

LANEWAY BACKGROUND REVIEW & ANALYSIS

Mixed Use Laneway Study

Toronto, Ontario

Prepared for: Neptis Foundation (in association with Scorgie Planning)

June 6, 2025



Disclaimer:

This report has been prepared by urbanMetrics Inc. for the Neptis Foundation and is information purposes only. The material contained herein are intended as a resource for policy discussion and general reference, and should not be construed as financial, investment, or real estate advice. Readers should not rely on this report as guidance for making financial or property investment decisions. urbanMetrics Inc. assumes no responsibility or liability for actions taken based on the information provided in this report.

This document is available in alternative formats upon request by contacting:

info@urbanMetrics.ca
416-351-8585 (1-800-505-8755)

Contents

Executive Summary 3
Scope of Work 3
Key Assumption: $0 Land Cost Scenario 3
Why is this Important? 4
Construction Costs 5
Economic Variables 5
Are CLSUs Financially Viable in Toronto? 7
The Key Takeaways 8
Appendix 1: Laneway Suite Construction Costs 9
Commercial & Residential Laneway Suite Costs 9
Construction Duration 9
Hard Costs 13
Appendix 2: Commercial Uses Evaluation 17
Commercial Study Area 17
Retail Market Trends 19
Competitive Retail Space Characteristics 21
Competitive Retail Space Locations 21
Competitive Retail Space Triple Net Rents 22
Taxes, Maintenance & Insurance Costs 25
Land Economics Rationale for Laneway Commercial Space 26
Commercial Laneway Uses Revenue and Cost Assumptions 27
Appendix 3: Residential Uses Evaluation 30
Laneway Suite Location 30
Laneway Suite Size 31
Laneway Suite Rent 32
Residential Laneway Suite Operating Costs 35
Residential Laneway Uses Revenue and Cost Assumptions 35
Appendix 4: Feasibility of Residential & Commercial Laneway Uses 38
Cash Flow Analysis Methodology 38
Feasibility Limits 41

urban Metrics

Appendix Figures

Figure 1-1: Built Laneway & Garden Suites By Completion Date 10
Figure 1-2: Distribution of Residential Laneway Suite Construction Duration in Months 11
Figure 1-3: Construction Duration by Application Year 12
Figure 1-4: Distribution of Construction Costs per Square Foot, indexed to Q4 2024 14
Figure 1-5: Construction Cost per Square Foot by Application Date, Indexed to Q4 2024 14
Figure 1-6: Builder-Based Residential Laneway Suite Construction Cost Estimates 16
Figure 2-1: Commercial Study Area and Laneways 18
Figure 2-2: Completed Laneway Suites and Commercial Study Area 19
Figure 2-3: Retail Market Trends, Study Area vs. City of Toronto 20
Figure 2-4: Retail Space for Lease 21
Figure 2-5: Distribution of Annual Retail Rent 22
Figure 2-6: Distribution of Available Retail Space in Study Area 23
Figure 2-7: Impact of Size of Available Space on Rent Per Square Foot 24
Figure 2-8: Asking for Direct Rent by Location 25
Figure 2-9: Annual Retail Taxes, Maintenance, and Insurance (TMI) per Square Foot 26
Figure 2-10: Summary of Commercial Economic Variables 29
Figure 3-1: Completed Laneway Suite Location 30
Figure 3-2: Distribution of Laneway Suite Size 31
Figure 3-3: Laneway Suite Size Map 32
Figure 3-4: Distribution of Building Permit Laneway Suite Rent Per Square Foot 33
Figure 3-5: Laneway Suite Rent Per Square Foot vs. Unit Size 33
Figure 3-6: Laneway Suite Rent Per Square Foot Map 34
Figure 3-7: Residential Laneway Suite Operating Cost Ratio 35
Figure 3-8: Summary of Residential Economic Variables 37
Figure 4-1: Residential Laneway Suite Under Moderate Assumptions 40
Figure 4-2: Commercial Laneway Suite Under Moderate Assumptions 40
Figure 4-3: Net Present Value of Laneway Suite Under Different Assumptions 41
Figure 4-4: Sensitivity Analysis 42

urban Metrics

Executive Summary

Scope of Work

urbanMetrics Inc. (urbanMetrics, we, our) has been retained by the Neptis Foundation (the Client), under the direction of Scorgie Planning (the lead researcher), to evaluate the economic case for extending the range of permissible land uses on private properties with laneway access in the City of Toronto (Toronto).

This report is intended to form part of a broader policy discussion about the capacity (and benefits) of a more permissive land use framework for Toronto laneways that would potentially extend beyond simply single-use residential infill opportunities.

The Terms of Reference for the urbanMetrics undertaking are defined as follows:

> *Conduct an analysis of the land economics and real estate market considerations related to each of the uses mentioned above. Considerations will include the desirability of laneway spaces for each use, the availability and suitability of other spaces in the market, and potential competition with established commercial spaces.*

Key Assumption: $0 Land Cost Scenario

The analysis aims to explore the feasibility for existing home and property owners in the City of Toronto to add value to their properties through commercial-oriented occupancies, which would be accessed via a rear or side-facing laneway. The analysis considers the perspective of an established property owner who may be interested in establishing an office, clinic, workshop, studio, or other maker-type space within a new or repurposed laneway structure.

The analysis carried out by urbanMetrics assumes zero ($0) land cost.

Our investigations examine the feasibility of integrating new employment and/or economic generating uses within laneway structures as a permissible and compatible secondary use for such owners.

The analysis conducted by urbanMetrics examines the household-level impacts of potential policy changes that would allow homeowners to incorporate non-residential commercial uses within laneway projects. Policy refinements that enable a broader range of uses would support key city policies related to infill, intensification, improved walkability, and innovative design solutions for achieving human-scale mixed-use.

The term "Commercial Laneway Suite Units" (or CLSU) - as referred to in this report - is intended to denote private spaces integrated into laneway structures, designed and built with sufficient flexibility to support non-residential activities, including spaces that may, at times, accommodate customers, clients, staff, collaborative partners, and other visitors.

Why is this Important?

Despite common misconceptions, many of Toronto's major commercial streets often lack the physical capacity (space) to adequately support economic growth and entrepreneurship. CLSUs could help relieve market pressures, particularly the high barriers to entry (lack of availability, high rents, etc.) on well-frequented commercial Main Streets.

Our research reveals that many of the most popular "Main Streets," especially those that underpin the walkability of Toronto neighbourhoods such as Roncesvalles Village, Leslieville, Parkdale, Riverdale, the Beach, and so on, tend to exhibit very low levels of storefront vacancy.

Our research indicates that storefront vacancy along many of Toronto's commercial streets is under 1%. A 'balanced' commercial real estate market should typically range between 4 and 7% vacancy.

Low vacancy rates along Toronto's main commercial streets indicate the continuation of a long-term trend and likely result from several overlapping factors, including the necessity for retail uses to occupy the ground floor, a scarcity of vacant land for building new retail space, competing land uses, and a growing population due to infill and intensification in central area neighbourhoods. Therefore, there is a significant need for additional retail space in the City of Toronto that is both walkable and community-oriented.

Commercial uses in Toronto's laneways could help relieve the pressure on main commercial streets, allowing for the development of businesses and innovative community start-ups in otherwise unavailable locations. It's important to note that the current low vacancy rates make it increasingly challenging for local

enterprises—small, independent, or emerging companies and organizations—to establish a foothold on many popular, pedestrian-oriented commercial streets and neighbourhoods.

As most existing storefront retail space in Toronto is located along prominent corridors and avenues (referred to in Toronto as Major Streets), commercial uses in laneways, if permitted, are expected to command somewhat lower rents to compensate for the reduced exposure and customer foot traffic. The precise extent of this discount is currently unknown, but given the scarcity of available retail space, the discount considering today's market conditions is likely to be modest.

Construction Costs

Estimated construction costs for both "conventional" residential laneway suites and potential future commercial laneway suites, if permitted, have been evaluated in this report using existing data for residential laneway suites, taking into account both soft and hard costs.

The values used in our analysis reflect construction costs for commercial purposes but do not include cost escalations for special ventilation, electrical, or structural considerations. Uses that require such considerations (i.e. commercial kitchens, operations with heavy machinery, or those with high customer volumes) would incur additional costs not addressed here. Notably, one central assumption in this residential versus commercial cost equivalence is that the City of Toronto would support and extend the development charge deferral program (DC relief) for any type of laneway build, including those with commercial elements.

Economic Variables

The primary land economics and real estate market considerations associated with mixed-use laneway construction builds are the potential costs and revenues of residential and commercial uses, as well as the characteristics of existing laneway units and retail space.

A summary table of the range of costs and revenues expected for residential laneway suites in Toronto is outlined as follows:

Fiscal Metric	Residential	Commercial
Gross Rent per Square Foot	$3.67	$4.36
Operating Costs Per Square Foot	$0.55	$1.11
Net Rent Per Square Foot	$3.12	$3.25
Equity Payback Time (years)	22	18
Required Feasible Cap Rate	6.06%	6.83%

urban Metrics

Detailed Breakdown of Residential and Commercial Variables

Figures E-1 and E-2 offer a more detailed evaluation of costs and revenue related to laneway construction under three scenarios: Pessimistic (high-value property with laneway access), Moderate (average-value property with laneway), and Optimistic (low-value property with laneway access). Figure 1 addresses residential builds, while Figure 2 focuses on commercial (CLSU) laneway builds.

Figure E-1: Summary of Residential Economic Variables

Variable	Pessimistic	Moderate	Optimistic
Land/Property Costs	$2,600,000	$1,506,408	$899,800
Laneway Hard Costs (per sq. ft.)	$750	$600	$450
Laneway Soft Costs (per sq. ft.)	$35.13	$35.13	$35.13
Monthly Residential Operating Costs (per sq. ft.)	$0.46	$0.55	$0.65
Monthly Residential Net Rent (per sq. ft.)	$2.60	$3.12	$3.67
Monthly Gross Residential Rent (per sq. ft.)	$3.06	$3.67	$4.32
Monthly Capital Repairs (per sq. ft.)	$0.63	$0.50	$0.38
Residential Vacancy Rate	1.7%	1.7%	1.7%
Mortgage Interest Rate	3.99%	3.99%	3.99%
Residential Cap Rate	4.75%	4.25%	3.75%
Rent Growth Rate	4.37%	3.83%	3.31%

SOURCE: urbanMetrics Inc.

Figure E-2: Summary of Commercial Economic Variables

Variable	Pessimistic	Moderate	Optimistic
Land/Property Costs	$2,600,000	$1,506,408	$899,800
Laneway Hard Costs (per sq. ft.)	$750	$600	$450
Laneway Soft Costs (per sq. ft.)	$35.23	$35.23	$35.23
Monthly Taxes, Maintenance, and Insurance (per sq. ft.)	$0.85	$1.11	$1.61
Monthly Net Retail Rent (per sq. ft.)	$2.50	$3.25	$4.72
Monthly Gross Retail Rent (per sq. ft.)	$3.35	$4.36	$6.34
Monthly Capital Repairs (per sq. ft.)	$0.63	$0.50	$0.38
Retail Vacancy Rate	0.9%	0.9%	0.9%
Mortgage Interest Rate	3.99%	3.99%	3.99%
Retail Cap Rate	6.50%	6.00%	5.50%
Rent Growth Rate	1.51%	2.02%	2.53%

SOURCE: urbanMetrics Inc.

Are CLSUs Financially Viable in Toronto?

Generally, both commercial and residential uses are expected to be financially feasible in Toronto laneways. The net present value (NPV) for various scenarios is summarized in Figure E-3.

Figure E-3: Net Present Value of Laneway Construction in Toronto under Different Assumptions.

Use	Pessimistic	Moderate	Optimistic
Residential	($162,157)	$99,735	$397,610
Commercial	($233,406)	$30,624	$439,931

Source: urbanMetrics inc.

Our evaluation determines that Commercial Lane Suite Units would likely yield somewhat lower rates of return and would be more "sensitive" to any fluctuations in terms of the economic variables used. As a result, commercial uses in laneways are likely to be higher risk, which may discourage some potential owners. Commercial laneway builds would need to command relatively high gross rents (i.e. above market rent) to be feasible if the owner intends to lease to a commercial tenant.

This may be challenging, given the significantly lower pedestrian traffic and increased exposure of laneway suites. Similarly, commercial uses in laneways have lower limits for hard construction costs than residential laneway uses, which is likely to be a barrier for certain businesses that require specific infrastructure to support safety, comfort and technical and legal compliance (e.g. commercial kitchen ventilation systems).

