

**Financial Incentives for Offices in Mixed Use Buildings**

<b>Date:</b>	February 12, 2013
<b>To:</b>	Planning and Growth Management Committee
<b>From:</b>	Chief Planner and Executive Director, City Planning Division
<b>Wards:</b>	All
<b>Reference Number:</b>	P:\2013\Cluster B\PLN\PGMC\PG13016

**SUMMARY**

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This report brings forward proposals to amend the City-wide Community Improvement Plan (CIP) that enables the Imagination Manufacturing Innovation Technology (IMIT) program in order to provide financial incentives for office space in mixed use buildings. Council recently endorsed draft policies targeting sustained office development in Downtown, the Centres and areas near transit stations. Extending the incentives to office space in mixed use buildings may lead to greater interest in providing an office component in these locations. The office sector plays a key role in promoting and sustaining wealth-creating economic growth in the City.

The proposal would have the effect of providing grants to office space in mixed use buildings, provided the space is equivalent in size, location and function to the office buildings that the IMIT program now provides grants for.

**RECOMMENDATIONS**

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**The City Planning Division recommends that:**

1. City Council amend the City-wide Community Improvement Plan in accordance with the proposed amendment in Attachment 1.
2. City Council authorize the City Solicitor to introduce the necessary bills to implement the foregoing.

## **Financial Impact**

The recommended amendments to the CIP expand the eligibility criteria to include office space in mixed space building developments, excluding the financial district. While the City is experiencing tremendous growth in condominium development, developers face challenges in including large blocks of contiguous office space in such developments. The objective of providing IMIT grants is to encourage such mixed use development, consistent with the Official Plan. The incentive will amount to a grant-back of 60% of the municipal taxes paid on the office space over ten years. It is difficult to estimate the potential take-up of the incentive and the resulting financial impact. The IMIT program is premised on the assumption that but for the program the development would not have occurred, and that the development will yield incremental tax revenues that the City would not otherwise realize.

The Deputy City Manager and Chief Financial Officer has reviewed this report and agrees with the financial impact information.

## **DECISION HISTORY**

On October 12, 2012, Planning and Growth Management Committee directed the Chief Planner and Executive Director, City Planning, to report to the Committee as soon as possible, with proposals for providing office space in mixed use projects, consistent with the other requirements of the IMIT City-Wide CIP.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2012.PG18.10>

## **ISSUE BACKGROUND**

### **Existing incentives for office space**

At its October 2-4, 2012 meeting, City Council adopted changes to the City-wide Community Improvement Plan (CIP) that enables the provision of financial incentives for economic development through the IMIT Program. Council's decision is at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2012.PG17.5>. An introduction to the IMIT Program can be found at: <http://www.toronto.ca/invest-in-toronto/incentives-imit.htm>. The revised CIP is now in effect.

The changes to the CIP were the outcome of a comprehensive review of the IMIT Program. The program now provides incentives for office buildings, but not for office space within mixed use buildings. The following incentives are currently provided for office buildings:

- In transit corridors (within 800m of a transit station and not within the Financial District) - all office buildings over 5,000 sq.m;
- Outside transit corridors (except in the Financial District) – all corporate office buildings over 5,000 sq.m;

**Building Size:** The IMIT program now provides incentives for office buildings over 5,000 sq. m. An office building is defined as a building with at least 80% of the GFA used for offices. This would provide incentives for a five storey building with a 1,000 sq. m. floorplate with 4 floors of offices and retail and other service commercial uses on the ground floor.

When the IMIT program was developed in 2008, this definition was based on attracting 'corporate offices' for firms in one of the targeted sectors, especially in smaller buildings that may be developed in employment areas or on arterials in the more suburban parts of the City – for example a manufacturer or publisher not seeking a downtown location.

In comparison, the Corus Building on the Waterfront, completed in 2010, is 46,500 sq.m. and 8 storeys.

**Corporate Offices:** Corporate office buildings must have at least 2,500 sq.m. or 25% of the GFA of the office building (whichever is greater) occupied by the corporate offices of a firm in an eligible sector.

The eligible sectors include:

- biomedical operations
- computer systems design and services
- creative industries
- financial services
- food and beverage wholesaling
- information and communications technology
- information services and data processing
- manufacturing
- scientific research and development
- software development.

**Corporate Headquarters:** In the Downtown (including the Financial District) the program provides incentives for the space occupied by corporate headquarters (minimum of 10,000 sq.m.) within office buildings or other multi-tenant buildings. No change is required to the CIP to enable grants for corporate headquarters in mixed use buildings.

