

## Final Report

Prepared by Hemson for the City of Toronto

# Review of Sanofi Pasteur Application under the IMIT Property Tax Incentive Program

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# Executive Summary

The City of Toronto's Imagination, Manufacturing, Innovation, Technology (IMIT) Program provides property tax grants to eligible landowners to support new non-residential building construction. The objective of the program is to help provide new space at a lower cost to tenants in targeted sectors and in areas across the City. Under the City's current Community Improvement Plan (CIP) by-law which provides for the IMIT Program, where the construction value exceeds \$150 million, any application for the grants requires City Council approval. The City has recently received an application from Sanofi Pasteur and wishes to bring this submission forward for Council's consideration in July 2022.

Hemson was retained to undertake a review and analysis of the application in order to assist City staff in making recommendations for Council's consideration. This report summarizes the results of the application review. The review of the Sanofi Pasteur application is framed by the following key considerations:

- The overall objectives of the City-wide CIP By-law;
- The key assumption that "but for" the IMIT grants, the development project would not occur;
- The City's broader land use planning objectives;
- Infrastructure benefits that the development project will bring to the City;
- Other fiscal considerations such as the scale of the grants as well as anticipated long-term City property tax revenues; and
- The market context applicable to the development project.

A summary of the results of these reviews is provided in the following table:

<b>Sanofi Pasteur 1755 Steeles Ave. W.</b>	
<b>Description</b>	<ul style="list-style-type: none"> <li>▪ 195,000 sq. ft. influenza vaccine bulk manufacturing facility.</li> <li>▪ Located on Sanofi's existing Toronto campus.</li> </ul>
<b>CIP Objectives</b>	<ul style="list-style-type: none"> <li>▪ Supports many CIP objectives related to preservation and promotion of employment areas.</li> </ul>
<b>"But For" Test</b>	Pro forma analyses were not undertaken as this is an owner-occupied facility.
<b>Land Use Planning Objectives</b>	Reinforces the area as a key manufacturing node.
<b>Community Infrastructure Benefits</b>	No community infrastructure benefits identified.
<b>Other Fiscal Considerations</b>	Total IMIT grant value estimated to be \$10 million to \$15 million.
<b>Market Context</b>	Industrial/manufacturing sector is strengthening, but some challenges remain.
<b>Project Status</b>	Construction has commenced. Anticipated completion in early 2027.
<b>Conclusion</b>	Project meets program criteria for IMIT grant.

# 1. Introduction & Background

The following provides background and context related to the IMIT Program and the review of the Sanofi Pasteur application under consideration.

## A. The IMIT Program & CIP By-Law

The City of Toronto's Imagination, Manufacturing, Innovation, Technology (IMIT) Property Tax Incentive program was established in 2008 in response to slow employment growth in the City compared to other Greater Toronto Area municipalities. It was designed to support Toronto's key industry sectors, to promote employment growth and economic development, and to improve the development potential of the City's many contaminated sites.

Eligibility for the IMIT program is based on targeted employment sectors and land uses. The incentive program provides an annual Tax Increment Equivalent Grant (TIEG), typically capped at 60 per cent of the cumulative municipal tax increment increase for the new development over a 10-year period. The program also includes the Brownfield Remediation Tax Assistance (BRTA) program, which provides an incentive to support the remediation of contaminated land associated with development projects for employment uses (excluding retail uses). Enhanced grant amounts are also available for eligible development projects in Employment Areas. As the IMIT grants are provided on a declining basis over the 10-year period, they help to offset some of the initial one-time costs associated with new buildings.

Grants are administered through Community Improvement Plan (CIP) by-laws for three areas: City-wide, Waterfront, and South of Eastern. Under these CIP by-laws, in cases where the construction value of a building will exceed \$150 million, an application for the grants will require City Council approval. Council is not obligated to approve grants for any project

regardless of whether it otherwise meets the eligibility requirements of the relevant CIP by-law. It is noted that the CIP by-laws do not include any provisions for the award of partial IMIT grants.