In short, commercial uses are likely to be *viable* in certain laneway locations. Still, we anticipate that commercial opportunities will generally be limited to businesses and enterprises that support either appointment-based visitors (i.e. health/wellness/ therapy practices, salons, personal care services, etc.) or those which do not rely on regular visitation from the public (i.e. creative studios, workshops, professional offices, etc.). Again, the pathway toward viability would likely involve some level of direct connection between the property owner and the business operator.

The Key Takeaways

From the perspective of the City of Toronto: Allowing CLSUs has the potential to add much-needed commercial space that better serves Toronto's growing population and relieves pressure on retail streets. Given the limited supply of land for new retail and service-commercial space, innovative policy solutions such as new provisions for CLSUs could help address and alleviate future market pressures, including high rents along key commercial streets. Furthermore, CLSUs could support broader growth management initiatives related to reduced commute times, more sustainable building practices, and walkable neighbourhoods.

From the perspective of a property owner: CLSUs may be attractive for some property owners who intend to run a small-scale commercial enterprise or not-for-profit organization out of their homes without having to inconvenience family members or other occupants of the house. CLSU options provide reasonable financial upside for a segment of property owners who value cash flow and do not intend to sell their property for an extremely long time frame. Owner-operated CLSU ultimately reduces the risks associated with maintaining a stable third-party, commercial tenant that can sustain the capital investments of the structure and internal fit-out.

Appendix 1: Laneway Suite Construction Costs

Commercial & Residential Laneway Suite Costs

urbanMetrics has evaluated the following costs that are expected to impact the economic viability of future commercial laneway suites:

- Construction Duration;
- Hard Costs;
- Soft Costs; and
- Property Costs

All four cost categories have been assumed to be the same for both **commercial laneway suite uses (CLSUs)** and **residential laneway suite uses (RLSUs)** and are based on residential laneway suite data.

In developing our costing estimates, we assume that CLSUs would be exempt from development charges. Our analysis also assumes that building code requirements for commercial-type occupancies would not impose significant additional construction costs. While we recognize that commercial occupancy requires additional building considerations in terms of accessibility and safety requirements, urbanMetrics has not evaluated building code compliance or requirements in detail. From a costing perspective, RLSUs were used as a baseline to estimate future CLSU costs since there are no real examples of "new" CLSUs constructed in the relatively short timeframe of Toronto's nascent laneway construction initiative.

For clarity, future CLSUs, depending on the tenant or occupant, may require specialized construction, such as commercial ventilation systems, upgraded electrical systems, gas for commercial cooking, or reinforced structural support for heavy machinery or large client groups, which would incur additional costs not considered in this analysis. Given the specificity of these requirements to each use case, a thorough evaluation of these costs falls beyond the scope of this report.

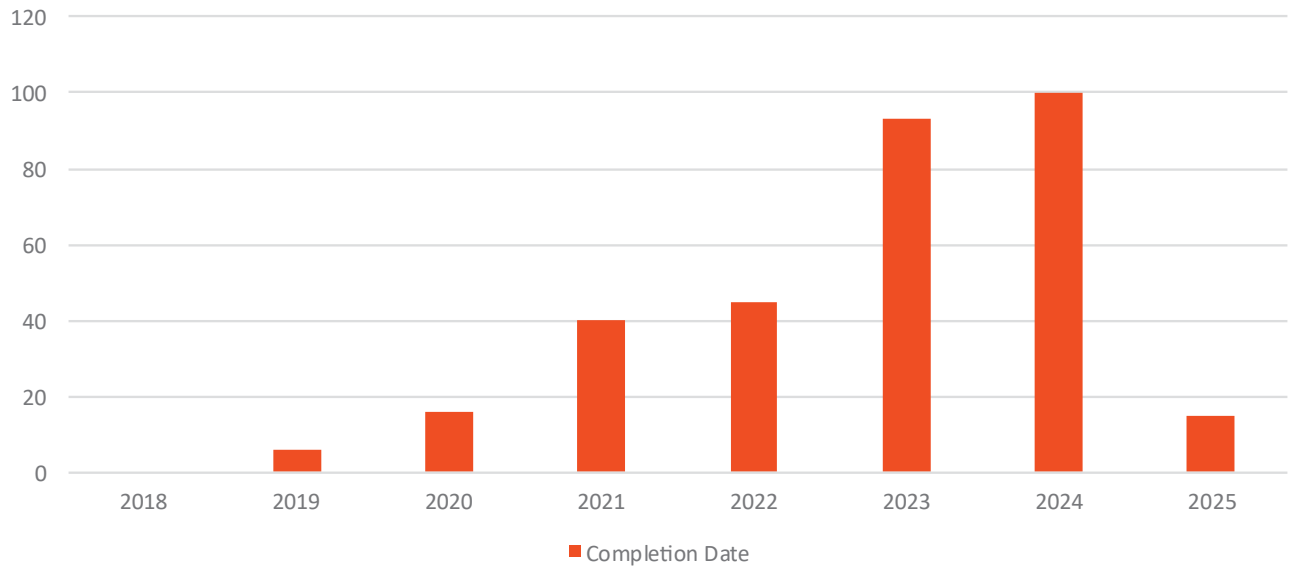
Construction Duration

As of Q1:2025, there were 412 completed residential laneway and garden suites in Toronto, based on City of Toronto building permit data. This number is based on the number of closed building permits with a "WORK" field of "New Laneway /

Rear Yard Suite", and a "STATUS" field of "Closed". By filtering based on the "PROPOSED_USE" field and examining the "DESCRIPTION" field for entries without a clear designation, there were an estimated 97 garden suites and 315 laneway suites.

As shown in Figure 1-1, the number of laneway suites completed in the City of Toronto has grown every year, with a significant acceleration in 2023 and 2024. However, the total number of laneway and garden suites represents a small fraction of all ground-related dwellings. As a result, even if this trend of completions continues, it will represent a very gradual and incremental change in local neighbourhoods, and there is a very low risk of retail market shocks because of commercial laneway suite development.

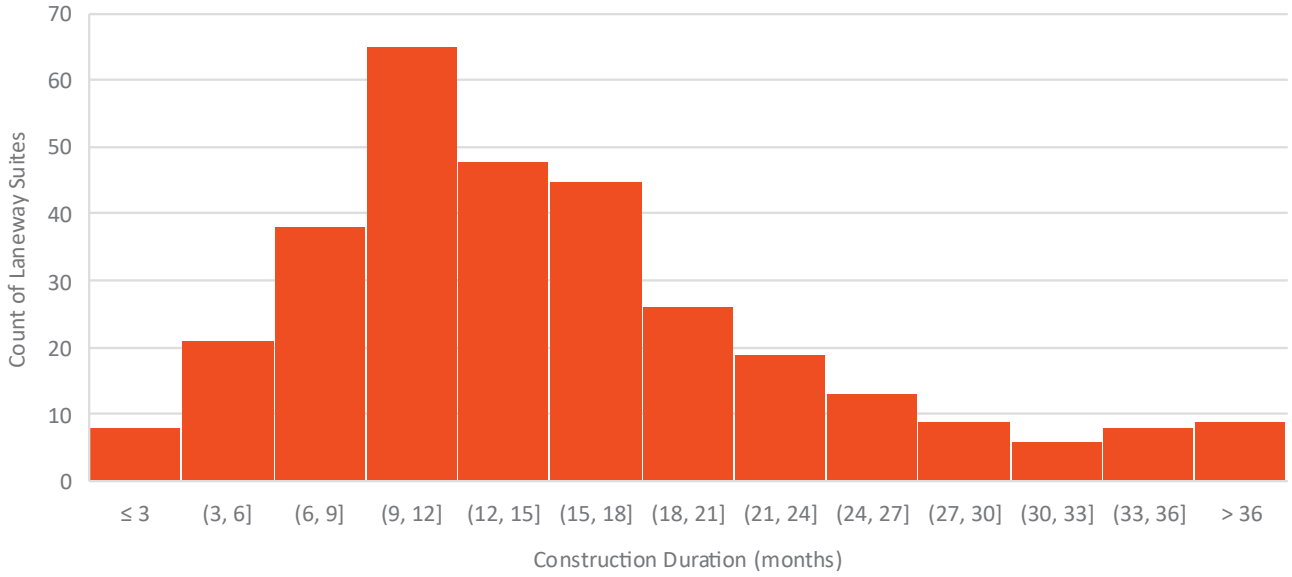
Figure 1-1: Built Laneway & Garden Suites By Completion Date



SOURCE: urbanMetrics Inc., with City of Toronto building permit data

Of these completed residential laneway and garden suites, the average length of construction as measured between the building permit issue date and completion date was 15.9 months, with a median length of 14 months (see Figure 1-2). However, as this data only includes completed laneway suites, it is likely biased towards projects with faster construction times.

Figure 1-2: Distribution of Residential Laneway Suite Construction Duration in Months



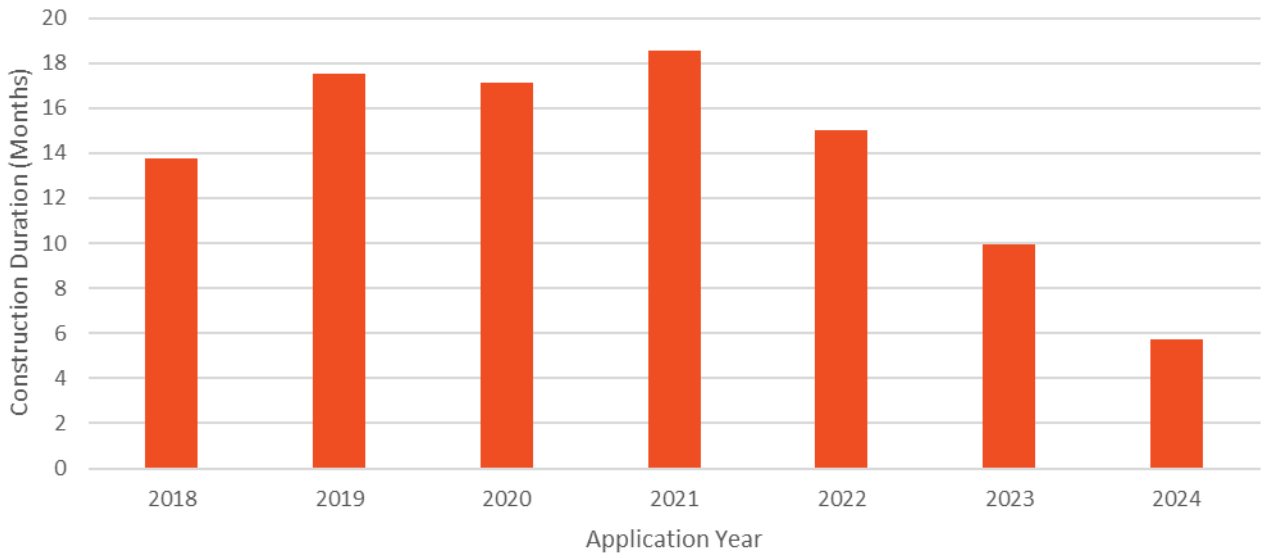
SOURCE: urbanMetrics Inc., with City of Toronto building permit data

As shown in Figure 1-3, between 2018 and 2022, the average construction duration was 17 months but was significantly shorter in 2023 (10.9 months) and 2024 (7.23 months).

Applications submitted in 2023 or 2024 that are still in progress or that are completed but not yet entered into the dataset will not be included in the completions data. Consequently, an expected construction duration of 17 months better reflects the typical residential laneway application. There is a wide range of complexity in the construction requirements of laneway suites; some involve the renovation of existing garages, while others require the demolition of an existing garage and the construction of a multi-storey building. The existing built form and architectural design of the new laneway suite are likely critical factors in

determining the construction duration. Furthermore, COVID-19-related materials and labour disruptions may have impacted construction, particularly for 2020 and 2021 applications.

Figure 1-3: Construction Duration by Application Year



SOURCE: urbanMetrics Inc., with City of Toronto building permit data

The same construction duration is expected for most retail and service commercial uses. However, any uses requiring commercial food preparation, industrial venting, or commercial electrical work will likely take longer to build. The length of construction has significant implications for financial feasibility, as financing and opportunity costs increase with construction duration, while revenue does not begin until after construction. Additionally, any owner wishing to create a laneway suite for commercial uses must be confident they can find an occupant over a year after the submission of the building permit application. This is only a reasonable assumption if the owner expects to use the space themselves and does not have an urgent need, or if the space is versatile enough for a wide range of commercial uses. For uses with specific facility requirements, such as restaurants, renovating an existing laneway suite may be a more viable pathway to reduce the time between capital investment and the start of returns.

