

## **Strategic Opportunity at 275 Merton Street**

**Date:** February 2, 2024  
**To:** The Board of Directors of CreateTO  
**From:** Chief Executive Officer  
**Wards:** Ward 12

### **REASON FOR CONFIDENTIAL INFORMATION**

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The attachment to this report deals with a proposed or pending acquisition or disposition of land by the City of Toronto.

### **SUMMARY**

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The purpose of this report is to inform the Board of Directors of CreateTO of the ongoing discussion between CreateTO staff and the developer proponent named in Confidential Attachment 1 (the "Developer") on the opportunity to leverage the City-owned lands at 275 Merton Street to create new purpose-built rental homes, including a minimum target of 30% affordable rental units.

The 275 Merton Street site is a City-owned property that is currently used by Toronto Water for office space and vehicle parking. The adjacent property, 267 Merton Street, was recently acquired by the Developer. In September 2023, the Developer approached the City and CreateTO with a proposal to assemble and jointly redevelop the two properties located at 267 and 275 Merton Street (see Attachment 1) as a purpose-built rental project with a mix of affordable and rent-controlled market units. The Developer also committed to financially supporting the off-site relocation of the existing Toronto Water program. CreateTO staff have conducted due diligence on this proposal and the development potential of this site. This included highest and best use massing analysis, land valuation, and consultation with Toronto Water, the Housing Secretariat, City Planning, and Parks, Forestry and Recreation staff, as well as the local Councillor and the Mayor's Office. Based on the findings of this outreach and due diligence, staff worked with the Developer to revise and enhance their proposal. Confidential Attachment 1 to this report provides an overview of the key terms that have been negotiated to date. Confidential Attachment 2 to this report outlines the financial business case for an agreement, as proposed.

This report outlines the opportunity to leverage 275 Merton Street in a way that would deliver a substantial number of new affordable and rent-controlled market units in support of the Mayor's Housing Action Plan to deliver 65,000 new rent-controlled units and leverage underutilized City-owned property to create new affordable housing. This report recommends that staff work with Corporate Real Estate Management to recommend the key terms of this proposal, as outlined in Confidential Attachment 1, to City Council through General Government Committee in March 2024.

## **RECOMMENDATIONS**

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The Chief Executive Officer recommends that the Board of Directors of CreateTO:

1. Endorse the key terms of the transaction outlined in Confidential Attachment 1 and direct the Chief Executive Officer, CreateTO to work with the Deputy City Manager, Corporate Services, and the Executive Director, Housing Secretariat, to advance the key terms in Confidential Attachment 1 to City Council for consideration;
2. Provided City Council approves the key terms of the proposed transaction, direct the Chief Executive Officer, CreateTO to work with the applicable City of Toronto officials to negotiate and finalize the necessary agreements and such other documents as may be required in order to finalize the arrangement with the Developer for 267 and 275 Merton Street; and
3. Direct that Confidential Attachment 1, Confidential Attachment 2 and Confidential Attachment 3 to the report remain confidential in their entirety, as they deal with a proposed or pending acquisition or disposition of land by the City of Toronto.

## **FINANCIAL IMPACT**

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The financial impact of the proposed transaction is outlined in Confidential Attachment 2 to this report.

## **DECISION HISTORY**

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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

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### **City-Owned Real Estate Asset at 275 Merton Street**

The 275 Merton Street site is located near the intersection of Mount Pleasant Road and Merton Street, in Ward 12 (Toronto-St. Paul's). The site area is approximately 2,211 square metres and a two-storey office building used by Toronto Water is currently located on the site. The property backs on to the Kay Gardner Beltline Trail and Mount Pleasant Cemetery.

### **Ongoing Toronto Water Space Needs**

CreateTO staff are in ongoing discussions with Toronto Water about their office space requirements at this site and across the city. Based on the assumption that Toronto Water will require space to continue operating the program currently running at 275 Merton Street, the Developer has committed to a capped allowance (see Confidential Attachment 1 and 2) to relocate Toronto Water's office program and parking allocation off-site.

