial Impact Section.

EQUITY IMPACT

To realize a [generational transformation](#) of the City will need to achieve the Council-approved housing target of 65,000 rent-controlled homes, comprising 6,500 Rent-Geared-to-Income (RGI), 41,000 affordable rental, and 17,500 rent-controlled market homes, by 2030. Achieving these targets will contribute to the City's Housing Pledge to the Province to achieve or exceed the provincial housing target of 285,000 new Toronto homes by 2031.

The HousingTO 2020-2030 Action Plan (HousingTO Plan) recognizes housing as a critical component to an individual's inherent dignity and overall well-being, and as an important determinant of health. The HousingTO Plan provides a blueprint for action across the full housing spectrum to further the progressive realization of the right to adequate housing.

Creating new rent-controlled market and affordable housing is critical in addressing the housing needs of Toronto's current and future residents; approximately 48% of Toronto households (557,970 households) are renters, and 40% of these renters are living in unaffordable housing. Further, as the cost of living continues to outpace wages, 1 in 3 of Toronto's owner and renter households have experienced affordability issues (373,965 households or 32% - based on 2021 Census data).

Through this report, the City is advancing a strategic land assembly opportunity to support the delivery of mixed-income and complete communities. The proposed housing project is a much-needed step towards delivering on the City's housing targets and providing options across the housing continuum for Torontonians of low-and moderate-income levels.

In particular, the City aims to create more safe, affordable and adequate homes for communities facing systemic and structural inequities, including Indigenous and Black residents, and other equity-deserving groups. The proposed new rent-controlled market

and affordable homes, will help low- and moderate- income Torontonians while supporting the economic and environmental health of Toronto, and the region.

DECISION HISTORY

At its meeting of February 16, 2024, the Board of Directors of CreateTO endorsed the key terms of a proposed transaction involving the City-owned lands at 275 Merton Street, and directed the CEO, CreateTO to work with the Deputy City Manager, Corporate Services, and the Executive Director, Housing Secretariat, to advance these key terms to City Council for consideration.

<https://secure.toronto.ca/council/agenda-item.do?item=2024.RA9.3>

At its meeting of December 13, 2023, City Council adopted Item EX10.2 (Advancing Generational Transformation of Toronto's Housing System - Aligning Housing Mandates and Strategic Efforts). The adopted recommendations include a request to the Board of Directors of CreateTO to leverage City lands and partnerships to facilitate the creation of complete communities and to prioritize the delivery of a range of new purpose-built rental homes including new rent-geared-to-income, affordable and market rent-controlled homes, to support the delivery of Toronto's housing plans and targets.

<https://secure.toronto.ca/council/agenda-item.do?item=2023.EX10.2>

At its meeting of November 8, 2023, City Council adopted Item EX9.3 (Generational Transformation of Toronto's Housing System to Urgently Build More Affordable Homes). The report outlines several recommended actions, and highlights initiatives underway, which will make a generational change to transform and strengthen Toronto's housing system and expedite delivery of the HousingTO and Housing Action Plan targets.

<https://secure.toronto.ca/council/agenda-item.do?item=2023.EX9.3>

At its meeting of September 6, 2023, City Council adopted Item EX7.2 (Urgently Building More Affordable Homes), directing the City Manager, in consultation with the Deputy City Manager, Development and Growth Services, to work with all agencies, boards, corporations and divisions at the City of Toronto to create a plan and an implementation framework and timeline to achieve 25,000 new rent-controlled homes. The new targets identified in Item EX7.2 amend and increase the City's previous HousingTO 2020-2030 Action Plan (HousingTO Plan) target of approving 40,000 affordable rental homes by 2030. <https://secure.toronto.ca/council/agenda-item.do?item=2023.EX7.2>

COMMENTS

City-Owned Real Estate Asset at 275 Merton Street

275 Merton Street (the "City Site") is located near the intersection of Mount Pleasant Road and Merton Street, in Ward 12 (Toronto-St. Paul's). The City Site area is approximately 2,211 square metres and is developed with a two-storey office building

used by Toronto Water. The property backs on to the Kay Gardner Beltline Trail and the Mount Pleasant Cemetery.

Transfer of 267 Merton Street to City Ownership

267 Merton Street (the "Developer Site"), recently acquired by the Vendor for development purposes, is located directly adjacent to the City Site, with a site area of approximately 554 square metres. The proposed development includes the transfer of the Developer Site to the City for nominal consideration, in order to combine it with the City Site and the Developer Site into one development block. The assembled properties will enable a purpose-built rental development to be secured through a 99-year land lease to the Tenant. At the end of the lease term, the City will retain ownership of both properties, as developed.

The Developer Site will be transferred to the City in an "as is" condition, without typical remediation requirements. To allow the completion of one comprehensive Risk Assessment to Record of Site Condition process (combining both the City Site and the Developer Site), the title of the properties must be in one ownership. To mitigate the potential risk of acquiring a site prior to the Record of Site Condition process being finalized, the City will secure a letter of credit from the Vendor. The value of the Developer Lands exceeds the anticipated remediation costs, providing the City with additional security should the project terminate prior to remediation by the Vendor.

