



The Regional Municipality of Durham Report

To: Committee of the Whole
From: Commissioner of Finance, Commissioner of Planning and Economic Development and Commissioner of Works
Report: #2024-COW-32
Date: June 12, 2024

Subject:

Request for Regional Financial Assistance under the Regional Revitalization Program by Medallion Developments Ltd. operating as Bruce Street Developments Ltd. ("Medallion") for the Development of two Purpose-Built Rental Apartment Buildings (Phase 1) on Vacant Lands located at 135 Bruce Street in the City of Oshawa

Recommendation:

That Committee of the Whole recommends to Regional Council:

A) That the application submitted by the City of Oshawa, on behalf of Medallion, under the Regional Revitalization Program (RRP), requesting Regional financial assistance for the development of two purpose-built rental apartment buildings (Phase 1) on vacant lands located at 135 Bruce Street in the City of Oshawa be approved, subject to the following conditions:

- i) The Region to provide up to \$3,900,000, or the amount of assistance provided by the City of Oshawa, whichever is the lesser amount, for the development, with funding provided from the Regional Revitalization Reserve Fund and transferred to the City of Oshawa for distribution to Medallion, in accordance with the timing and flow of funds under the RRP:

Full building permit issued to Medallion	50%
Framing inspection (or equivalent structural completion), passed by the area municipal building inspection authority	40%
Occupancy permit received from the area municipal building authority or passed preoccupancy inspection of those municipalities which do not issue an occupancy permit;	10%

- ii) The City of Oshawa executes the necessary agreements with Medallion for the provision of financial assistance by the City;
 - iii) Medallion must pay all applicable Regional Development Charges due at building permit issuance;
 - iv) All costs associated with works for the development of the lands will be borne by the developer, Medallion, in keeping with Regional policies;
 - v) Satisfaction of any performance criteria outlined in agreements between the City of Oshawa and Medallion in regard to incentives (financial or other) provided under the City's Urban Growth Centre Community Improvement Plan and applicable City By-laws;
 - vi) The City of Oshawa enter into an agreement with the Region that outlines the terms and conditions for Regional financial assistance to ensure accountability for Regional funding; and,
 - vii) The City of Oshawa agrees to annual post-project reviews and audits for five years after substantial occupancy of the development of lands, in conjunction with the Region, to provide accountability and ensure effective utilization of Regional resources; and,
- B) That as per the RRP, the increased property tax revenue generated from the increased current value assessment of the development project in the City of Oshawa be used to replenish the Regional Revitalization Reserve Fund for approximately five years after substantial occupancy.
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Report:

1. Purpose

- 1.1 The purpose of this report is to consider a request for Regional financial assistance under the Regional Revitalization Program (RRP) for the redevelopment of lands known as the old Fittings site by Medallion Developments Inc. operating as Bruce Street Developments Ltd. ("Medallion") located at 135 Bruce Street in the City of Oshawa.
- 1.2 On April 26, 2024, Regional staff received an application from the City of Oshawa, on behalf of Medallion, under the RRP. The City continues to finalize their agreement(s) with Medallion, but given the long history and potential of this redevelopment site, Regional and City staff have worked together in order to advance the Region's consideration of this application, subject to the satisfactory outcome of the City's arrangements.

