

Executive Summary

Context

Background

- The City of Toronto recently initiated the Missing Middle and Mid-Rise Housing Implementation Initiative, an inter-divisional investigation of various current requirements relating to mid-rise building construction (defined as buildings in the range of 5 to 14 storeys).
- This initiative involves direct consideration of potential changes to City policies, standards and regulations relating to:
 - indoor / outdoor amenity space standards;
 - bicycle parking standards; and,
 - loading requirements / waste collection.

Purpose

- Parcel Economics Inc. (“Parcel”) has been retained by the City to provide land economics advice in support of this initiative, including preparation of detailed pro forma analysis to establish the current financial feasibility of various mid-rise building typologies.
- This analysis also involved direct consideration of a range of specific variables relating to current building requirements and how they are affecting the financial performance of mid-rise developments.
- The goal of this analysis has been to inform how mid-rise projects could be better positioned to achieve financial feasibility, either through anticipated reduction to development costs and/or increases to revenues. In turn, this is expected to enable more of this type of mid-rise development and potentially improve affordability for residents.

Note About Development Prototypes:

It is important to note at the outset of this summary that an architecture firm was not retained by the City of Toronto, nor as sub-consultants to Parcel, as part of this study. The development concepts tested in this financial feasibility analysis are hypothetical scenarios only, with building assumptions primarily based on precedent development projects and/or proposals.

Assumed changes to these baseline development concept assumptions were also made for illustrative purposes only and could vary significantly on a site-by-site basis, in practice. In many cases, these proposed modifications could also result in a “ripple effect” of changes to specific cost and revenue streams associated with a given development project (e.g., some changes could achieve cost savings and/or an increase in revenues yet also introduce new costs elsewhere).

Scope

- Our analysis involved consideration of 24 distinct development scenarios as a baseline. These development scenarios spanned the following specific development contexts and parameters:
 - Three (3) unique building typologies (i.e., 6-storey developments on Major Streets / up to 14-storey developments outside of P/MTSAs / up to 14storey developments in P/MTSAs with inclusionary zoning applied)¹;
 - Two (2) tenures (i.e., ownership and rental); and,
 - Four (4) geographic contexts (i.e., roughly corresponding to the City’s four planning districts)².
- Whereas some of our analysis was undertaken across all areas of the City, we deliberately focused on the South District, which is comprised mostly by the former municipalities of Toronto and East York. This represents the area where: (i) most of this scale of development continues to be constructed or contemplated; and, (ii) in many cases, demonstrates

¹ Assumed building parameters were established based on a review of available municipal development applications for similar scaled projects, which differed by location and scenario.

² Based on the availability of third-party real estate market data and predefined submarket areas that differ slightly from municipal boundaries.

conditions for the “best case scenario” in terms of financial feasibility results and likelihood of associated development activity moving forward.

- Our analysis additionally considered the extent to which changing a range of existing building requirements against the baseline development scenarios could improve the viability of mid-rise developments. This focused on assumed changes to indoor and outdoor amenity space standards, bicycle parking and Type-G loading requirements.
- In parallel to the core analysis above, some consideration and supplementary observation was also made for other factors affecting the viability of mid-rise developments. This included a high level review of building design and modular construction methods, among other building-specific variables such as suite mix, lot coverage / softscaping requirements and maintenance fee dynamics.

Key Findings

How are current market / economic conditions affecting the financial feasibility of mid-rise projects in Toronto?

- The results of our analysis reaffirm that conditions for new real estate development at this scale remain challenged, especially for rental developments. This is a function of many different variables, including both macroeconomic factors affecting real estate developments of all kinds (e.g., increasing construction costs, economic uncertainty), as well as variables specific to mid-rise typologies (e.g., practical limitations associated with designing buildings of this scale on smaller sites, etc.).
- Further compounding this dynamic, our research also highlights a range of more practical limitations to advancing mid-rise developments based on current policy structures. Namely, the layering or compounding effects of various built form conditions and other development requirements can present additional challenges to appropriately designing mid-rise projects on a site-by-site basis (e.g., reduced capacity of small properties that could face limitations relating to lot coverage and building efficiency, etc.).
- While the exact gap to achieving project viability can vary significantly across development contexts (e.g., as a function of unique conditions across different parts of the City, spanning different mid-rise building typologies, as well as in response to unique, site-specific conditions), any changes initiated by the City that seek to reduce development costs and/or increase revenues will inevitably shift conditions in favour of feasibility.

What specific changes could the City make to improve viability for mid-rise developments?

