



**STAFF REPORT  
ACTION REQUIRED  
Confidential Attachment**

**Project Symphony Recommendations and Financial Assessment of the Proposed Development on the East Bayfront**

<b>Date:</b>	April 20, 2007
<b>To:</b>	Executive Committee
<b>From:</b>	Jeffrey D. Steiner, President and CEO, TEDCO
<b>Wards:</b>	<b>Ward 28, Toronto Centre-Rosedale</b>
<b>Reason for Confidential Information:</b>	This report involves the security of property belonging to a company wholly owned by the City of Toronto.
<b>Reference Number:</b>	

**SUMMARY**

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This report provides an overview of the business agreements, financial arrangements and business case for the City of Toronto participating and backstopping certain financial obligations to allow TEDCO to proceed with the development of “Project Symphony”, a major, first in, employment use within the East Bayfront Precinct. This report has been approved by the TEDCO Board of Directors.

**RECOMMENDATIONS**

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The TEDCO Board of Directors and TEDCO Management recommend:

1. That Council adopt the confidential instructions to staff in Confidential Attachment 1.

## **FINANCIAL IMPACT**

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This project requires construction financing from the City of Toronto of up to \$132 million (including construction financing at an interest rate of 5% per annum) and potential permanent financing upon completion of the building. The financial proforma analysis is based on an approximate total project cost of \$ 156 to \$162 million yielding a rate of return of approximately 8.0 to 8.5% IRR.

Property tax revenues as a result of this project will rise by approximately 25 times (i.e. 2500%). The City's share of new incremental realty taxes generated is projected to be \$42 million over 20 years in nominal dollars. After deducting the proposed tax abatement of \$18 million, the City would still earn \$24 million in new realty taxes over 20 years (nominal dollars). City Council has declared the East Bayfront and West Donlands as areas for the use of financial initiatives to attract employment related users.

The Deputy City Manager and Chief Financial Officer will provide a separate report on the financial analysis of this project.

## **DECISION HISTORY**

This issue has been the subject of numerous reports to the TEDCO Board of Directors and is referred to in a number of previous reports to Council including the East Bayfront Precinct Plan, the East Bayfront Zoning By-Law, the Business and Implementation Plan for the East Bayfront produced by the Toronto Waterfront Revitalization Corporation.

## **ISSUE BACKGROUND**

The City of Toronto, the Toronto Waterfront Revitalization Corporation (TWRC) and TEDCO have been working through a common process to develop an integrated, compact, transit oriented, environmentally progressive and culturally dynamic development within the East Bayfront Precinct. Through a comprehensive planning and public consultation process, Council has approved the key elements of this plan. There is now an approved precinct plan and a draft zoning by-law in place. One of the key objectives of the waterfront plan for the East Bayfront is mixed-use development, not just condominiums. Employment-related development is needed to achieve planning objectives whereby people can live and work in the same general area, thus helping to achieve the City's environmental and sustainability goals. While 75% of the projected East Bayfront development will be residential, the most difficult development to attract is the 25% employment target, especially knowledge-based, high quality office and creative workers. The East Bayfront Precinct plan approved by Council calls for 8000 jobs to be located within the precinct and Project Symphony is intended to provide the first 1300 jobs, while achieving a number of other strategic goals.

## **Buffering Heavy Industry from Residential**

The specific location on the westerly part of Queen Elizabeth Docks at Jarvis Street is a crucial use for non-residential development as it will help resolve the objections of Tate and Lyle/Redpath Sugar to the Council adopted East Bayfront Zoning By-Law, by creating an employment buffer between their heavy industrial use and the future residential development to the east.

For the waterfront to become a desirable destination, there is need for a critical mass of people and animated activities. Corus Entertainment Ltd is the lead tenant for Project Symphony, and is an ideal match for this location in that they are knowledge based jobs in a market which will operate on a 24/7 basis and will provide ongoing activities providing excitement and animation in the area.

## **Project Symphony, Corus Entertainment, is the First-In Employer**

The existence of Corus Entertainment as this “first-in” employer will help attract other employment users and retail, so that the area can be built out under the plans contemplated in the Central Waterfront Plan (OPA257). Currently, the area is considered to be quite isolated, not serviced by higher-order transit and considered by the brokerage and office development community to be well off the downtown core. Attracting Project Symphony to this location for its headquarters activities will dramatically change the nature and perception of the area, while creating significant uplift in land values, assessment and tax revenues.