Since the program was introduced, Toronto's economic climate has experienced significant change. In particular, the City's core became the focal point for new office development in the GTA. This factor was considered in the 2018 review of the IMIT Program and resulted in a number of significant changes to the program, including elimination of office development eligibility in the Financial District, as well as a proposed reduction in the grant amounts offered in the Queen/Carlaw (East Harbour) and King-Liberty SmartTrack Station Areas. Since the 2018 CIP by-law is under appeal to the OLT, the previous (2012) by-laws currently remain in force.

## **B. Application for Review**

This report considers an application from Sanofi's Pasteur for the IMIT grant. The construction project will exceed \$150 million and will include a manufacturing facility located on Sanofi Pasteur's existing Toronto campus on Steeles Avenue West.

In order to assist Council in its decision-making process, the City has requested Hemson to review this application in the context of the objectives and intent of the currently in force (2012) City-wide CIP By-law, broader City objectives, and the current and projected market conditions. The Sanofi Pasteur application meets the basic eligibility requirements as set out by the CIP by-law.

## C. Report Structure

This report sets out the overall basis for the review and the key considerations that were taken into account, and provides opinions and conclusions for Council's consideration. It is structured as follows:

**Section 2** describes the key considerations and evaluation criteria which formed the basis of the review.

**Section 3** summarizes the results of the review of the Sanofi Pasteur application, along with Hemson's opinion regarding whether the application meets the criteria considered for the grant.

**Section 4** concludes the report with a summary of the findings.

## 2. Key Considerations

This section reviews the key considerations which formed the basis of the evaluation of the Sanofi Pasteur IMIT application. This application is measured against key considerations as set out below.

### A. Policy & Planning Context

The City's Community Improvement Plan (CIP) by-laws are guided by the objectives of the City's policy and planning framework, including the Official Plan and secondary plan polices.

#### i. The IMIT Program CIP By-law Objectives

As stated in the City-wide Community Improvement Plan (CIP) By-law, the primary objectives of the program are to “encourage brownfields remediation and the development of certain employment uses in the City”. Broader objectives identified by the by-law that are relevant to this review include:

- Help Toronto meet its employment targets as per the City's Official Plan and the Province's Growth Plan for the Greater Golden Horseshoe;
- Encourage intensification of employment areas through expansion and new development;
- Promote economic development and competitiveness with an appropriate mix and range of employment, opportunities for a diversified economic base, protection and preservation of employment areas for current and future use, and necessary infrastructure to support current and projected needs;



- Support the remediation of contaminated sites for future employment use;
- Support diverse employment areas that can adapt to changing economic trends;
- Enhance Employment Areas to ensure they are attractive and function well by revitalizing those which may be experiencing decline, promoting the distinctive character or specialized function of Employment Areas, facilitating the development of vacant lands, and creating comfortable streets, parks and open spaces, and landscaped streetscapes;
- Encourage key clusters of economic activity;
- Protect employment land for employment uses;
- Promote development of key sectors; and
- Improve the built form and physical character of underutilized spaces.

Each application was reviewed in the context of these objectives.

## **ii. The “But For” Test**

The IMIT Program operates under the general premise that “but for” the grants, the investment would not occur. Hence, the grants are notionally being paid from tax revenue that the City would otherwise not receive. Notwithstanding this requirement, there is no universally accepted “but for” test and therefore it is necessary to use an approach that takes account of the program objectives and the characteristics of the evaluating development projects being evaluated.

For the purposes of this review, the “but for” test has been considered in relation to the broader market context in addition to the individual project. For the individual assessments, costs and revenues were evaluated without the IMIT grants in order to determine the potential impacts of the grants on

development viability, as well as the overall performance of the project against typical development industry targets. In order to perform these analyses, access to sensitive financial details about each project was essential. Hemson worked closely with the applicant to gather information regarding the projects including qualitative research and discussions with the applicant. Information of this type is highly sensitive and was provided on a confidential basis. It is important to note that comments regarding the impact of the IMIT grants included in this report are general in nature due to the confidentiality of the data provided.

### **iii. Land Use Planning Objectives**

Non-residential development is essential to the fiscal health and vitality of the City. As such, Toronto is actively working to encourage a variety of non-residential development and employment through various policy initiatives. The IMIT application was reviewed within this land use planning context.