Hard Costs

To evaluate the cost of construction, two main methods were used.

First, the cost of construction per square foot was calculated based on the listed area in the building permit data for residential laneway suites, along with the estimated construction cost listed in the building permit application.[1] As this data is entered by the applicant, it is unclear if costs such as landscaping, utility connections to the main house, or architectural design are included or whether the price of work was split among multiple building permits. Additionally, this estimate is not a final construction cost and would not include cost overruns or choices to upgrade finishings. As a result, this method should be considered a lower bound for actual expenses.

urbanMetrics has adjusted the construction costs to Q4 2024 values based on the Statistics Canada's Building Construction Price Index for the Toronto CMA to account for the significant increases in construction costs seen over the last several years.

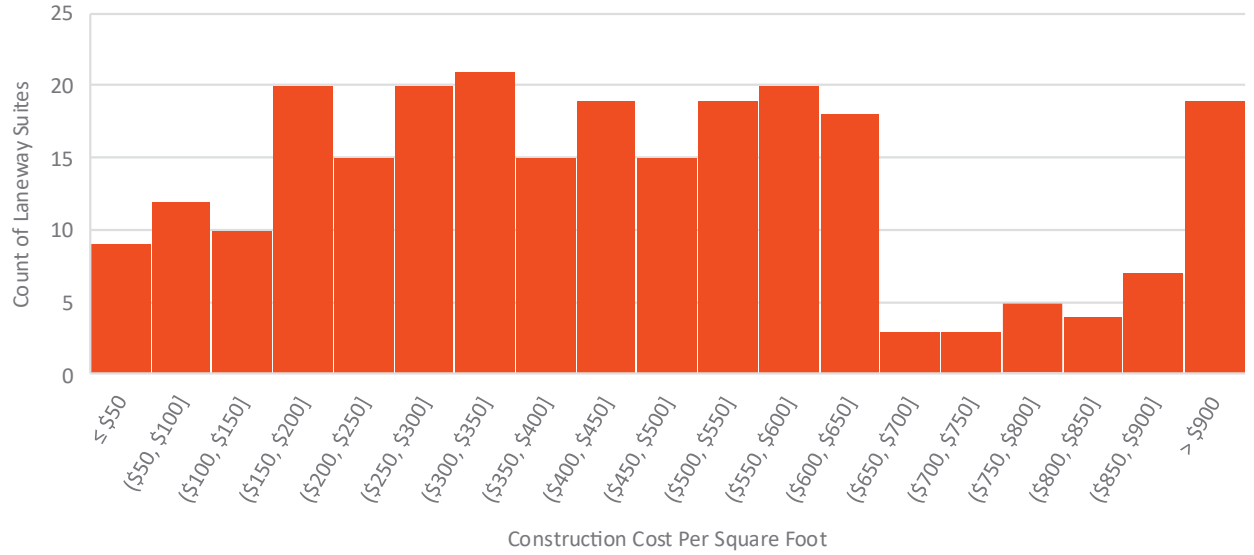
The second method involves compiling cost estimates from various Toronto laneway suite builder websites, along with any qualifications regarding what is included in the estimates. This method is likely more reflective of current market trends, as builders must price their work based on current and forward-looking costs.

As shown in Figure 1-4, when the average residential laneway suite construction cost per square foot is based on building permit data there is a relatively flat distribution with an average construction cost of $460 per square foot, and a median construction cost of $418 per square foot.[2]

As shown in Figure 1-5, the estimated construction costs have declined very slightly over time, however this may be the result of some complex (and more expensive) applications submitted in 2023 and 2024 still being under construction and therefore not being added to the dataset yet.

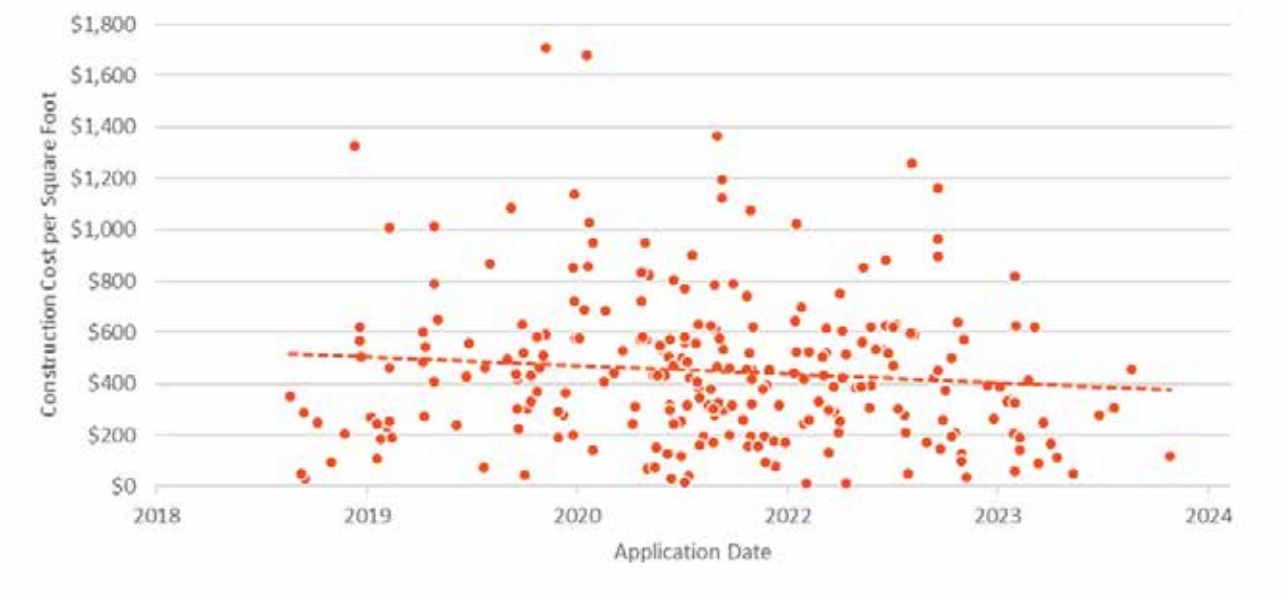
[1] Not all building permits filled out the estimated construction cost field or the work are field. Only 254 of the 315 laneway suite building permits contained both fields and allowed for construction cost estimates.
[2] Building permit data has been adjusted by the Statistics Canada single-detached building construction price index for the Toronto CMA, based on application date, to account for the large degree of construction cost inflation since 2018.

Figure 1-4: Distribution of Construction Costs per Square Foot, indexed to Q4 2024



SOURCE: urbanMetrics Inc., with City of Toronto building permit data and data from *Statistics Canada. Table 18-10-0289-01 Building construction price indexes by type of building and division.*

Figure 1-5: Construction Cost per Square Foot by Application Date, Indexed to Q4 2024



SOURCE: urbanMetrics Inc., with City of Toronto building permit data and Statistics Canada. Table 18-10-0289-01 Building construction price indexes by type of building and division data. NOTE: An outlier of $3,427 in 2019 has been excluded.

For comparison, the 2024 Altus Cost guide identifies a cost range of $520 to $1,130 for a custom-built single-family residential home in the GTA, which is the relevant category as most laneway suites are custom-built due to site-specific considerations. As a result, the reported residential laneway suite building permit construction costs may be impacted by underestimation of the expenses by applicants, the exclusion of significant cost components such as service connections, or the removal of an existing garage without adding additional floor area.

The construction cost estimates from residential laneway suite builders in Toronto range between $350 per square foot and $800 per square foot, as shown in Figure 1-6.

Many estimates do not specify which components are included or specifically exclude significant hard-cost components such as landscaping and service connections. Some estimates also do not explicitly identify whether they include soft costs. Based on a review of the identified components and associated forecasts, as well as feedback from LGA Architectural Partners, the estimated construction costs range from $450 to $750 per square foot, assuming a typical laneway suite size of approximately 1,000 square feet. Smaller laneway suites can incur significantly higher costs, as fixed expenses, such as landscaping and service connections, are distributed across a smaller building area.

Figure 1-6: Builder-Based Residential Laneway Suite Construction Cost Estimates

Source	Low End	Midpoint	High End	Includes Soft Costs	Additional Hard Costs
RoomDB	$400	$500	$600	No	Landscaping, possibly servicing connections, and possibly contingencies.
Novacon	$700	$750	$800	No	Roof
SummerStyle	$350	$375	$400	Unspecified	Unspecified
LaneScape (over 1,000 sq. ft.)	$400	$450	$500	Unspecified	Contingencies, builder's risk insurance, service connections through the existing house, upgrading incoming services, appliances, window coverings, and landscaping
LaneScape (under 950 sq. ft.)	$600	$625	$650	Unspecified	Contingencies, builder's risk insurance, service connections through the existing house, upgrading incoming services, appliances, window coverings, and landscaping
Elevate	$350	$375	$400	No	None
SevernWoods	$350	$425	$500	Unspecified	Unspecified
21Inc	$350	$375	$400	No	Utilities
Typical Total Hard Costs	**$450**	**$600**	**$750**	**No**	**No additional hard costs**

SOURCE: urbanMetrics Inc., with individual costs ranging from builder websites.

Appendix 2: Commercial Uses Evaluation

The location, unit size, and variety of retail units available for lease have been analyzed to identify the range of retail characteristics.

To contextualize the potential for CLSUs, urbanMetrics has developed a "Commercial Study Area" approach that evaluates the prevailing market conditions in neighbourhoods in the City of Toronto, where laneways are a common feature of the urban fabric. urbanMetrics has relied on the CoStar data platform to evaluate baseline trends, rents and specific storefront unit characteristics.

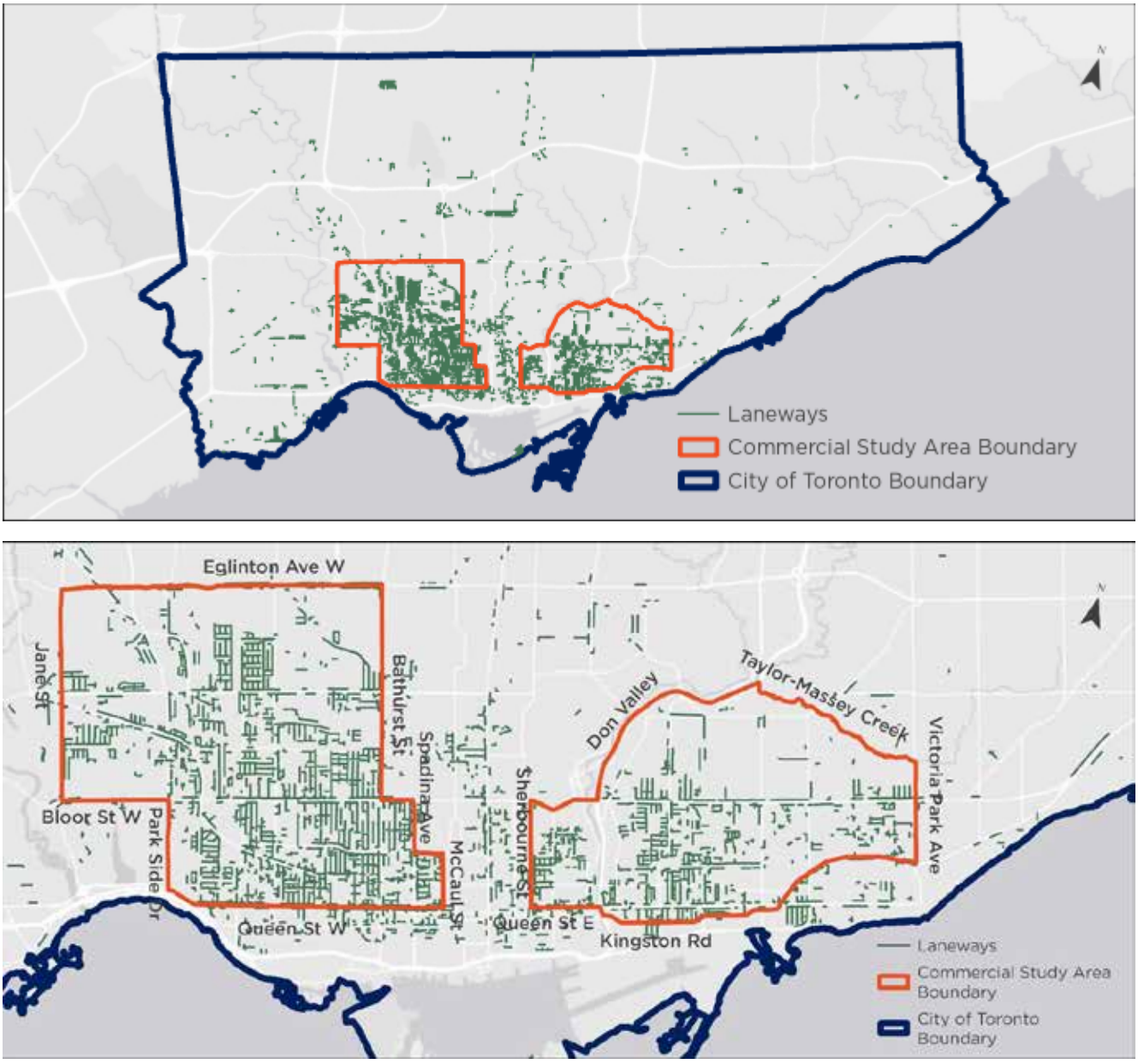
Commercial Study Area

To evaluate the retail market that future laneway commercial uses would compete with, we have identified a Competitive Retail Study Area, which contains a relatively high concentration of laneways, as well as the majority of completed (residential) laneway suites as shown in Figure 2-7 and Figure 2-8.