- There are multiple “levers” available to the City to improve project viability, with the removal of existing indoor amenity areas offering the greatest impact among the changes identified for testing as part of this analysis. Removal of Type G loading requirements also provided a similar level of impact for 6-storey developments on Major Streets.
- That said, no single change is likely to “move the needle” materially, at least when taken in isolation. More specifically, no single change can be expected to fundamentally alter: (i) the total number of projects being advanced to market within the mid-rise segment; and/or, (ii) the relative affordability / price point of new mid-rise units.
- A combination of changes can have a positive compounding effect and result in more material improvement to development feasibility.
- Specifically, the combination of all changes identified (removal of indoor and outdoor amenity spaces, bicycle parking, loading requirements) could result in reductions to the average sales prices required of up to \$75 per square foot and reductions to the average rents required of up to \$0.65 per square foot in the South District. Equivalently, reductions of up to \$80 per square foot to the average sales price required and \$0.50 per square foot to the average rents required could occur across all other Districts.
- To this end, it is recommended that the City consider relaxing multiple building requirements simultaneously to affect more meaningful change.
- It is our opinion that this approach may enable the City to “unlock” mid-rise development at a more significant scale, given that these types of projects are often forced to achieve viability “at the margins” (and therefore more susceptible to unique, site-specific conditions). By improving conditions across multiple variables, a broader variety of projects could be better positioned to “tip” in favour of feasibility relative to focusing on just a select few changes.

Figure ES.1

Summary of Decrease in Sales Price / Rents Required by Change (South District)

Benefit(s) of Change	Condo	Rental
	Decrease in Sales Price Required	Decrease in Monthly Rent Required
Removal of <u>indoor</u> amenity space standards	<ul style="list-style-type: none"> Increase to sellable / leasable space (and therefore revenues) Reduction in costs to deliver amenities 	<ul style="list-style-type: none"> -\$15 PSF to -\$40 PSF -\$0.20 PSF to -\$0.40 PSF
Removal of <u>outdoor</u> amenity space standards	<ul style="list-style-type: none"> Reduction in costs to deliver amenities (e.g., rooftop patios+) 	<ul style="list-style-type: none"> -\$5 PSF to -\$20 PSF -\$0.05 PSF
Cash-in-lieu for of required bicycle parking	<ul style="list-style-type: none"> Increase to sellable / leasable space (and therefore revenues) 	<ul style="list-style-type: none"> -\$10 PSF to -\$30 PSF -\$0.05 PSF to -\$0.10 PSF
Removal of Type-G loading (<u>6-storey building only</u>)	<ul style="list-style-type: none"> Increase to sellable / leasable space (and therefore revenues) 	<ul style="list-style-type: none"> -\$15 PSF -\$0.15 PSF
All Changes Combined	<ul style="list-style-type: none"> -\$50 PSF to -\$75 PSF 	<ul style="list-style-type: none"> -\$0.30 PSF to -\$0.65 PSF

Source: Parcel.

It is important to note that the applicability of affordable housing requirements within P/MTSAs remains in question at this time, as a function of recent land use policy directions established by the Province relating to Inclusionary Zoning (IZ) policies. Namely, this includes a previous cap on the set aside rates for affordable units at a maximum of 5%, as well as more recently a direction to pause the implementation of IZ frameworks until July 2027 (per proposed amendments to Ontario Regulations 232/18). Nonetheless, we have continued to reflect potential requirements for affordable housing delivery in this analysis, given the consideration of projects that could ultimately involve entitlements and/or permits beyond these timelines established by the Province. To this end, we also note that appropriate development charge exemptions were applied for all affordable units, per recent changes to the Development Charges Act, while holding charges constant for all market-rate residential units.

What specific outcomes are expected, if these changes to mid-rise building requirements are implemented?

- Given the nature of this demonstration-based analysis, many of our technical assumptions—and related research findings—are predicated on market/submarket-wide averages. Results have therefore not been optimized for individual properties and a range of outcomes are possible for any given building and/or property.
- In general, however, the following opportunities and potential benefits have been observed:
 - There are many examples of recently constructed and proposed mid-rise projects throughout the City, including in the face of challenging market conditions. This signals that additional projects could be launched in the future, especially if enabled through more flexible building requirements that are effective in “tipping” projects in favour of feasibility.
 - The proposed changes would effectively reduce risk for the development community by improving flexibility in building designs and adding certainty to projects of this scale. In turn, this can be expected to incentivize additional interest and investment by the private sector within the mid-rise market segment.
 - Increased mid-rise development activity could also represent an area of opportunity to advance more housing supply to market sooner, given relatively limited interest in new high-rise projects as of late.
 - With an assumed uptake in mid-rise development activity, the local supply of housing in aggregate could benefit from improved diversity and “choice” relative to historical development patterns, including in built-up areas where infrastructure is already available.
 - Cost reductions and/or improved revenue generating potential could increase the appetite of developers to pass on any efficiencies directly to “end users” (local residents), thereby improving housing affordability.