Importantly, the Sanofi Pasteur project is located in an Employment Area as per the City's Official Plan. City planning policies recognize the importance of preserving the City's Employment Areas and the manufacturing sector. The City's Official Plan recognizes that conversion of Employment Areas to other land uses, such as residential development, results in a reduction in land that supports economic activity and that is difficult to regain. City planning policies are structured to protect these employment uses, as well as support growth of key economic clusters in strategic locations.

### **iv. Community Infrastructure Benefits to the City**

The review gave consideration to broader benefits to be paid for by the applicant that the development is expected to bring to the surrounding community and City. For example, new locally manufactured vaccines or research and development capabilities which, otherwise, may not have been provided.

## **v. Other Fiscal Considerations**

The review also considered the anticipated scale of the IMIT grants in the context of the long-term property tax revenues that the proposed development projects would be expected to bring to the City.

It is important to note that the City currently exempts industrial development from development charges. Given the scale of the project considered in this report, this exemption represents substantial savings to the development and an equivalently large amount of foregone revenue for the City.

## **B. Market Context**

The Sanofi Pasteur IMIT application was reviewed against its current and projected market context. Key market considerations are described below.

### **i. Toronto Employment Trends**

Like many cities worldwide, job losses in Toronto were not uniform across sectors. Manufacturing and service employment declined by 1.7 per cent, while institutional and office employment accounted for the highest increases at 0.9 per cent and 0.7 per cent respectively. Although forced closure of businesses is certainly the primary cause for these losses, the slower than anticipated return to working in offices throughout 2021 resulted in lighter foot traffic and has undoubtedly contributed to sluggish employment growth in the City.

As in prior years, the office employment category continues to be Toronto's largest employment category accounting for over half of all jobs (51.5 per cent). Toronto's downtown also continues to hold a sizable portion of all employment (43 per cent).

## **ii. Trends in Construction Costs**

The construction sector has been significantly affected by the COVID pandemic and broader supply chain issues. Statistics Canada released the non-residential construction price index on May 5<sup>th</sup>, 2022 which reported a 17.2 per cent increase in the index from Q1 2021. Bottlenecks in the supply of materials continue to affect major industries, which, coupled with shortages of skilled labour, has resulted in significant increases in the cost of constructing new developments. Although the easing of COVID health measures, such as social distancing, have eased regulations previously imposed on construction sites, high construction costs and labour scarcities remain major challenges.

## **iii. The Manufacturing Sector**

The manufacturing sector is a valued component of Toronto's economy. Further, within the manufacturing sector, the life sciences industry is an increasingly important segment of the economy. Toronto's human health sciences industry is among the top in North America, employing nearly 30,000 professionals.

The City, however, faces significant challenges to retaining existing firms in these sectors and attracting new ones. Other municipalities in the "905" area have a fair supply of attractive sites at competitive prices and also have lower property tax rates. For major multi-national manufacturing establishments, the City must also compete internationally as locational decisions for facilities of this scale tend to be highly sensitive especially regarding financial factors.

Unlike other employment sectors, disruptions caused by the COVID-19 pandemic did not appear to have a significant effect on Toronto's industrial market. The heightened demand for goods when services were subject to various health-related measures, coupled with supply chain issues, put

upward pressure on this sector. This was the same situation in many other cities worldwide.

Following periods of growth and contraction in manufacturing establishments, the City has experienced a recent decline in employment in the manufacturing sector. The 2021 Toronto Employment Survey identified significant job losses in this sector, likely as a result of the COVID-19 pandemic and lingering economic uncertainty.

Despite job losses in the manufacturing sector, the GTA industrial market flourished in 2021. Growth in online retailing and supply chain shortages lead to higher demand for industrial spaces. With new outbreaks of COVID in China and conflict in Eastern Europe, the supply-demand imbalance is expected to continue in the near future. As a result, heightened need for inventory space will sustain demand across Toronto's industrial market for the foreseeable future.