The study area follows major roads or natural features where possible. As shown, not all areas with laneways are included to reduce the influence of commercial spaces, which are far from the major concentration of laneways and would, therefore, not compete with future commercial laneway uses. Similarly, the downtown core was excluded as very few laneways in this area have single-family homes where a future laneway suite could be built, and as expected, have almost no existing (residential) laneway suites.[3]

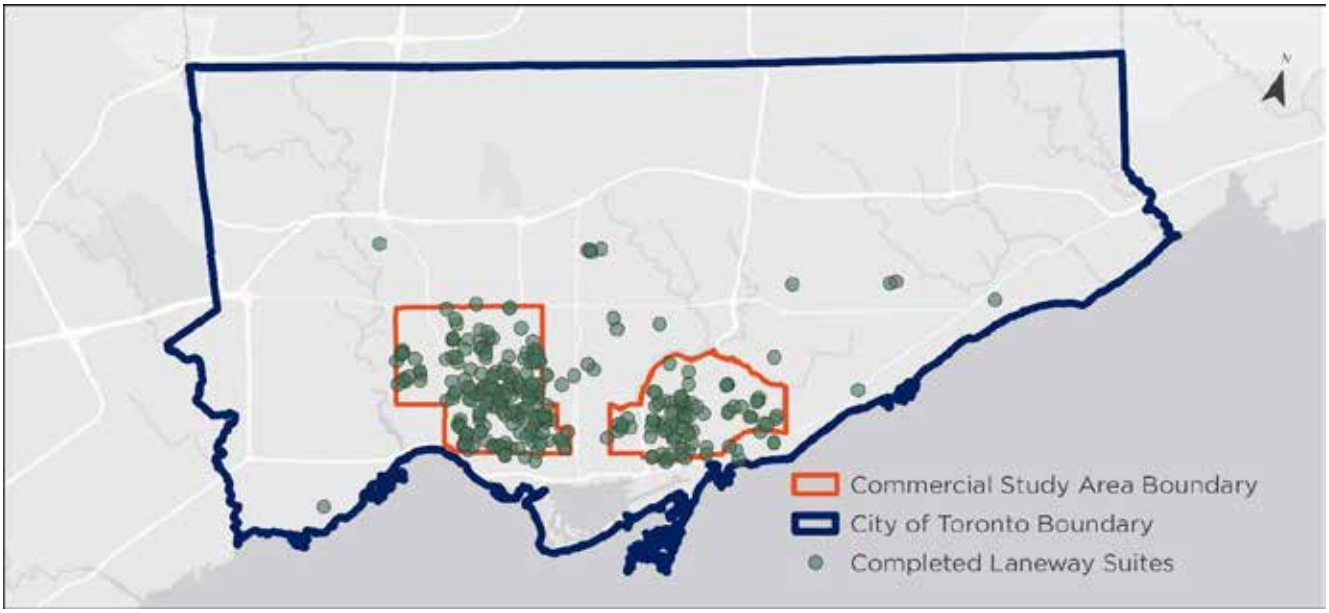
[3] Of note, some building permits that listed "laneway suite" as the proposed use are not located on a laneway. These building permits were not removed as identifying all such properties it would require the manual review of each building permit.

Figure 2-7: Commercial Study Area and Laneways



SOURCE: urbanMetrics Inc., with CoStar data and City of Toronto Boundary shapefile.

Figure 2-8: Completed Laneway Suites and Commercial Study Area



SOURCE: urbanMetrics Inc., with City of Toronto Building Permit data, Address Point shapefile, and City of Toronto Boundary shapefile.

Retail Market Trends

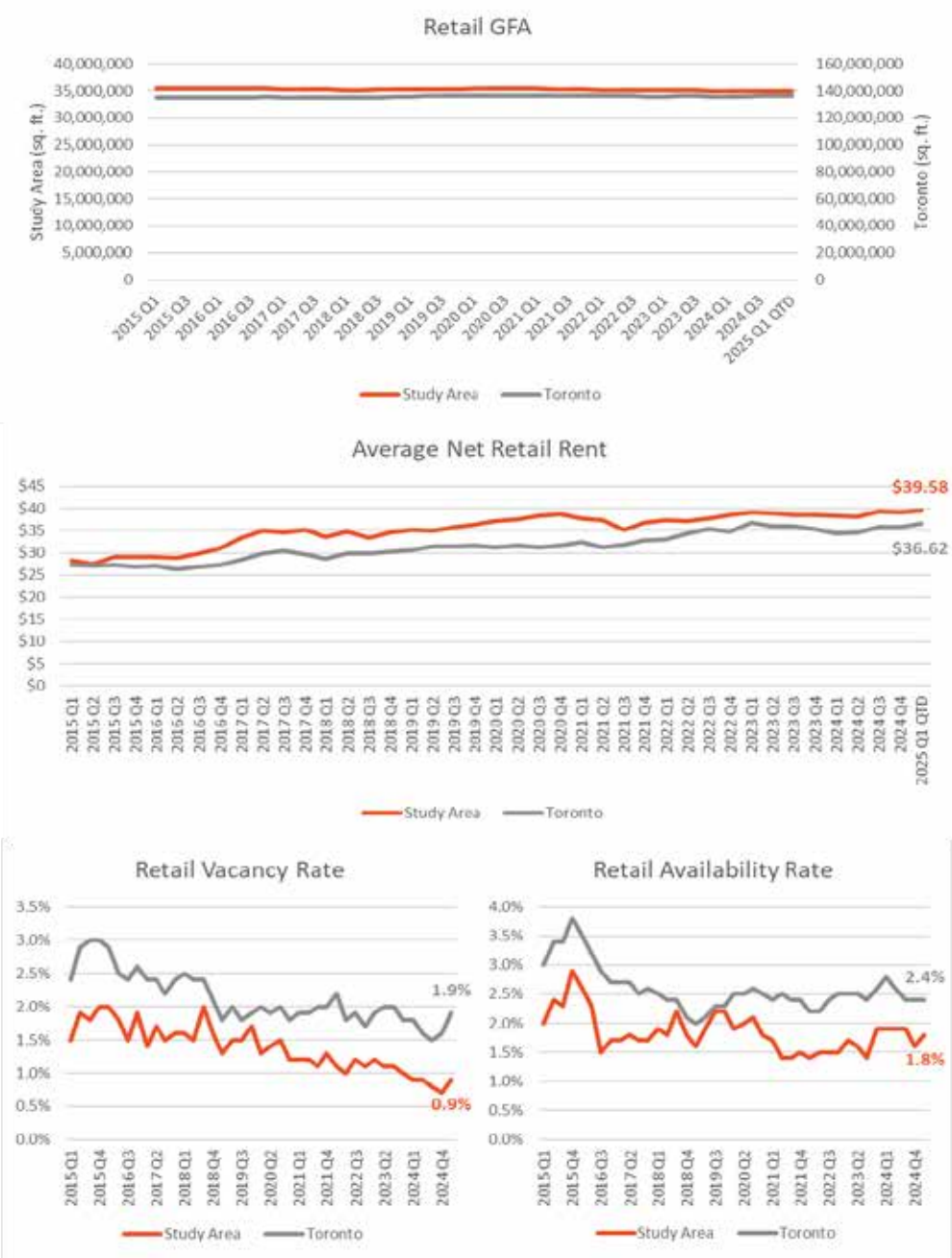
This background report focuses on the retail market aspect of commercial space, highlighting its primarily ground-floor nature in laneways and the anticipated uses, which are mainly retail and service-related. Given that retail rents are significantly higher, it is expected that owners would prefer not to rent space at office market rates if retail rents are available.

The retail market in the Study Area is a tighter market than the City of Toronto average, as shown by the higher average retail rents, lower retail vacancy rates, and lower retail availability rates (see Figure 2-9). This data also indicates that both the City of Toronto and the Study area have extremely tight retail markets, with a vacancy rate of 1.9% and 0.9%, respectively. This is a continuation of the long-term trend of declining vacancy rates since 2015, though availability rates have been relatively stable since 2018. This likely reflects the growing population and rising residential rents, while the total inventory of retail space in the Study Area has declined by 1.34%, and the Toronto inventory has increased by 1.02% since 2015.

One challenge with adding more retail space in built-up urban areas is that, outside of special circumstances, it generally needs to be located on the ground floor to be financially viable, whereas service commercial uses have somewhat more flexible

location requirements. While Toronto has a relatively large number of both below-grade and above-grade retail locations, such as those associated with the PATH system and multi-storey malls like the Eaton Centre, these cannot be easily replicated due to the significant land requirements and competing uses.

Figure 2-9: Retail Market Trends, Study Area vs. City of Toronto



SOURCE: urbanMetrics Inc., with data from CoStar

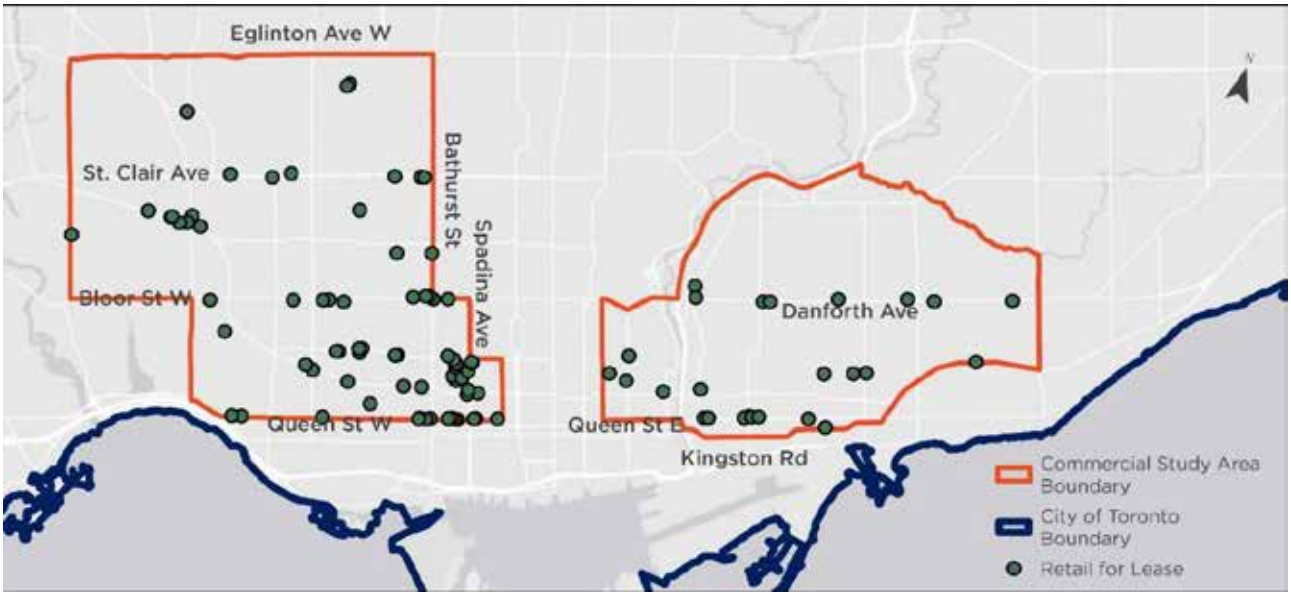
Competitive Retail Space Characteristics

To contextualize potential future CLSUs within the Study Area and estimate retail characteristics, urbanMetrics has used CoStar data for properties with available retail space, filtered by entries with direct retail rent data, Triple Net lease type, and properties with less than 20,000 ft^2 of available space, resulting in 101 properties on March 19, 2025. These criteria are different from those used by CoStar to calculate the Net Rents shown above. It is, therefore, more reflective of what a small-scale store-front landlord would expect to receive in rent.