2. Key Elements of the Regional Revitalization Program

- 2.1 Regional Council established the RRP on October 8, 2008 (Report #2008-J-37) for a term of five years. The RRP was renewed indefinitely by Regional Council on March 5, 2014 (Report #2014-J-10). Key elements and application requirements of the RRP are contained in the Guideline for the Regional Revitalization Program – Region of Durham.
- 2.2 The RRP is a partnership between the Region of Durham and participating area municipalities and aims to strategically target Regional investment towards key areas that advance the goals of the Regional Official Plan and achieve positive economic and community objectives and support development that would not otherwise proceed without municipal financial assistance.
- 2.3 The RRP contains the following key elements:
- The RRP targets new projects within Community Improvement Plan (CIP) Areas as recommended by area municipalities;
 - The RRP focuses on initiatives that advance goals of the Regional Official Plan (ROP) as a basis for achieving positive economic and community objectives;
 - The RRP encourages both residential and employment growth in the Region's key urban locations, including Regional Centres and Regional Corridors, and brownfield sites throughout the Region, which are given preference;
 - The project must entail significant and substantial revitalization and/or development. Construction cannot already be underway. Examples of eligible project types are:
 - New construction
 - Additions to existing buildings
 - Redevelopment
 - Brownfield Redevelopment
 - Projects involving façade improvements are not eligible under the RRP;
 - Program eligibility is determined through the submission of an application, including a business case by the supporting area municipality, which demonstrates the benefits of the project and the need for Regional financial assistance. Area municipalities must submit an application, including a business case, to the Region's Commissioner of Finance;
 - Applications are reviewed and evaluated by the Commissioners of Planning and Economic Development, Works and Finance to ensure that program eligibility and business case requirements are addressed;
 - Recommendations regarding project selection are then presented to the Finance & Administration Committee or the Committee of the Whole and Regional Council;
 - Regional financial assistance under the RRP is not to be greater than the area municipality's financial assistance;
 - Funds for approved community improvement projects will be transferred to

the applicable area municipality at the following stages:

- Building permit issued by area municipality: 50%
- Framing inspection, or equivalent structural completion, Passed by the area municipal building inspection authority: 40%
- Occupancy permit received from area municipal building authority or passed preoccupancy inspection of those municipalities which do not issue an occupancy permit: 10%
- The participating area municipalities are required to provide relevant project information for all qualified community improvement projects approved through the RRP on an annual basis for the five years after substantial occupancy of each project;
- Funding is provided through the Regional Revitalization Reserve Fund, which is replenished through the dedication of the increased Regional property tax revenue of the RRP projects, resulting from increased current value assessment, for a time period after substantial occupancy to be determined by Regional Council at project approval; and
- Regional financial assistance operates like a grant; it is not an exemption from Regional Development Charges, a reduction in property taxes, or a contribution towards Regional infrastructure.

3. Request for Regional Assistance

3.1 On April 26, 2024, Regional staff received an RRP application from the City of Oshawa, on behalf of Medallion. Medallion is requesting a grant equivalent to the maximum allowable under the RRP.

3.2 Further, as part of the RRP application, the following City Council motion was endorsed on September 26, 2022 and referred back to City staff:

“...that Medallion work with the staff at the Region of Durham to include an agreement with a license plan for Durham Region to lease one unit/floor in all new 10floor+ Medallion apartment buildings in the City of Oshawa for the Region of Durham to be permitted to sublet for affordable accessible social housing in the City of Oshawa.”

4. Medallion’s Proposal

4.1 Medallion Developments Inc., operating as Bruce Street Developments Ltd. (“Medallion”), is proposing to develop a multi-phased mixed-use development located between Bruce Street to the north, the rear yards of houses fronting onto Stacey Avenue to the south, Court Street to the west and Drew Street to the east in Downtown Oshawa.

4.2 Phase 1 consists of a new purpose-built apartment building at 135 Bruce Street. The first tower, “Building A”, is proposed to be 22 storeys in height and includes 19 studio units, 167 one-bedroom units, 106 two-bedroom units and 11 three-bedroom units

(303 units in total). The second tower, “Building B”, is proposed to be 10 storeys in height and includes 8 studio units, 113 one-bedroom units, 76 two-bedroom units and 9 three-bedroom units (206 units in total). Combined, the proposed Phase 1 development of the Site will result in a total of 509 units.