**Condominium Eligibility:** The CIP also limits eligibility for condominiums. Each condominium unit will be treated as a stand-alone development and must be able to meet all eligibility requirements of the CIP. In addition, the condominium unit must comprise at least 5,000 m<sup>2</sup> of eligible GFA and have a construction value of at least \$5,000,000. These limits on condominium eligibility are included in the CIP because providing grants to many small condominiums would be administratively onerous for the City in light of the relatively small benefit they would bring.

**The Waterfront and the South of Eastern Employment District:** In both these areas, all office space is eligible to receive grants through the IMIT program, provided it meets the eligibility criteria in the CIPs. For example, there must be at least 500 sq.m. of new floorspace and a minimum construction value of \$1,000,000.

### **Planning policy for offices**

A recently-completed study on Employment Uses in Toronto concluded that the City requires a new focus on targeting office space construction to realize future growth potential. The study also indicated that achieving this growth will depend upon an integral alignment of planning, transit and economic development initiatives. The study can be found at:

[http://www.toronto.ca/opreview/pdf/sustainable\\_competitive\\_advantage\\_and\\_prosperity.pdf](http://www.toronto.ca/opreview/pdf/sustainable_competitive_advantage_and_prosperity.pdf)

More recently City Council has endorsed draft policies for the Official Plan that target office development in Downtown and the centres and within walking distance of transit stations. The link to Council's decision:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2012.PG19.5>

## **COMMENTS**

### **Why provide incentives for office space in mixed use buildings?**

The Employment Uses study showed that new office space development in Toronto has dramatically lagged behind that in the rest of the GTA since the early 1990s. In particular the City has seen little development of small and mid-size office buildings outside of the downtown core. These offices are attractive for some of our key sectors such as software systems and design, creative industries and financial services back offices. These uses may be more price sensitive and not in need of a downtown marquee location, but still attracted by transit options and a large base of potential employees. Blocks of office space in mixed use buildings may meet these needs.

Many of the areas targeted for office development are designated for mixed use. This allows for residential and retail development as well as offices; and supports single use buildings or buildings with more than one use. The Employment Uses study indicated that there can be challenges to mixing offices and residential uses in one building, and that these challenges may increase building costs. The challenges include:

- structural issues including column spacing and lobby and elevator design;
- market cycles for offices being out of sync with those for housing or other uses;
- developers specializing in one type of use, but not both residential and commercial.

In the Downtown and in the Centres the development industry's preferred development model is a high-rise condominium building with ground floor retail. Although the City has been successful in getting some office components in the lower floor podiums of some large developments, developers are reluctant to provide such space. Providing

incentives may support greater interest in providing an office component in mixed use buildings.

The IMIT program also provides incentives to eligible sectors and uses located in a building that is occupied by other non-eligible uses. Offices can be a component of these eligible uses. The proposed changes would provide greater clarity that incentives are available for offices of targeted sectors in multiple tenant buildings.

### **Eligibility criteria**

It would be consistent with the intent of the IMIT program and the CIP to provide incentives for office space in mixed use buildings, providing it meets the following criteria:

- There must be a minimum of 5,000 square metres of contiguous office space in the mixed use building.
- The space may not be used for retail uses and may not be grade-related space unless it is otherwise eligible to receive grants.
- The space may not be located in the Financial District (the area shown on Map 6 of the Official Plan).
- On sites within 800 metres of a transit station (GO train, subway, LRT) all such office space would be eligible to receive grants.
- On sites not within 800 metres of a transit station, all such office space would be eligible to receive grants, provided that at least 2,500 square metres or 25% of the space is used for corporate offices in the economic sectors targeted by the CIP.
- The space would have to meet all other eligibility requirements of the CIP, including the eligibility criteria for condominium units.

### **Mixed use buildings**

Simply, they are buildings with more than one use. The typical form today is a high-rise condominium building with retail commercial uses on the ground floor, or perhaps an office building with retail uses on the ground floor. But other examples include retail centres with some office space or hospitals or universities with retail outlets. As long as the size and use requirements are followed, it would be consistent with the objectives of the program to provide grants for offices in any mixed use building.

### **Population-related services**

The IMIT program targets export-related businesses. Many businesses in offices are not export-related, but rather provide population-related services, such as doctors, real estate agents, non-profit agencies, medical laboratories and accountants. They are likely to be attracted to office space in residential mixed use buildings. Although they would not normally be targeted for grants under the program, excluding them one-by-one would be administratively onerous, requiring first a fair and comprehensive definition of population-related services, and secondly an annual review of business in all occupancies in the space.