Competitive Retail Space Locations

As shown in Figure 2-10 retail space is heavily clustered along Queen Street, Bloor Street, and Danforth Avenue, and near Kensington Market, and as a result, benefit from much higher pedestrian traffic and better visibility than most laneway suites.

Figure 2-10: Retail Space for Lease



SOURCE: urbanMetrics Inc., with CoStar data

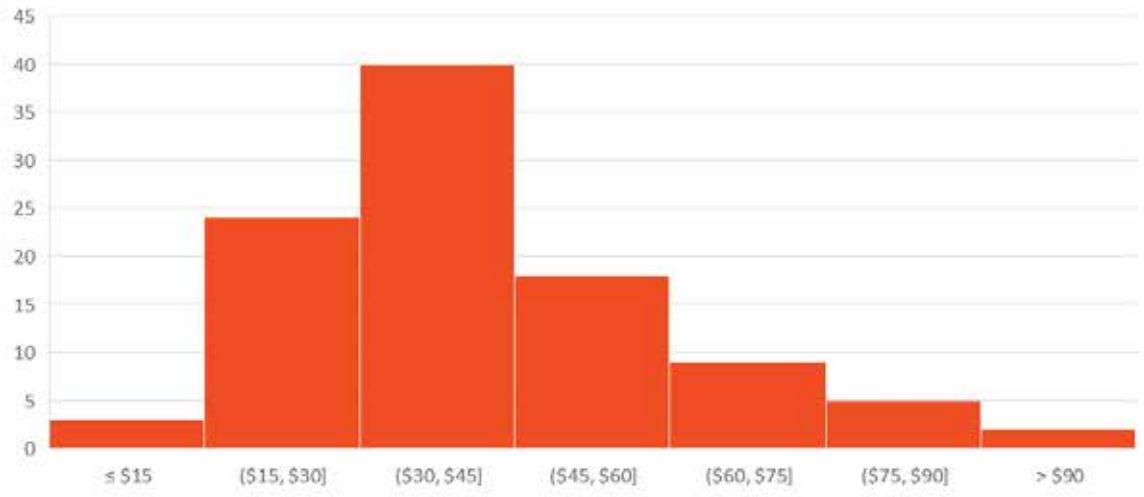
As commercial uses in laneways are not currently permitted, and rear-yard studio spaces are not typically leased through real estate brokers, there are no retail spaces that are directly comparable to CLSUs in this dataset.

While the much lower pedestrian traffic in laneways is expected to result in below-average retail rents for future commercial laneway suites, there is currently insufficient data to quantify the scope of this impact. However, given the extremely low vacancy rates, there are no ground-floor commercial spaces with low pedestrian traffic that commercial tenants could lease instead. As a result, it is likely that commercial activities that do not rely on pedestrian traffic, such as appointment-based service commercial uses, businesses that rely on word of mouth or social media marketing, or online sales, would lease laneway commercial space for a small discount to standard retail space.

Competitive Retail Space Triple Net Rents

The average annual direct Triple Net retail rent per square foot in the Study Area was $42.97 with a median of $39.00 per square foot ($3.58 and $3.25 per square foot on a monthly basis). The distribution of rents has a long tail of more expensive rents (see Figure 2-11). The 20th to 80th percentiles of average annual direct rent ranges between $30.00 per square foot and $56.67 per square foot, respectively ($2.50 and $4.72 per square foot monthly), and it is likely that laneway commercial space would fall within this range.

Figure 2-11: Distribution of Annual Retail Rent



SOURCE: urbanMetrics Inc., with CoStar data

As shown in Figure 2-12 A significant share of available space is under 2,000 square feet, with the average size of available retail space in the Study Area being 2,339 square feet. This shows that smaller retail space is well represented, and a comparable size to most laneway suites.

Figure 2-12: Distribution of Available Retail Space in Study Area

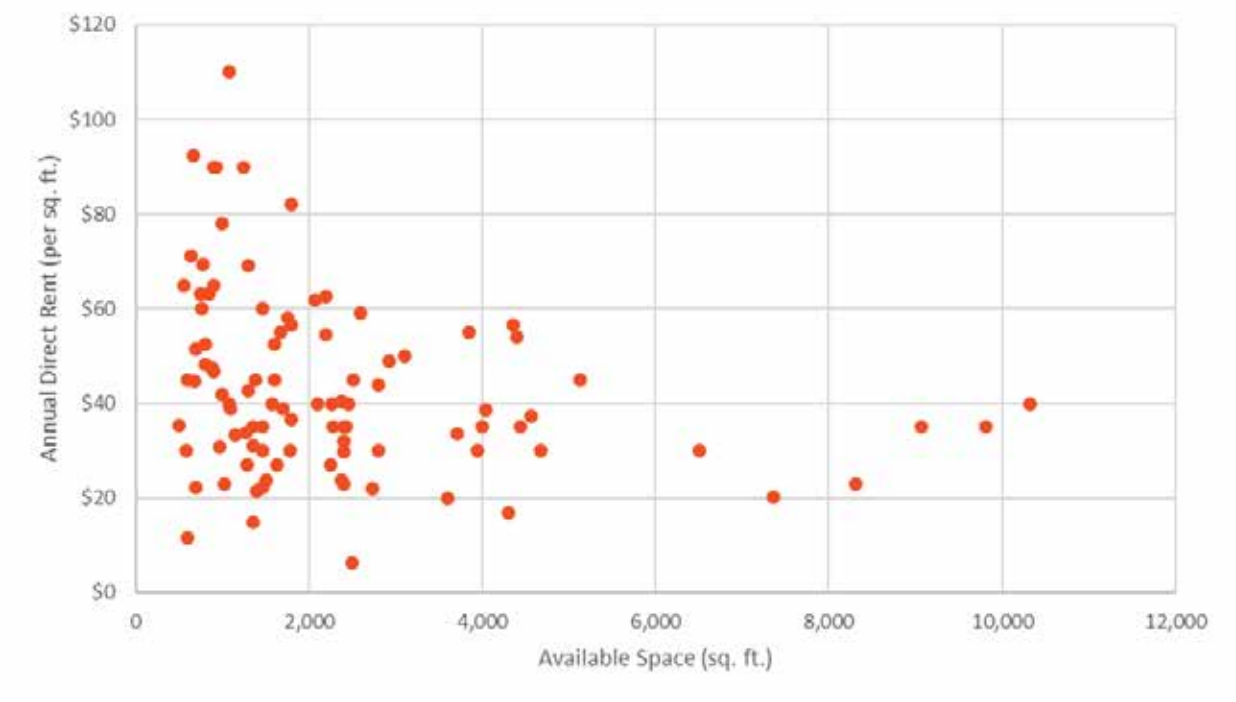


SOURCE: urbanMetrics, with CoStar data.

As shown in Figure 2-13 there is significantly more variability in rents in buildings with less space available, though there is a very weak relationship between unit size and price per square foot. As commercial space in laneway suites is expected to be largely under 2,000 square feet, the alternative to a laneway suite would likely have a wide range of rents.

As there are no existing CLSUs in Toronto, the 20th percentile, median, and 80th percentile triple net rents for leases with direct retail rent data, Triple Net lease type, and properties with less than 20,000 ft^2 of available space were used as an estimate for the commercial laneway suite rents.

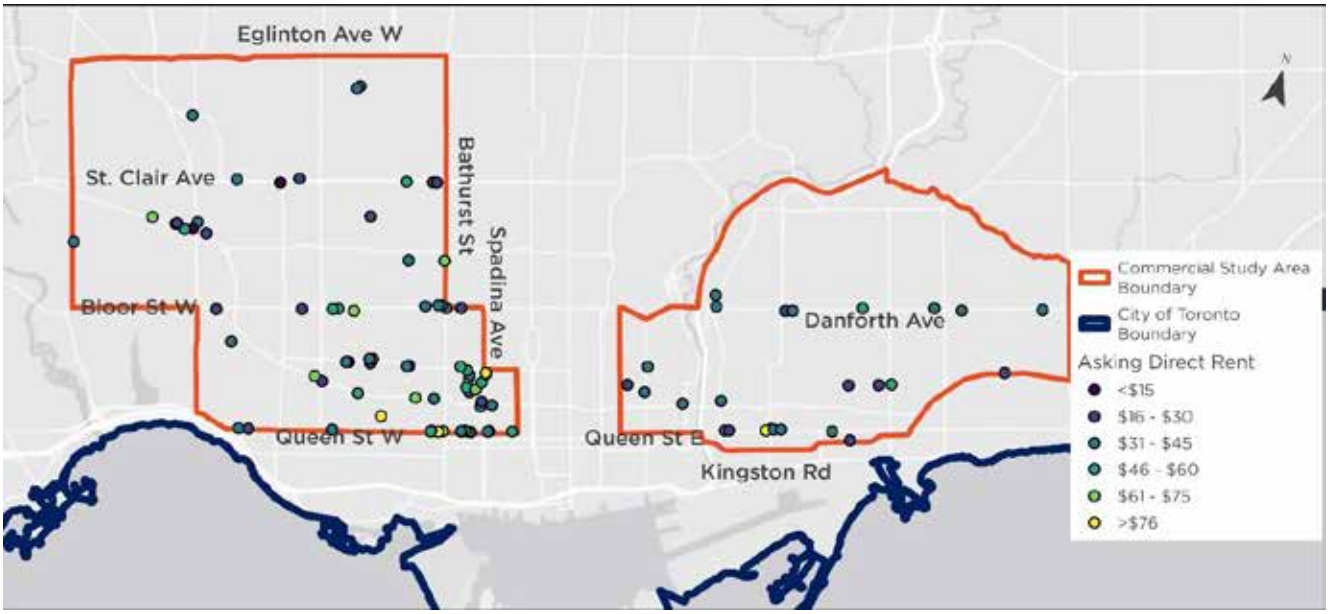
Figure 2-13: Impact of Size of Available Space on Rent Per Square Foot



SOURCE: urbanMetrics Inc., with CoStar data

The asking direct rent within the study area varies by location, with Kensington Market, Dundas Street West, and Queen Street West having many spaces with higher annual rents (see Figure 2-14), of above $45 per square foot ($3.75 per square foot monthly). Laneway suites in these areas could likely command higher rents than those in areas further out, such as south of Danforth Avenue or St. Clair Avenue.

Figure 2-14: Asking Direct Rent by Location



SOURCE: urbanMetrics Inc., with CoStar data and City of Toronto Boundary shapefile.

Taxes, Maintenance & Insurance Costs

Commercial tenants in Triple Net leases are typically required to pay for property taxes, insurance, and maintenance (TMI) in addition to rent. As with residential leases, all of these costs are typically included in the rent. urbanMetrics has estimated the average cost to allow for a direct comparison with residential leases.

The annual average retail TMI cost for retail properties 2,000 square feet and smaller by year based on CoStar data, as shown in Figure 2-15. Notably, due to data limitations, this data is not limited to direct, triple-net, or available space. As shown, the average annual TMI per square foot in the Study Area in Q1 2025 was $13.33 ($1.11 per square foot monthly).

Figure 2-15: Annual Retail Taxes, Maintenance, and Insurance (TMI) per Square Foot



SOURCE: urbanMetrics Inc., with CoStar data

Land Economics Rationale for Laneway Commercial Space

There is currently a scarcity of small-scale commercial space in the city, as evidenced by the low retail vacancy rate and the small average size of available space in the Study Area. At the same time, the amount of space in the Study Area has not increased significantly. The highly constrained land supply, restrictive zoning, and a large number of competing uses (residential, retail, offices, institutional) make developing new retail challenging.

Additionally, broader urban trends, such as the rise of hybrid work, e-commerce and social media marketing, are likely to make laneway commercial uses increasingly economically viable, as these tend to reduce the reliance on pedestrian traffic and unit visibility.