The key terms and conditions of the transfer of the Developer Site to the City and the 99-year lease of the combined City Site and the Developer Site are set out in Confidential Attachment 2. Further information about environmental due diligence and related risk mitigation measures can be found in Confidential Attachment 1.

Ongoing Toronto Water Space Needs

CreateTO and Corporate Real Estate Management staff are working together to relocate the Toronto Water program at City Site within City-owned space off-site. A potential space has been identified and a budget has been established. The Vendor has committed to a capped allowance based on this budget to relocate Toronto Water's office program and parking allocation (if required) off-site, the details of which are contained in Confidential Attachment 1.

A Strategic Development Opportunity

CreateTO completed a highest and best use massing analysis in consultation with City Planning to ensure that the Developer's development concept is appropriately scaled. CreateTO staff commissioned an appraisal and completed preliminary financial analysis of the opportunity to understand the potential benefits of a land assembly in this context and how to best maximize affordability by leveraging City land.

Through discussions with Corporate Real Estate Management, the Housing Secretariat, Toronto Water, City Planning and Parks, Forestry and Recreation, staff identified a proposed building program and key city building outcomes, including affordable rental housing and relocation of the Toronto Water program, that must be achieved through

the redevelopment of the City Site and the Developer Site. The massing concept, land value and city building requirements informed the key terms summarized in Confidential Attachment 2 to this report. CreateTO's due diligence confirmed that significant city building outcomes, including a substantial amount of affordable and market rent-controlled homes, can be achieved on this site by leveraging the City Site.

Once leased to the Tenant, this development will follow the City's standard planning application process. The Tenant will be responsible for all planning approvals for the development, as well as design and construction; they will ultimately be the owner-operator of the rental units. All development and construction costs are to be borne solely by the Tenant, except for the exemptions of fees and financial incentives offered by the City in Recommendation 3 in this Report. By contributing the land value of the City Site towards the creation of affordable housing on-site, the project will not require any additional equity investment from the City to create a minimum target of 30% affordable rental homes.

The Developer has also expressed an interest in providing deeper levels of affordability and is willing to accommodate this into the project with direction from the Housing Secretariat on the desired level of deeper affordability. Consistent with other affordable housing development programs, the Housing Secretariat will support Corporate Real Estate Management and CreateTO in securing the ability for the Developer to make up to 20% of the project's affordable rental homes available to households in receipt of a housing benefit, should sufficient City funding be available. In addition, opportunities will be pursued with the Developer to provide rents at a deeper level of affordability than the new income-based definition of affordable housing. The final levels of affordability will be secured in the Contribution Agreement between the Tenant and the City. The affordable and deeply affordable rental homes, when completed, will be advertised through the City's centralized affordable housing system to ensure eligible households can access these opportunities in a streamlined, fair and transparent manner.

The development will be required to meet or exceed the requirements of Tier 2 Version 4 of the Toronto Green Standard and achieve, at minimum, a 25% decrease in energy consumption and greenhouse gas (GHG) emissions over the 2015 national building and energy codes.

The Tenant will also be required to develop a Community Benefits Plan with the City and to commit to achieving targets of "person year" jobs for net new hiring opportunities to be recruited and sourced through local and/or Social Hiring approaches, along with procuring a minimum dollar value from local or diversely owned businesses.

The Developer is committed to advancing this project, pending the approval of the proposed transaction, in an expedited manner - targeting the third quarter of 2025 for construction start and the second quarter of 2028 for first occupancy. One of the Developer's core objectives is to deliver quality affordable housing at scale, as quickly as possible given the housing affordability crisis.

Summary of Affordable Rental Housing Opportunity at 275 Merton Street

One of the key foundations of the City's HousingTO Plan is to leverage City lands and partnerships to facilitate the delivery of a range of new purpose-built rental homes including new affordable and market rent-controlled homes. The proposal advanced by the Developer for the City Site, along with the Developer Site, as outlined in Confidential Attachments 1 and 2, presents a strong opportunity to leverage City lands to contribute towards the City's housing targets.

The City Site represents an opportunity for the City to develop affordable housing while also acquiring and retaining lands under City ownership. The combined lands will be leased through a 99-year land lease to the Developer, and the City will benefit from having the Tenant take on all costs and risks to provide a purpose-built rental development with a significant amount of rent-controlled market and affordable rental homes.

By partnering with the Vendor, affordable housing objectives can be realized at an expedited pace with an estimated construction start in the third quarter of 2025 and occupancy beginning in the second quarter of 2028.

CONTACT

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SIGNATURE

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ATTACHMENTS

Attachment 1 - Site Context Plan
Confidential Attachment 1 - 267 and 275 Merton Street, Business Case Summary
Confidential Attachment 2 - Key Terms for Proposed Transaction

Attachment 1 - Site Context Plan



267 Merton Street - currently owned by the Vendor

275 Merton Street - currently owned by the City of Toronto