### **3. Analysis of the Sanofi Pasteur IMIT Application**

This section discusses the analysis of the Sanofi Pasteur IMIT application in relation to the key considerations described in Section 2. The analysis involves a review of all relevant application details and financial information provided by the applicant. Multiple interviews were conducted with the applicant to obtain information about the projects and explain the approach to the analysis.

#### **A. Sanofi Pasteur - 1755 Steeles Ave. West**

Approximately 194,820 square feet of new influenza vaccine bulk manufacturing facility space is proposed as an expansion to the existing Sanofi Pasteur Canadian headquarters at Steeles Avenue and Dufferin Street. The new space is expected to accommodate 300 employees and will allow Sanofi Pasteur to significantly increase production levels. Given the manufacturing sector is a valued component of Toronto's economy, expansion of the existing pharmaceutical manufacturing space is considered a prized advantage for the City.

##### **i. IMIT Program CIP By-law Objectives**

As a very costly, highly specialized manufacturing facility, this project supports a number of CIP objectives which are outlined below:

- Contributes to the intensification of an employment area through expansion and new development;
- Establishes production capacity for influenza vaccine in Canada in response to growing worldwide demand;
- Contributes to the City's diversity of employment types;

- Protects and preserve employment areas for current and future use;
- Contributes to a key cluster of economic activity; and
- Strategically grows critical mass in Canada’s biomanufacturing sector.

Due to its unique nature as an owner-occupied manufacturing facility, financial analysis was not considered appropriate for this project. Rather, the application was reviewed based on qualitative research and discussion with the applicant. Due to the significant construction investment associated with this project, the grants are considered to be highly valued by the applicant.

Given the City of Toronto competes for manufacturing facilities of this type at an international scale, decisions are often very sensitive to cost factors as companies are generally flexible in their locational decisions. Grants, such as those provided through the IMIT Program, are therefore significant to influence site selection processes.

## **ii. Land Use Planning Objectives**

The application is very supportive of Toronto’s land use planning objectives, particularly, in regard to the protection, preservation, and expansion of Employment Districts and manufacturing uses. The project is unique given it involves the conversion of residentially zoned lands to manufacturing use. By comparison, many of the City’s Employment Districts have faced significant residential development pressures.

## **iii. Community Infrastructure Benefits to the City**

The development project does not include significant community infrastructure benefits.

#### **iv. Other Fiscal Considerations**

As there is no recent precedent for the assessed value of a similar pharmaceutical manufacturing facility, it is difficult to estimate the potential tax increment-based IMIT grant amount for this project with any degree of precision. Hemson's preliminary estimate of the total IMIT grants for this development project is approximately \$10 million to \$15 million over the 10-year period. It is important that the grant amount should be viewed in the context of the full net annual tax revenues that the project will generate on an ongoing basis.

#### **v. Market Context**

While Toronto's manufacturing sector currently faces heightened demand as a result of the COVID-19 pandemic, labour shortages and bottlenecks in supply chains have created acute challenges on the supply end.

As with many businesses in the manufacturing sector, local competition from neighbouring cities offering lower tax rates present a challenge to the City of Toronto's manufacturing sector. In the case of Sanofi, this risk is especially apparent as international locations are also competing for this manufacturing space along with other areas in the GTA.

#### **vi. Conclusion**

It is recommended that the Sanofi Pasteur IMIT grant application be approved due to its close alignment with the CIP's objectives as well as the important role it will play in Toronto's manufacturing sector. Further, within the manufacturing sector, the IMIT Program plays an important role in helping Toronto to remain competitive on an international scale.



## 4. Summary of Report Conclusions

The conclusion of this report is guided by the detailed qualitative analyses. The key conclusion is that **the Sanofi Pasteur manufacturing facility at 1755 Steeles Ave warrant receiving grants under the IMIT Program**. The provision of grants for this project will support the development of substantial new employment space in growth sectors of Toronto's economy by helping to reduce financial risk, and particularly those risks associated with non-residential development in a post-pandemic market. For the Sanofi Pasteur project, grants could contribute to Toronto's competitiveness as an attractive place for manufacturing on an international scale.