The tight retail market in the Study Area presents an opportunity for commercial uses in laneways to relieve some of the pressure on the existing retail inventory. This is critical to maintaining a diverse and vibrant retail market, as businesses in industries with lower sales per square foot or lower profit margins may be forced out of the market if vacancies continue to decline and rents increase. As a result, allowing commercial uses in laneways is likely to increase the resilience of the local retail market and provide additional opportunities for economic activity to residents.

It should be noted that given the size of the current inventory of retail space in the Study Area of approximately 35 million square feet and the low vacancy rates, there is no risk of harming existing retail space by allowing commercial uses in laneways. Simply put, the high demand, limited number of laneways, and size limits on laneway commercial uses imposed by parcel dimensions all indicate that commercial uses in laneways will not replace existing retail functions. Laneway commercial, if permitted, should provide opportunities to incubate fledgeling business ideas and, conversely, provide the means for established businesses to move off the main street to clear the way for (or enable) specific businesses that *need* footfall and visibility to grow and thrive

Commercial Laneway Uses Revenue and Cost Assumptions

Given the lack of existing laneway commercial uses in the City of Toronto, urbanMetrics has estimated the following revenue and cost assumptions based on a combination of available commercial spaces for lease and residential laneway suites, as shown in Figure 2-16.

The source and methodology for calculating each variable is listed below.

- Land/Property Costs: based on the listed sale price of properties which later completed a residential laneway suite between 2023 and 2025. Only properties sold during the 2019-2024 period were included. The low value and high value are the average of the annual minimum and maximum sale prices during this period, while the medium value is based on the average of all sale prices during this time period.
- Laneway Hard Costs (per sq. ft.): based on the residential laneway suite costs listed by laneway suite construction and design companies in Toronto, with the low, medium, and high values chosen in consultation with LGA Architectural Partners.
- Laneway Soft Costs (per sq. ft.): based on residential laneway architecture, design, engineering, and survey costs, with the average of retail building permit fees and service commercial building permit fees from the City of Toronto. A 15% soft cost contingency rate was also added. It is assumed there will be no development charges for commercial laneway suites, to align with the current framework for residential laneway suites.
- Monthly Taxes, Maintenance, and Insurance (per sq. ft.): based on the Q1 2025 average retail TMI in the Study Area, from CoStar data. Note that this average is not filtered to triple net (TMi excluded from rent) direct leases due

to data constraints. The tenant pays this and is equivalent to the residential laneway suite operating cost estimates. This does not include depreciation or capital expenses. The TMI-to-gross rent ratio for the moderate value is applied to both the pessimistic and optimistic values.

- Monthly Net Retail Rent (per sq. ft.): based on the listed rent for triple net (TMi excluded from rent) direct leases for retail space in the Study Area as of March 19, 2025. The low value is the 20th percentile, the medium value is the median, and the high value is the 80th percentile. This assumes that commercial laneway space will have comparable rents to the existing available retail spaces in the study area, which are generally located on major streets with significantly higher pedestrian traffic and have a slightly larger average unit size of 2,300 square feet.
- Monthly Gross Retail Rent (per sq. ft.): this is the sum of the Monthly Taxes, Maintenance, and Insurance (per sq. ft.), and the Monthly Net Retail Rent (per sq. ft.).
- Monthly Capital Repairs (per sq. ft): based on a 1% of hard costs per year in capital repairs, which is a typical rate for new housing. This represents the long-term average cost for replacing or major repairs to components as they age, such as roof, windows and doors, plumbing etc., but does not include general maintenance and small repairs for those systems.
- Retail Vacancy Rate: based on the average retail vacancy rate in the Study Area reported by CoStar as of Q1 2025.
- Mortgage Interest Rate: based on the lowest listed 5-year fixed rate mortgage from Ratehub.ca. The total purchase price was set to $2,112,123, to reflect a $1,506,408 property purchase price plus a cost of $605,715 to create a laneway suite, in line with the medium hard and soft costs and average unit size of 954 square feet. This requires a 20% downpayment.
- Retail Cap Rate: based on the Q4 2024 Colliers Canada Cap Rate Report. The low and high values are the low and high cap rates listed in the Colliers report for grocery/community and neighbourhood/strip retail. The medium value is the midpoint of the low and high.

Figure 2-16: Summary of Commercial Economic Variables

Variable	Pessimistic	Moderate	Optimistic
Land/Property Costs	$2,600,000	$1,506,408	$899,800
Laneway Hard Costs (per sq. ft.)	$750	$600	$450
Laneway Soft Costs (per sq. ft.)	$35.23	$35.23	$35.23
Monthly Taxes, Maintenance, and Insurance (per sq. ft.)	$0.85	$1.11	$1.61
Monthly Net Retail Rent (per sq. ft.)	$2.50	$3.25	$4.72
Monthly Gross Retail Rent (per sq. ft.)	$3.35	$4.36	$6.34
Monthly Capital Repairs (per sq. ft.)	$0.63	$0.50	$0.38
Retail Vacancy Rate	0.9%	0.9%	0.9%
Mortgage Interest Rate	3.99%	3.99%	3.99%
Retail Cap Rate	6.50%	6.00%	5.50%

SOURCE: urbanMetrics Inc.

Appendix 3: Residential Uses Evaluation

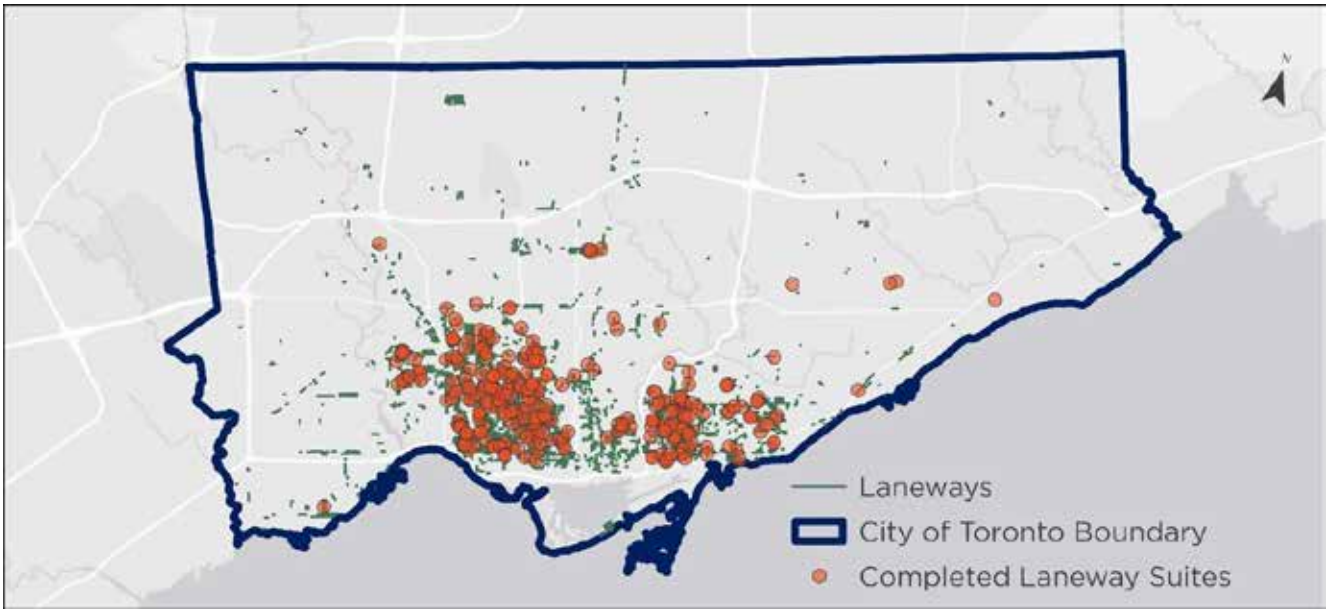
The location, unit size, and rent of existing laneway and garden suite units has been examined to identify the feasible range of residential laneway suite characteristics.

As of March 11, 2025, there were 412 completed laneway or garden suites in Toronto. This number is based on the number of closed building permits with a "WORK" field of "New Laneway / Rear Yard Suite", and a "STATUS" field of "Closed". By filtering based on the "PROPOSED_USE" field and examining the "DESCRIPTION" field for entries without a clear designation, there were an estimated 97 garden suites and 315 laneway suites. Of note, some permits identified as laneway suites are not located on laneways. However, as the characteristics of garden suites are similar to those of laneway suites, this is not expected to significantly impact the results.

Laneway Suite Location

As shown in Figure 3-17 most completed laneway suites are in two clusters around the highest density of laneways, with scattered units further out.

Figure 3-17: Completed Laneway Suite Location

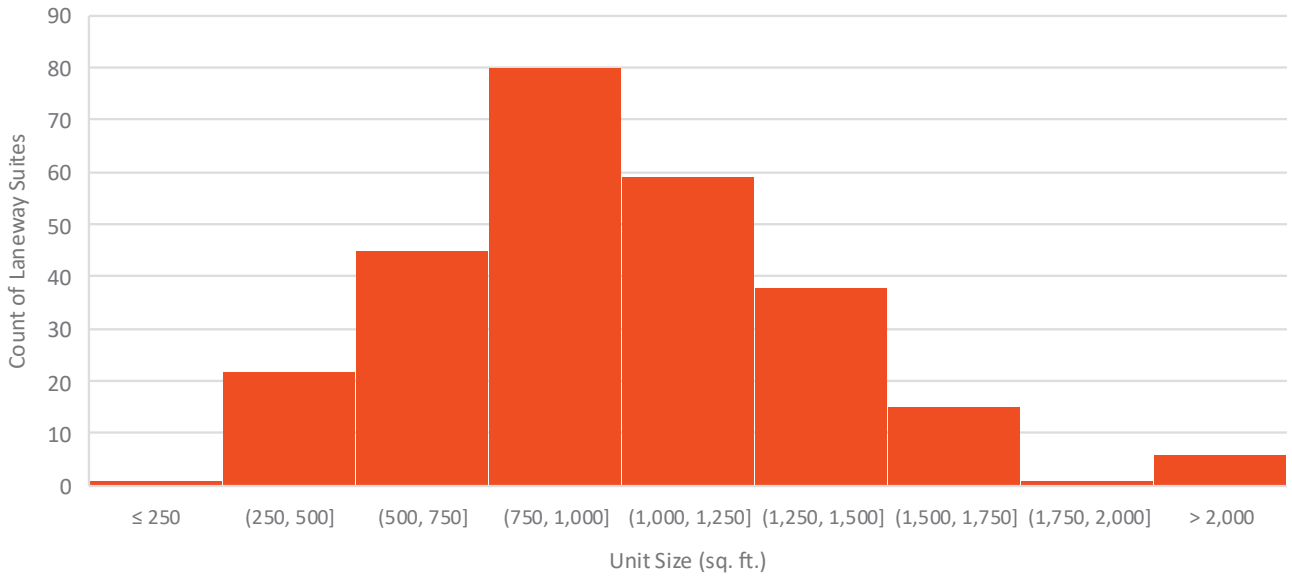


SOURCE: urbanMetrics Inc., with City of Toronto Building Permit data, City of Toronto Boundary shapefile, and City of Toronto Centreline shapefile.