- 4.3 Currently, the site located at 135 Bruce Street is a vacant brownfield with an area of 10.7 hectares (26.5 acres.) and occupies the northwest corner of the property. The land is currently owned by Medallion.
- 4.4 The subject site is commonly referred to as the former Fittings site, since it was formerly used for industrial purposes by Fittings Limited. In 1987, Fittings Limited ceased operations and the site subsequently became available for redevelopment.
- 4.5 All units in the proposed development are purpose-built residential apartment rental units. The total construction budget for this project is approximately \$221.2 million.
- 4.6 Medallion and the Region’s Housing Services Division are actively investigating a rent supplement agreement to ensure that some Rent-Geared-to-Income units are available in this building, Medallion had similar rent supplement agreements with the Region in other locations.

Challenges and Extraordinary Costs

- 4.7 According to the proposal, the following table summarizes the challenges and extraordinary costs for redeveloping the existing site:

Extraordinary Cost	(\$)
Significant environment costs associated with the development project, including remediation costs for contamination, such as soil disposal, groundwater management, the installation of an active vapour system and associated vapour barrier system requirements	4,015,200
Above Grade Parking - Additional design/construction costs due to soil conditions and soil contamination	2,134,000
Longer absorption rates on revitalization projects, including extra public relation costs	1,127,000
Additional security during construction	396,000
Extra maintenance costs for addressing vandalism, illegal dumping, drug use and living encampments	75,000
Additional security for two buildings (short term)	920,000
Certificate of Property use - Ministry requirement to test and monitor (short term)	63,000

5. Project Support by the City of Oshawa

5.1 On September 26, 2022, City Council supported a request for development incentives under the City's Urban Growth Community Improvement Plan. The City of Oshawa's total contribution towards this project is estimated to be \$3,893,568. This contribution represents an Increased Assessment Grant of 50 per cent per year for a total of 16 years. City staff has indicated that this value may change over the 16-year grant period to ensure the grant total is achieved based on Municipal Property Assessment Corporation's final assessment.

6. Evaluation under the RRP

6.1 Challenges highlighted by Market Analysis

- The Greater Toronto Area (GTA) is experiencing surging demand for rental apartment buildings. In recent years, the demand for rental housing has reached unprecedented levels due to a rapidly growing population. Rental market conditions are characterized by low vacancy rates and remarkable rent growth.
- Purpose-built rentals are the most common form of rental housing in the GTA, but purpose-built rentals contributed the least amount of new supply over the past ten years.
- According to the Ontario Ministry of Finance medium-growth scenario, the GTA population is expected to grow by 1.27 million by 2031, an extra 445,920 above growth recorded during the previous 10-year period. Record high immigration is occurring as population outflows increase.
- Home ownership rates are dropping as affordability continues to decline. The surge in housing prices in recent years, combined with quickly rising interest rates, has increased the percentage of household income required to service the average mortgage to a record high.
- Despite strong demand-side fundamentals, developers have been facing several supply-side challenges that impede the provision of rental housing in the Toronto GTA, including:
 - Limited and costly residential vacant land.
 - CMHC and Statistics Canada's Municipal Land Use and Regulation Survey found approval timelines for new developments in the GTA to be the longest in the country. Long timelines end up adding costs to development (for interest on loans, equipment rentals and labour, for example), as do government fees levied on new construction.
 - The rapid rise in construction costs and interest rates in recent years has lowered expected returns and increased the amount of equity developers need to bring to a project. Bringing equity to a project is especially challenging for rental developments, which don't benefit from equity accumulated through pre-construction sales, like condominiums.