The problem can be addressed, however, by only providing grants for offices above the ground floor of a building, on the assumption that population related services such as real estate agents are more likely to occupy ground floor space. Of course, any ground floor uses that would otherwise be eligible to receive grants would continue to be eligible; for example, incubator space. In addition retail uses should be specifically excluded. The CIP defines retail uses as space used for the primary purpose of the sale or rental of services, goods, foods, wares, merchandise, substances, articles or things to the public, and includes offices in connection with, related or ancillary to such retail uses. The definition includes bank branches.

This approach to dealing with this issue could be further investigated when the CIP is reviewed four years from now.

## **Proposal**

The proposed amendment in Attachment 1 will amend the City-wide CIP so that:

1. Office space within mixed-use buildings located on Sites within Transit Corridors will be eligible for development grants, subject to the eligibility criteria for condominium units, and provided it:
  - a. comprises at least 5,000 square metres of contiguous office space (horizontal and/or vertical);
  - b. is not located at grade;
  - c. does not fall within the definition of a Retail Use;
  - d. is not in the Financial District; and
  - e. meets all other eligibility requirements of the CIP.
2. Non-grade-related Corporate Office space within mixed-use buildings on sites that are not within Transit Corridors will be eligible for development grants, subject to the eligibility criteria for condominium units, and provided:
  - a. the mixed-use building contains at least 5,000 square metres of contiguous non-Retail Use Office space (horizontal and/or vertical);
  - b. at least 2,500 square metres or 25% of the office space, whichever is greater, is devoted to Corporate Office space for eligible sectors;
  - c. it is not in the Financial District; and
  - d. the Corporate Office space meets all other eligibility requirements of the CIP.

## **Other Divisions Consulted**

Corporate Finance, Economic Development and Culture, and Legal Services staff have been consulted in the preparation of this report.

## **CONTACTS**

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## **SIGNATURE**

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## **ATTACHMENTS**

Attachment 1: Proposed Amendment to the City-wide Community Improvement Plan for  
Brownfield Remediation and Development of Prescribed Employment  
Uses

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Attachment 1

Authority: Planning and Growth Management Committee Item No. PG. \_\_\_\_ , as  
adopted by City of Toronto Council on  
Enacted by Council:

**CITY OF TORONTO**

Bill No.

**BY-LAW No.**

**To amend By-law No. 1323-2012 to provide  
financial incentives for office space in mixed use buildings**

WHEREAS in accordance with the relevant provisions of the *Planning Act*, City of Toronto Council adopted a community improvement plan for certain specified areas of the City in By-law No. 1323-2012 being the City – wide Community Improvement Plan for Brownfield Remediation and Development of Prescribed Employment Uses; and

WHEREAS section 28 of the *Planning Act* provides that the council of a municipality may amend a community improvement plan; and

WHEREAS the City of Toronto Council intends to amend By-law No. 1323-2012 to provide financial incentives for office space in mixed use buildings; and

WHEREAS a public meeting has been held in accordance with the *Planning Act*;

The Council of the City of Toronto HEREBY ENACTS as follows:

- 1 Schedule "1" of By-law No. 1323-2012 being the City – wide Community Improvement Plan for Brownfield Remediation and Development of Prescribed Employment Uses, is amended by:

- (a) deleting Sections 3.2.2 and 3.2.3 of Appendix B in their entirety and replacing them with:

"3.2.2 Eligible Office Uses in Transit Corridors

On Sites in Transit Corridors, but not within the Financial District,  
Development Grants will be available for:

- a) Office Buildings with a minimum GFA of 5,000 square metres; and
  - b) Office space within mixed use buildings, provided:



- There is a minimum of 5,000 square metres of vertically and/or horizontally contiguous office GFA within the building, excluding any Retail Uses and grade-related GFA that is not otherwise eligible to receive grants; and
- Development Grants will not be available for Retail Uses or grade-related GFA that is not otherwise eligible to receive grants .

### 3.2.3 Eligible Office Uses outside Transit Corridors

On sites that are not Sites in Transit Corridors and not within the Financial District, Development Grants will be available for:

(a) Corporate Office Buildings if the Corporate Office user is in one of the following sectors:

- Biomedical
- Creative Industries
- Computer Systems Design and Services
- Financial Services
- Food and Beverage Wholesaling
- Information Services and Data Processing
- Manufacturing
- Scientific Research and Development
- Software Development

(b) Office space within mixed use buildings, provided:

- There is a minimum of 5,000 square metres of vertically and/or horizontally contiguous office GFA within the building, excluding any Retail Uses and grade-related GFA that is not otherwise eligible to receive grants; and
- at least 2,500 square metres or 25% of the office GFA, whichever is greater, is devoted to Corporate Office space for the eligible sectors listed in subsection (a) above; and
- Development Grants will not be available for Retail Uses or grade-related GFA that is not otherwise eligible to receive grants. "