## **TEDCO Development Process**

For many years now, TEDCO has been attempting to attract high quality tenants to the East Bayfront in keeping with TEDCO’s mandate to work with the private sector to maximize the economic development potential of lands owned and managed by TEDCO. TEDCO’s role as a developer is completely appropriate and consistent with TEDCO’s mandate and shareholder direction and is a key activity for any Urban Development Corporation, which is to advance development in partnership with the private sector, and achieve both quality development and other public policy outcomes. For example, TEDCO’s Canpar Project development in South Etobicoke is the first city-owned LEED green building.

As is common practice among the private sector, potential tenants often use brokers to seek out suitable locations for their clients. TEDCO maintains ongoing contact with major brokers who act on behalf of large commercial employers who represent prospective tenants. One of these brokers approached TEDCO and entered into confidential discussions to construct a design/build facility that will provide the Tenant the opportunity to consolidate eleven (11) locations into one. After many months of negotiations, followed by a binding offer to lease, Corus Entertainment and TEDCO have now executed a final lease agreement. TEDCO is pleased to present this business opportunity for the City’s ratification in keeping with our City Shareholder direction.

## **TEDCO Design and Professional Team**

The TEDCO Board and Management have assembled a team of professional advisors to assist in bringing forward a financially viable, architecturally appropriate and environmentally-progressive facility. It meets the business needs of the client and provides significant animation and activity to this unique site, especially at the ground floor.

The TEDCO team includes:

- TEDCO Internal Development Staff
- Diamond Schmitt Architects and Planners, Design Architects
- Ron Solskone, Design Development Advisor
- RBC Capital Markets (Real Estate Group), Financial Advisors
- Robins, Appleby & Taub, Legal and Leasing
- Fraser Milner Casgrain, Legal and Planning
- Altus Helyar Quantity Surveyors and Cost Consultants
- Quadrangle Architects, Tenant's Interior Design Team

This team has now advanced the business proposal, lease agreements and the architectural design to the point it can be recommended to City Council with confidence.

## **Urban Design and Functionality**

The Project Symphony building will be approximately 500,000 square feet with an atrium, public space and walkways, and underground parking. The unique design solution is consistent with the East Bayfront Precinct Plan, while achieving the unique functional requirements of the lead tenant. The design is targeting the green building and environmental standard of LEED Gold (the first such commercial development in Toronto to reach for this designation) and will meet the City of Toronto's new Green Development Standards. The current financial proforma is costed the building to LEED Silver standard and we are working with the TWRC and other partners for top up funding to achieve the higher LEED Gold standard.

The 8 storey building has an available 453,000 of net rentable square feet and Corus as the lead tenant will occupy at least 380,000 square feet. Currently, the additional 70,000 rentable square feet would include potential office users of 53,000 square feet and retail space of 20,000 square feet including a restaurant.

## **The Design Review Process and Proposed Zoning Changes**

As part of the mandate of the TWRC, a Design Review Panel examines and critiques the designs of all new development on the Waterfront. The design for Project Symphony was the first development to proceed through the design review process and through an

active and iterative process, the final basic design has been recommended by the Design Review Panel at its meeting of April 11, 2007.

Additional Public Consultation sessions have been held including a public meeting hosted by Councillor Pam McConnell which was held on March 19, 2007, attracting a large number of the public with 143 people registering at this meeting.

The building has been designed in response to the specific needs of the lead tenant which include a large floor plate that will encourage convergence and collaboration not experienced in their current locations. Many aspects of the building are not specific for the tenant, but achieve broader City and TWRC public objectives.

It will be a “green” building with accommodation for staff that chose to cycle to work, access to green roof terraces and a distinctive building that will reflect their unique identity. An excellent, but still evolving design for the building has been developed in accordance with the tenant’s very specific needs. In order to implement this design certain accommodations will be necessary as noted below.

The zoning by-law (currently under appeal to the OMB) will need minor amendments including:

- Increasing the permitted building height at the water’s edge by approximately 3 meters to accommodate the commercial rather than residential floor to ceiling heights.
- Modifying the configuration of a parkette on the west side of the building
- Introducing a public lane between this site and the one to the north to keep the parking ramp and loading docks off the main street
- Locating some of the required parking off-site under neighbouring buildings, although using surface parking in the interim.

It is anticipated that these changes, once approved by City of Toronto Council, can be introduced at the OMB hearing for the East Bayfront, which is scheduled to resume in early May 2007. Notwithstanding the OMB, the City can achieve this development on a current as-of-right basis, as the proposed commercial uses are in keeping with both current and future zoning. The Chief Planner will be reporting directly to Council at its scheduled meeting of April 24 and 25, 2007, on the required changes to any zoning or planning related issues.