### **A Strategic Development Opportunity**

In September 2023 CreateTO and the Developer entered into a non-binding Letter of Intent, mutually agreeing to engage in discussions with respect to the proposed joint development of 267 and 275 Merton Street, and to independently conduct due diligence on this opportunity.

CreateTO completed a highest and best use massing analysis in consultation with the City Planning division 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 the Housing Secretariat, Toronto Water, City Planning, Parks, Forestry & Recreation, the local Councillor and the Mayor's Office, staff identified a proposed building program and key city building outcomes, including affordable rental housing and relocation of the Toronto Water office space, that must be achieved through the redevelopment of this site. The massing concept, land value and city

building requirements are reflected in the key terms summarized in Confidential Attachment 1 to this report. The financial analysis included in Confidential Attachment 2 demonstrates 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 land value of 275 Merton Street.

This proposal involves the transfer of 267 Merton Street (554 square metres) for nominal consideration to the City of Toronto, in order to combine it with the City owned 275 Merton Street property (2,211 square metres). The joint properties would enable a purpose-built rental development which would be secured through a 99-year land lease to the Developer. Both properties would need to go through a rezoning process to achieve the height and density required. The Developer would be responsible for all entitlements for the development, as well as design and construction; they would ultimately be the owner-operator of the rental units. All development and construction costs are to be borne solely by the Developer. This project would include market rental units, affordable rental units, public realm enhancements, and funding for the off-site relocation of the Toronto Water program. By contributing the City's land value of 275 Merton Street towards the creation of affordable housing units on-site, the project will not require an additional equity investment from the City in order to create a minimum target of 30% affordable rental units.

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's office on the desired level of deeper affordability. Consistent with other affordable housing development programs, the Housing Secretariat will support CreateTO in securing the ability for the Developer to make up to 20% of the project's affordable units 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 levels lower than those offered under the new income-based definition of affordable housing. The final levels of affordability will be captured in the ultimate ground lease to be negotiated and executed between the Developer and the City.

The development would 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 Developer would 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 Q3 2025 for construction start and first occupancy in Q2 2028. One of the Developer's core objectives is to deliver quality affordable housing at scale and as quickly as possible given the housing affordability crisis.

The proposal has also been presented to the local Councillor's office and the Mayor's office and has their support (see Confidential Attachment 3).

### **Affordable Rental Housing Opportunity at 275 Merton Street**

One of the key foundations of the Mayor's Housing Action Plan is for CreateTO 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. Through analysis and consultation with City stakeholders, CreateTO staff are of the opinion that the proposal advanced by the Developer for 275 Merton Street, as outlined in Confidential Attachments 1 and 2, presents a strong opportunity to leverage City lands and CreateTO's expertise to contribute towards the ambitious goals of the Mayor's Housing Action Plan.

This would be a strategic development opportunity for the City, which would acquire and retain 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 Developer take on all costs and risks to provide a purpose built rental development with a significant amount of affordable rental units. By partnering with the adjacent Developer, affordable housing objectives can be realized at a fast pace, with estimated construction start and occupancy beginning approximately Q3 2025 and Q2 2028, respectively. The Developer is highly motivated to start immediately and to advance the project and deliver new rental housing as quickly as possible once an agreement is in place.

### **CONTACT**

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### **SIGNATURE**

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Vic Gupta  
Chief Executive Officer

### **ATTACHMENTS**

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Attachment 1 - Site Context Plan  
Confidential Attachment 1 - Key Terms for Proposed Transaction  
Confidential Attachment 2 - 275 Merton Street, Business Case Summary  
Confidential Attachment 3 - Letter of Support

## Attachment 1 - Site Context Plan



267 Merton Street - currently owned by the Developer  
275 Merton Street - currently owned by the City of Toronto