- Rising operating expenses (for insurance and utilities, for example) are a significant risk to the expected return of projects.
 - Builders indicate that constraints on skilled labour capacity will resurface once development conditions improve.
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- In the City of Oshawa, there has been a recent trend toward higher density forms of housing development, likely because of policy and lifestyle preferences, as well as limited land supply and rising land costs.
 - Due to the GO Train extension and the 407 East extension, the City of Oshawa will continue to benefit from improving regional connectivity, which may further support high density development. As such, the trend towards rental apartment forms of development is likely to continue and is expected to represent a greater proportion of total housing starts in the upcoming years.
 - Over the last two decades, several purpose built rental projects have occurred in Downtown Oshawa with assistance by the City and the Region:
 - 44-50 Bond Street West (Parkwood Residences). This project involved the redevelopment of an abandoned office complex into a residential condominium project. The project contains 120 residential apartment units. Financial assistance of \$250,000 was provided under the Pilot Regional Downtown Revitalization Program in 2003.
 - 100 Bond Street East (Bond and Mary Development Inc. - Phase 1). This mixed use residential/commercial development contains 239 apartment units and 13,000 square feet of ground floor commercial. Financial assistance of \$430,000 was provided under the RRP in 2015.
 - Genosha Hotel (TT7 Inc). This project involved the redevelopment of a mixed-use apartment/commercial building. The project contains 86 apartment units and 22,000 square feet of commercial. Financial assistance of \$564,000 was provided under the RRP in 2017.
 - 80 Bond Street East ((Bond and Mary Development Inc. - Phase 2). This mixed use residential/commercial development contains 370 apartment units and 5,000 square feet of ground floor commercial. Financial assistance of \$580,000 was provided under the RRP in 2018.

6.2 Project Satisfies Mandatory Criteria under the RRP

6.2.1 The proposed project by Medallion satisfies several mandatory criteria for eligibility and consideration under the RRP, including:

- The project is located within a designated Centre (Downtown Oshawa Urban Growth Centre) and within the City of Oshawa's Urban Growth Centre Community Improvement Plan (formerly the Central Business District Renaissance CIP);
- The project supports Regional Official Plan (ROP) policies, which encourage both residential and employment growth in a Regional Centre (Urban Growth Centre), on a brownfield site;
- The project entails significant and substantial revitalization and/or development and construction cannot already be underway;
- The project has been recommended by the City of Oshawa; and,
- A financial commitment has been provided by the City of Oshawa.

6.2.2 The proposed development would also satisfy Goal 3: Greater Housing Choice - diversify housing options by type, size and tenure, under At Home in Durham, Durham Housing Plan 2014 – 2024.

6.2.3 In addition, there are expected immediate and long-term economic benefits associated with the development, including:

- Direct employment in construction and administration related to the development, as well as the spin-off employment from the demand for goods and services by those employees;
- Direct impact from the initial capital expenditures related to construction (i.e. hard construction costs);
- Potential synergies with new private sector residential investment on the subject site, supporting ridership of local transit and providing additional benefit to downtown businesses through increased foot traffic in the Downtown core;
- Regional DCs generated by the development are estimated to be \$11.8 million at current rates; and
- Higher annual Regional property taxes generated by the development due to increased current value assessment (taxes estimated to be \$1.2 million in its first year post-construction – in 2019 \$s).

7. Financial Implications

7.1 Under the RRP, projects are required to fully pay all applicable Regional fees and charges, including Development Charges (DCs). The estimated applicable Regional DCs (based on current rates) for the proposed development are approximately \$11.8 million. Actual DCs will be determined at time of building permit issuance for the proposed project and will be payable over five installments beginning at time of occupancy (with any DCs exemptions that may become available with the June 1, 2024 introduction of the Affordable Housing DC exemption). Phase 1 of Medallion's

proposal at 135 Bruce Street can be serviced within the existing sanitary sewer and water supply systems, with only new service connections being required.