Laneway Suite Size

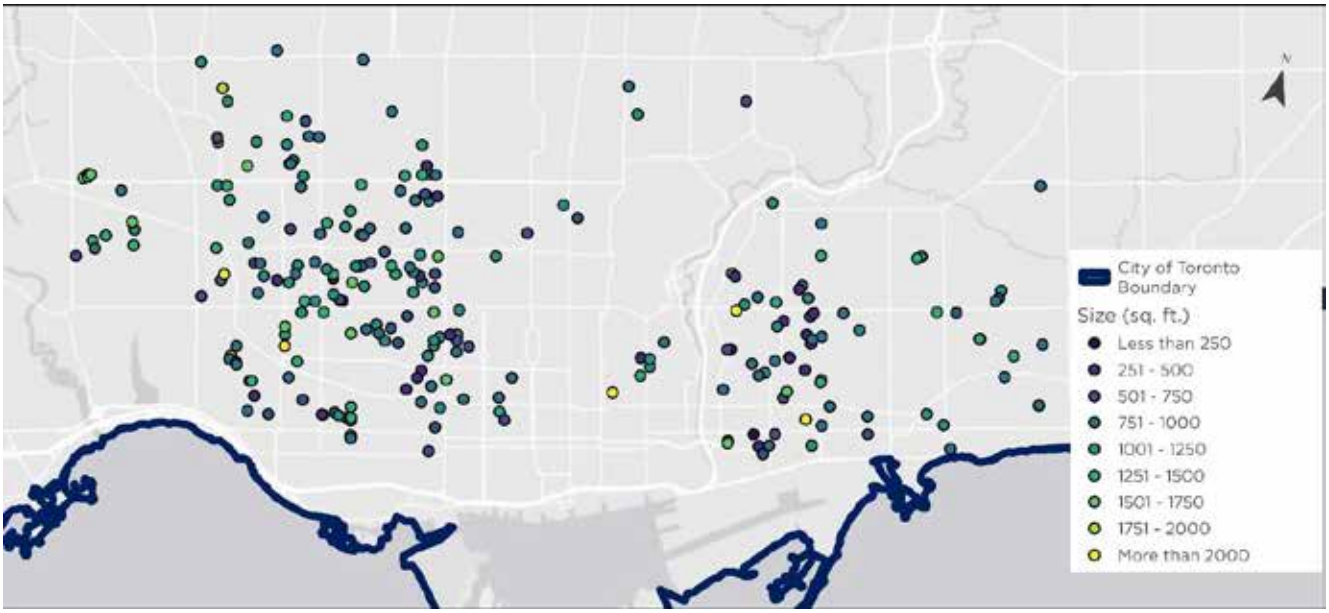
As shown in Figure 3-18, there are very few laneway or garden suites under 500 square feet, with an average size of 995 square feet and a median size of 960 square feet. There are almost no laneway or garden suites over 1,750 square feet, likely due to limitations imposed by lot size and setback/angular requirements. Of note, three building permits list an area of less than 188 square feet, which is the minimum area of a dwelling unit set out in the Building Code. These were excluded from the size analysis as they likely are either errors or the building permit is only for a portion of the laneway suite. As shown in Figure 3-19 there does not appear to be a strong association between laneway suite size and location, and as a result, the same size assumptions should be generally applicable.

Figure 3-18: Distribution of Laneway Suite Size



SOURCE: urbanMetrics Inc., with City of Toronto building permit data, and rental listing permit data.

Figure 3-19: Laneway Suite Size Map



SOURCE: urbanMetrics Inc., with City of Toronto Building Permit data, City of Toronto Boundary shapefile, and City of Toronto Centreline shapefile.

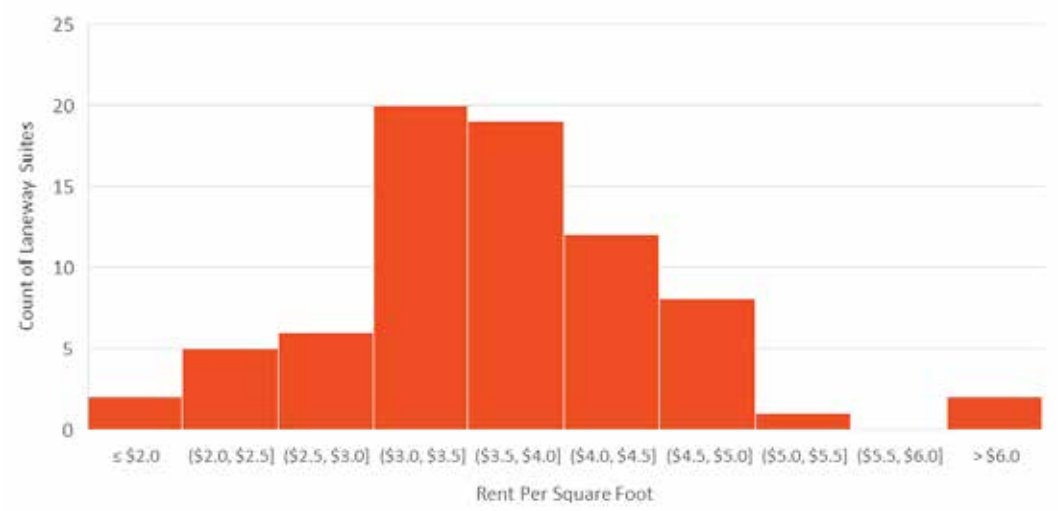
Laneway Suite Rent

Unit rents were identified from online listings among units built in 2023, 2024, and 2025 where available. Only 75 units had rental listings, although this does not mean that other laneway units were not rented; it only means that the records of the units being for rent were not available online.

As shown in Figure 3-20, the rents per square foot of laneway suites have a relatively narrow distribution. The average rent is $3.70 per square foot, and the median rent is $3.67 per square foot. The 20th to 80th percentile range is $3.06 to $4.32 per square foot.

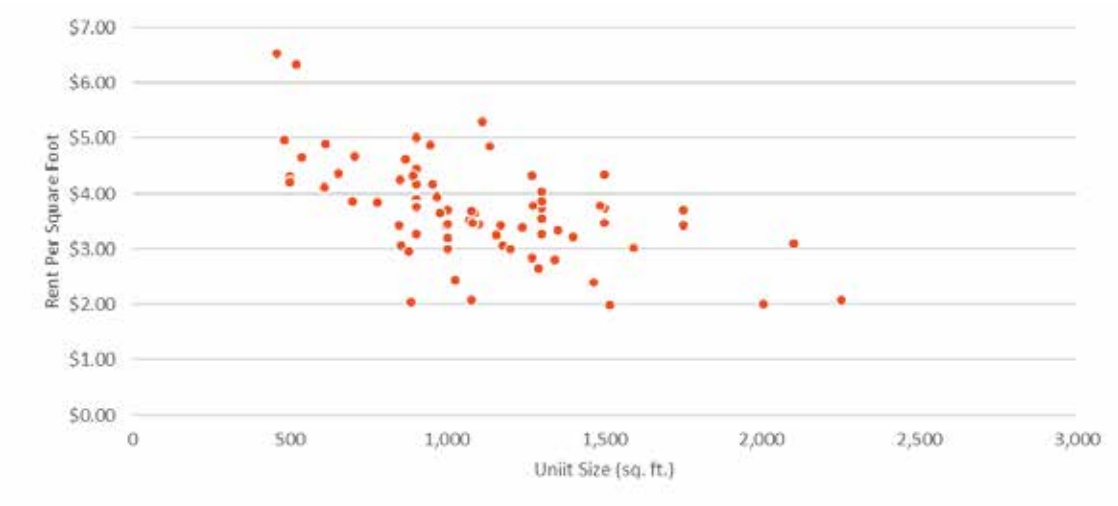
The rent per square foot varies significantly with unit size, as shown in Figure 3-21, with larger units having lower rents per square foot. Though there are very few units smaller than 500 square feet and larger than 1,500 square feet, the overall trend aligns with the expected correlation. The average rent per square foot used in evaluating hypothetical scenarios should, therefore, be adjusted based on the hypothetical unit size.

Figure 3-20: Distribution of Building Permit Laneway Suite Rent Per Square Foot



SOURCE: urbanMetrics Inc., with City of Toronto building permit data and rental listing permit data.

Figure 3-21: Laneway Suite Rent Per Square Foot vs. Unit Size

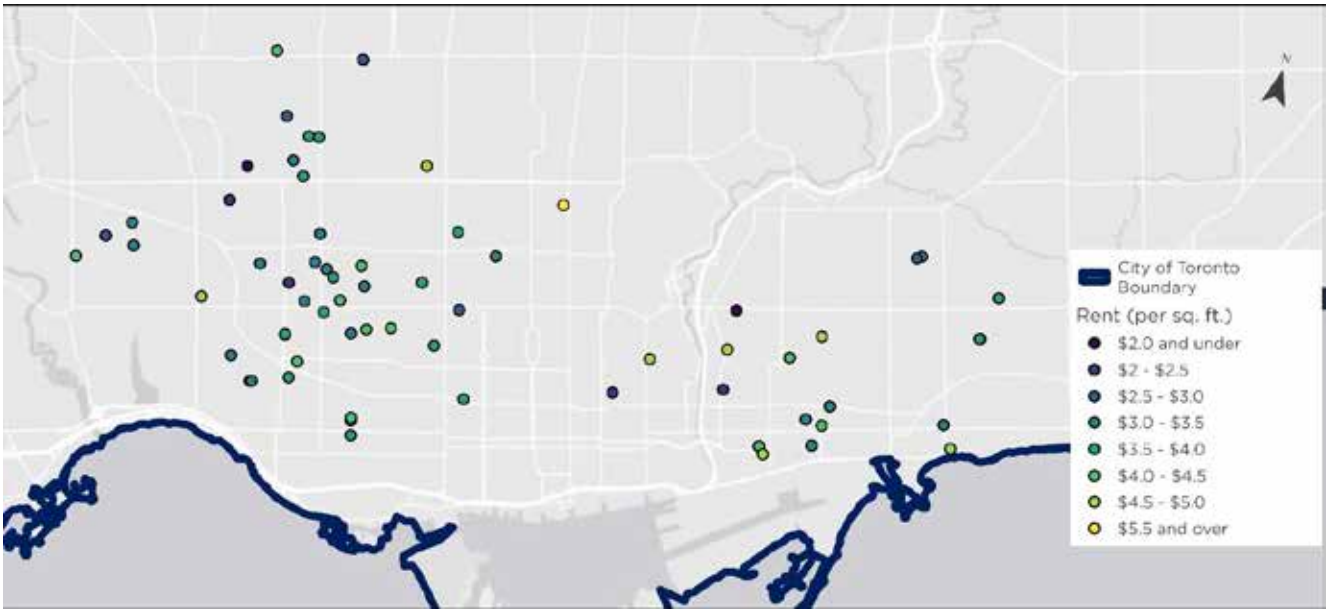


Unit Size (sq. ft.)	Average Rent (per sq. ft.)	Unit Count
<500	$5.75	2
500-1000	$4.07	30
1000-1500	$3.43	34
1500-2000	$3.32	6
>2000	$2.39	3

SOURCE: urbanMetrics Inc., with City of Toronto building permit data and rental listing permit data.

As shown in Figure 3-22, units further from the downtown core may have lower rents, but this association is relatively weak. As a result, the impact of location on rent cannot be used as a predictive variable for determining rent.

Figure 3-22: Laneway Suite Rent Per Square Foot Map



SOURCE: urbanMetrics Inc., with City of Toronto Building Permit data, City of Toronto Boundary shapefile, and rental listings data

It is essential to note that the above rents are not directly comparable to the direct triple net retail lease data, as residential landlords typically cover property taxes, water, garbage collection, and maintenance costs, whereas, in triple net retail leases, these costs are usually passed on to the tenants. A typical rental operating cost ratio of 30% of revenue should, therefore, be applied to compare residential and commercial revenues.

Residential Laneway Suite Operating Costs

urbanMetrics has estimated the operating costs for laneway suites, excluding vacancy and capital repairs costs (see Figure 3-23).

Capital repairs, such as roof replacement, have been separated to make residential operating costs more comparable to the TMI component of commercial space. Notably, hydro is not included in the operating expenses for residential laneway suites, as each suite is typically separately metered. However, hydro would usually be included in the TMI for commercial laneway suites.

Figure 3-23: Residential Laneway Suite Operating Cost Ratio

Component	Annual Cost	Source
Water	$1,078.06	Based on City of Toronto 2025 water rates and City of Toronto listed water consumption for the average 3-person households
Garbage Collection	$371.91	City of Toronto 2025 grbage fees for a medium bin size
Property Taxes	$2,260.81	Based on City of Toronto 2025 residential property tax rate, Statistics Canada data on the City of Toronto average aassessed value per square foot for single-detached homes built in 2016-2017, and the average completed laneway suite size of 954 sq. ft.
Insurance	$900.00	Based on the additional insurance cost of laneway suites from Ratehub.ca
Annual Maintenance	$1,633	Covers snow removal, leaf removal, gutter cleaning, and an allowance for occasional repairs.
Total Operating Costs	**$6,244.03**	Sum of above components
Average Rent	**$42,038.44**	Based on an average laneway suite rent per sq. ft. of $3.67, an an average unit size of 954 sq. ft.
Operating Cost Ratio	**15%**	

SOURCE: urbanMetrics.ca

Residential Laneway Uses Revenue and Cost Assumptions

urbanMetrics has estimated the following revenue and cost assumptions based on existing residential laneway suites in the City of Toronto, as shown in Figure 2-16.

The source and methodology for calculating each variable is listed below.

- Land/Property Costs: based on the listed sale price of properties which later completed a residential laneway suite between 2023 and 2025. Only properties sold during the 2019-2024 period were included. The pessimistic value and optimistic value are the average of the annual maximum and

minimum sale prices during this period, while the medium value is based on the average of all sale prices during this period.