### **City Initiated Financial Incentives**

A City of Toronto commissioned study by Hemson Consulting has established that any employment users will need substantial incentives to locate in the East Bayfront or Portlands. This study was part of the background work which was used to establish the Community Improvement Program which has been previously approved by Council for the East Bayfront, West Donlands, South of Eastern Avenue and the Portlands. For this

first-in commercial development, a financial incentive tax rebate is required and is in keeping with the objectives already endorsed by City Council.

### **Economic Impact Analysis:**

The City's Economic Development division endorse this report and they conducted a thorough review of the economic benefits which will be achieved by Project Symphony:

- Proceeding with Project Symphony as the first development in the East Bayfront will signal a strong message that the Toronto is committed to implementing the Council approved Employment Strategy for creating a truly mixed-use district containing a minimum of 1.4 Million square feet of office space and the creation of 8,000 jobs.
- Project Symphony alone will provide 35% (495,000 square feet) of the office development target and 16% (1,300 jobs) of the job creation target.
- The project will generate the following direct economic benefits: at least 1,100 highly skilled jobs, \$3.46 Million in new taxes annually (the City will receive about half), and at least \$ 175 Million in construction spending.
- In addition to direct economic benefits, the project will help establish positive land values for the remaining lands in East Bayfront
- Project Symphony will provide the right type of jobs. It is aligned with the East Bayfront Employment Strategy that aims at creating an intelligent community accommodating information technology, digital media and creative enterprises. Corus Entertainment and Project Symphony are the perfect fit.
- The project is also a perfect fit physically adjacent to Redpath Sugars (recently sold to American Sugar Refining, Inc.). Through its OMB appeal of the East Bayfront zoning, the company has insisted that a non-residential use be situated in this location in order for the sugar refinery to continue to operate. Moreover, the development's bulk and height will provide a buffer for future residential/mixed-use development on the public and privately-owned and lands to the east.
- Project Symphony will be a leading example of the City's desire to use creativity and innovation as the foundation for Toronto's future growth and prosperity. It will make a major contribution to defining the ambience and amenity of the area, which in turn translates into tourist dollars.
- TEDCO is working with the City and TWRC, using a Design Review Panel process, to ensure the development showcases building excellence as a key driver of waterfront revitalization.
- Project Symphony will be targeting LEED Gold accreditation for this development – representing one of the first public projects to pursue this standard in the City of Toronto.
- The project will anchor employment in the Waterfront and will immediately improve its image and amenity and help the City's to convince other companies about the desirability of the Waterfront as a business location.

## **Infrastructure and Parking Requirements**

In order to accommodate the growth and build out of the entire East Bayfront precinct, the infrastructure roads and services will need some upgrading. This will include a district heating and cooling system in addition to the normal underground services of storm and sanitary sewers, power and water plant. These are not yet in place, and the TWRC has covered off the projected costs of these services in their Business and Implementation Plan approved by City of Toronto Council in September 2006.

In order to achieve the timelines for Project Symphony, the installation of these services must be accelerated in order to insure the necessary service connections are available in time, with some needing to be designed as early as November 2007.

In respect of parking, the total parking required by the building ( $\pm 350$  spaces) exceeds that available on site by about 176 spaces. This will require the provision to locate those spaces in parking facilities nearby. While the parking requirement will be abated in future years as quality, higher order public transit (LRT) services are introduced into the East Bayfront area, there will be the requirement for short term surface parking in this precinct area until that takes place.

## **Risk Analysis**

As part of this process and in conjunction with RBC Capital Markets, the TEDCO development partners, and City Finance Division Staff, a complete risk assessment has been completed for design risk, lease risks, infrastructure installation risk, and construction cost risks. A risk management process to manage the risks inherent in this project has been considered and approved by the TEDCO Board. This will serve manage risk to a minimal level in order to maintain viability while achieving the public policy outcomes.

## **Conclusion**

There has been substantial media interest, significant public engagement and strong professional due diligence by the City of Toronto's own urban development corporation in conjunction with City of Toronto Staff from the Waterfront Secretariat, Planning, Finance and the Economic Development Divisions. Project Symphony will be a showcase in development for the City of Toronto, will kick-start development on this important waterfront site in keeping with the approved precinct plan, and will be the first-in employment use with 1,300 high value, knowledge worker jobs at this location.

The TEDCO Board is satisfied with the development plans for this project and has dedicated a significant effort to the review, due diligence and risk management elements

of this proposal. Not only will this provide a viable, financially prudent investment, it will yield substantial, enduring and long lasting public policy outcomes.

## **CONTACT**

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## **SIGNATURE**

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