- 7.2 The proposal identifies significant environment costs associated with the development project, including remediation costs for contamination, such as soil disposal, groundwater management, the installation of an active vapour system and associated vapour barrier system requirements. According to Medallion's proposal, these extraordinary costs are estimated to be \$4,015,200. In addition, for the lifespan of Phase 1 (e.g., Buildings A and B), Medallion will be required to spend an estimated \$31,500 annually to implement the required monitoring/testing as per the Certificate of Property use issued by the Ministry of the Environment. In addition, as outlined in Section 4.7 above, there are extraordinary security, building modifications and longer marketing and occupancy timeframes at an estimated cost of \$3,900,000.
- 7.3 The Medallion project faces several unique cost challenges. Rental apartment development is subject to a particular risk that is not faced by condominium apartment development. Since purpose-built rental projects generate little or no revenue until the units begin to be occupied, construction financing is more challenging for purpose-built rental projects to secure than for condominium projects. The risk can be greater when there has been only limited market rental or condominium apartment development in the downtown area of the municipality for many years.
- 7.4 Regional staff recommend a payment of up to \$3,900,000, or the amount of assistance provided by the City of Oshawa, whichever is the lesser amount under the Regional Revitalization Program which recognizes the aforementioned site-specific challenges associated with this proposed project and is the maximum financial assistance allowed under the RRP. This high-density redevelopment, a brownfield in a downtown Community Improvement Plan (CIP), maximizes the utilization of existing municipal infrastructure through intensification in a Regional Centre, subject to the City of Oshawa providing a greater or equal amount of financial assistance.
- 7.5 In addition, Regional staff are working with Medallion to enter into a Rent Supplement agreement with Medallion upon completion of the proposed project. Under such agreements, the Region would pay Medallion the difference between the rent-geared-to-income the tenant pays the landlord and the market rent for the rental unit. The market rent is negotiated with the Region and is generally around Canada Mortgage Housing Corporation (CMHC)'s average market rent for the area. Such payments to the landlord are made on a monthly basis. Regional Housing Services Division staff will work with Medallion to determine the projected timeline for lease-up to ensure those units are included in the Region's forecast to ensure availability.
- 7.6 It is recommended that the application submitted by the City of Oshawa, on behalf of Medallion under the RRP, requesting Regional financial assistance for the development of two purpose-built rental apartment buildings (Phase 1) on vacant lands located at 135 Bruce Street in the City of Oshawa be approved, subject to the following conditions:

- i) The Region to provide up to \$3,900,000, or the amount of assistance provided by the City of Oshawa, whichever is the lesser amount, for the development, with funding provided from the Regional Revitalization Reserve Fund and transferred to the City of Oshawa for distribution to Medallion, in accordance with the timing and flow of funds under the RRP:

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Framing inspection (or equivalent structural completion),
passed by the area municipal building inspection authority 40%

Occupancy permit received from the area municipal building
authority or passed preoccupancy inspection of
those municipalities which do not issue an
occupancy permit; 10%

- ii) Medallion must pay all applicable Regional Development Charges due at building permit issuance;
- iii) All costs associated with works for the development of the lands will be borne by the developer, Medallion, in keeping with Regional policies;
- iv) Satisfying any performance criteria outlined in agreements between the City of Oshawa and Medallion in regard to incentives (financial or other) provided under the City's Urban Growth Centre Community Improvement Plan and applicable City By-laws;
- v) The City of Oshawa enter into an agreement with the Region that outlines the terms and conditions for Regional financial assistance to ensure accountability for Regional funding; and,

The City of Oshawa agrees to annual post-project reviews and audits for five years after substantial occupancy of the development of lands, in conjunction with the Region, to provide accountability and ensure effective utilization of Regional resources;

- 7.7 In addition, it is recommended that as per the RRP, the increased property tax revenue generated from the increased current value assessment of the development project in the City of Oshawa be used to replenish the Regional Revitalization Reserve Fund for approximately five years after substantial occupancy.

8. Conclusion

- 8.1 The RRP is a partnership between the Region of Durham and participating area municipalities and aims to strategically target Regional investment towards key areas of Durham Region's area municipalities that advance the goals of the Regional Official Plan and achieve positive economic and community objectives where development would otherwise not proceed.

8.2 This report has been prepared with assistance from Social Services – Housing Division and Corporate Services – Legal Services Division.

Respectfully submitted,

Original Signed By

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Recommended for Presentation to Committee

Original Signed By

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