- Laneway Hard Costs (per sq. ft.): based on the residential laneway suite costs listed by laneway suite construction and design companies in Toronto, with the pessimistic, medium, and optimistic values chosen in consultation with LGA Architects.
- Laneway Soft Costs (per sq. ft.): based on residential laneway architecture, design, engineering, and survey costs from laneway suite construction and design companies, with residential building permit fees from the City of Toronto. A 15% soft cost contingency rate was also added. It is assumed there will be no development charges for residential laneway suites under the current deferral program.
- Monthly Residential Operating Costs (per sq. ft.): based on a 15% operating cost to gross rent ratio. This ratio is based on UrbanMetrics' estimates of water, garbage, property tax, insurance, and general maintenance, as well as the expected median total rent for the average laneway suite. This does not factor in vacancy rates or capital repairs to make it more comparable to the commercial TMI. Notably, this is significantly lower than the industry standard ratio of around 30% for multi-residential properties, likely due to the lack of shared amenities and common areas, as well as the separation of capital repairs. This is also lower than the 25% equivalent ratio derived from the TMI to total rent ratio for commercial space in section 3.0.
- Monthly Residential Net Rent (per sq. ft.): based on the total rent minus the monthly operating costs.
- Monthly Residential Rent (per sq. ft.): based on rental listings for laneway suites built in 2023 or later. Where unit size was not included in the listing, unit size was taken from the associated building permit. The pessimistic value corresponds to the 20th percentile of rent, and the optimistic value corresponds to the 80th percentile.
- Monthly Capital Repairs (per sq. ft): based on 1% of hard costs per year in capital repairs, which is a typical rate for new housing. This represents the long-term average cost for replacing or making significant repairs to components as they age, such as roofs, windows, doors, plumbing, etc., but does not include general maintenance and minor repairs for those systems.
- Residential Vacancy Rate: based on the CMHC housing portal purpose-built rental vacancy rate for 2-bedroom units in the City of Toronto as of the most

recent reporting period (October 2024). Smaller units (e.g. fewer bedrooms) typically have higher vacancy rates, and as a result, the overall vacancy rate is less reflective of the larger size of laneway suites.

- Mortgage Interest Rate: based on the lowest listed 5-year fixed rate mortgage from Ratehub.ca. The total purchase price was set to $2,112,123 to reflect a $1,506,408 property purchase price plus a cost of $605,715 to create a laneway suite, in line with the medium hard and soft costs and average unit size of 954 square feet. This requires a 20% downpayment.
- Residential Cap Rate: based on the Q4 2024 Colliers Canada Cap Rate Report. The pessimistic and optimistic values are the low and high cap rates listed in the Colliers report for low-rise multi-family residential.

Figure 3-24: Summary of Residential Economic Variables

Variable	Pessimistic	Moderate	Optimistic
Land/Property Costs	$2,600,000	$1,506,408	$899,800
Laneway Hard Costs (per sq. ft.)	$750	$600	$450
Laneway Soft Costs (per sq. ft.)	$35.13	$35.13	$35.13
Monthly Residential Operating Costs (per sq. ft.)	$0.46	$0.55	$0.65
Monthly Residential Net Rent (per sq. ft.)	$2.60	$3.12	$3.67
Monthly Gross Residential Rent (per sq. ft.)	$3.06	$3.67	$4.32
Monthly Capital Repairs (per sq. ft.)	$0.63	$0.50	$0.38
Residential Vacancy Rate	1.7%	1.7%	1.7%
Mortgage Interest Rate	3.99%	3.99%	3.99%
Residential Cap Rate	4.75%	4.25%	3.75%

SOURCE: urbanMetrics Inc.

Appendix 4: Feasibility of Residential & Commercial Laneway Uses

Cash Flow Analysis Methodology

To identify what uses and scenarios are likely to be financially viable, urbanMetrics has created a simplified cash flow analysis. Our analysis takes into consideration that the property - with laneway access, is already owned. **The land value is $0.**

This analysis assumes 1 year of laneway construction, followed by 10 years of operations with the sale of the laneway suite at the beginning of the 11th year, and, again, excludes the cost (and sale value) of buying the property.[4] The sale is necessary to account for the accumulated equity built up, as well as the increase in value resulting from the construction of the laneway suite. It is also assumed that rents (and operating costs) increase by 2% annually, in line with inflation.[5] Of note, the sale price is based solely on the added value of the laneway suite and does not include the primary residence or land value.

Whether a project is financially viable depends mainly on the expected returns.

While an individual's target returns and risk tolerance are highly variable, for the purposes of this analysis, the target returns are assumed to be 8%. This generally corresponds with the 20-year average annual return of the S&P 500, and it is believed that individuals will not undertake the significant effort, lower liquidity, and additional risks of a laneway suite unless they can achieve returns better than those of a relatively safe index fund.

The overall financial feasibility of different scenarios has been assessed using the Net Present Value (NPV), which represents the value of the investment compared to an alternative investment with a specific rate of return (in this case, 8%). In this report, a positive NPV indicates a return greater than 8%, while a negative NPV indicates a return less than 8%.

The identified discount rate has some significant limitations:

---

[4] It is assumed that the construction of a laneway suite is in addition to the existing value and costs of the property.

[5] While 2-bedroom residential rents have often increased much faster than inflation (as much as 19.7% Year-over-year in April 2023), as per the April 2025 Rentals.ca report 2-bedroom rents in Toronto are down 4.5% year over year. As a result it is likely Toronto is entering a period of slow rent growth.

- It does not consider the returns from a commercial business run by the laneway suite owner. If there are significant challenges in obtaining suitable space due to the tight retail market, the industry and laneway suite profits may be combined by the owner in their analysis.
- The stability of owning the property may have a high value to non-profits or businesses with high moving costs.
- The convenience in terms of physical proximity for either running a business in the laneway suite or being a landlord for a commercial laneway suite may have value to some property owners.
- This discount rate is lower than required for many developers. As most laneway suite investors are expected to be small-scale investors or owner-occupants of the primary dwelling, a lower discount rate has been used.

An example of the discounted cash flow analysis for a 954-square-foot residential laneway suite and the moderate assumptions (see Figure 3-24) is shown in Figure 4-25.

An example of this analysis for a 954 square-foot commercial laneway suite and the moderate assumptions (see Figure 2-16) is shown in Figure 4-26.

As shown, both commercial and residential laneway suites would be financially feasible if the moderate assumptions can be realized, although the residential scenario has better returns. Notably, while the cash flow of the commercial laneway suite is higher due to the higher net rents, the higher cap rates of retail space result in lower sale prices.

Figure 4-25: Residential Laneway Suite Under Moderate Assumptions

Residential GFA (sq. ft.)	**954**
Commercial GFA (sq. ft.)	**0**
Total GFA (sq. ft.)	**954**

Year	0	1	2	3	4	5	6	7	8	9	10	11
Residential Revenue		$42,164	$43,008	$43,868	$44,745	$45,640	$46,553	$47,484	$48,434	$49,402	$50,390	
Commercial Revenue		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	
Residential Costs		($12,273)	($12,518)	($12,768)	($13,024)	($13,284)	($13,550)	($13,821)	($14,097)	($14,379)	($14,667)	
Commercial Costs		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	
Debt Service		($30,996)	($30,996)	($30,996)	($30,996)	($30,996)	($30,996)	($30,996)	($30,996)	($30,996)	($30,996)	
Net Equity	($121,183)											
Sale Price												$840,552
Debt Repayment												($327,631)
Cash Flow	($121,183)	($1,104)	($506)	$103	$725	$1,360	$2,007	$2,667	$3,340	$4,027	$4,727	$512,921

NPV: $99,735
Equity IRR: 14%

SOURCE: urbanMetrics Inc.

Figure 4-26: Commercial Laneway Suite Under Moderate Assumptions

Residential GFA (sq. ft.)	**0**
Commercial GFA (sq. ft.)	**954**
Total GFA (sq. ft.)	**954**

Year	0	1	2	3	4	5	6	7	8	9	10	11
Residential Revenue		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	
Commercial Revenue		$50,463	$51,472	$52,502	$53,552	$54,623	$55,715	$56,830	$57,966	$59,125	$60,308	
Residential Costs		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	
Commercial Costs		($18,640)	($19,013)	($19,393)	($19,781)	($20,177)	($20,580)	($20,992)	($21,412)	($21,840)	($22,277)	
Debt Service		($30,996)	($30,996)	($30,996)	($30,996)	($30,996)	($30,996)	($30,996)	($30,996)	($30,996)	($30,996)	
Net Equity	($121,183)											
Sale Price												$633,850
Debt Repayment												($327,631)
Cash Flow	($121,183)	$827	$1,463	$2,112	$2,774	$3,450	$4,139	$4,841	$5,558	$6,289	$7,035	$306,219

NPV: $30,624
Equity IRR: 11%

SOURCE: urbanMetrics Inc.

Feasibility Limits

The assumptions used in the discounted cash-flow analysis have a significant impact on the fiscal feasibility.

As shown in Figure 4-27, under the pessimistic scenario, neither residential nor commercial uses in a laneway suite are financially viable, whereas, under moderate and optimistic scenarios, they are feasible. Notably, the commercial laneway suite has a significantly wider spread in NPV, indicating that it is a riskier investment.

As previously discussed, it is uncertain whether commercial space in laneways could be leased for comparable rents to existing small-scale commercial space on the avenues.

Figure 4-27: Net Present Value of Laneway Suite Under Different Assumptions

Use	Pessimistic	Moderate	Optimistic
Residential	($162,157)	$99,735	$397,610
Commercial	($233,406)	$30,624	$439,931

SOURCE: urbanMetrics Inc.

While the assumptions used have a significant impact on the financial feasibility, testing all combinations of assumptions is beyond the scope of this analysis. Instead, urbanMetrics has conducted a sensitivity analysis using moderate assumptions, where the limit for each group of related assumptions is tested.

The limits were tested for the following assumptions:

- Rents (operating costs scaling with rents)
- Rent Growth Rates
- Construction Hard Costs
- Equity Percent
- Cap Rates
- Rent Growth Rates

As shown in Figure 4-28, the residential laneway scenario is much less sensitive to changes in all assumptions.

Figure 4-28: Sensitivity Analysis

Use Type	Component	Gross Rent (per sq. ft.)	Rent Growth Rate	Hard Costs (per sq. ft.)	Equity Percent	Cap Rate
Residential	Limit	$3.10	-0.59%	$1,173	38%	6.06%
	Change	-$0.57	-2.59%	$573	18%	1.81%
Commercial	Limit	$4.12	1.10%	$773	25%	6.83%
	Change	-$0.24	-0.90%	$173	5%	0.83%

SOURCE: urbanMetrics Inc.

The results of the sensitivity analysis also revealed several additional, and significant findings:

- Fairly high gross rents are needed in both residential and commercial scenarios. For reference, $3.10 per square foot would yield a monthly rent of $2,957 for a 954-square-foot residential laneway suite, and $4.12 per square foot is $3,929 for a 954-square-foot commercial laneway suite.
- Residential laneway suites do not depend on high rental growth rates and could sustain a period of slightly decreasing rents. In contrast, commercial uses require at least a 1% annual growth rate to be factored into the lease terms.
- Residential laneway suites can be viable even with elevated hard construction costs above $1,000 per square foot. Commercial laneway projects, however, would need to contain hard costs of less than $773 per square foot. It is highly likely that specific commercial uses, especially those with exceptional feature requirements (e.g., commercial kitchen ventilation, additional structural support for heavy machinery, or electrical systems that can handle power-hungry machinery), will not be viable. Controlling hard costs will be imperative to the viability of commercial uses in laneway suites.
- Taking out a loan is a must for both scenarios, as this amplifies the returns/losses. As the interest payments are less than the cash flow, this gap can be leveraged to increase the returns on equity. This suggests that

homeowners without the ability to take on significant additional debt will be unable to create a laneway suite of any type. However, property owners with limited credit will be able to build a residential laneway suite before they can build a commercial laneway suite. Existing property owners in Toronto will have a significant advantage over new buyers in terms of obtaining financing, as they are more likely to have more equity in the existing property, which can be used to collateralize the construction of a laneway suite.

- The additional value created by a laneway suite for either residential or commercial uses is critical to getting the target rate of returns. As a result, broader changes in the sale value of either residential or commercial property in Toronto have the potential to significantly change the financial feasibility of residential and commercial laneway suites.

SCORGIE PLANNING

LGA architectural partners

SOCA STUDIO OF CONTEMPORARY ARCHITECTURE