PORT LANDS ACCELERATION INITIATIVE

Appendix 5
Market Sounding in Support of Port Lands Development Plan

Photo of Polson Pier by Dan Iggers

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Market Sounding in Support of the Port Lands Development Plan

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Introduction

Background

Waterfront Toronto is the public advocate and steward of waterfront revitalization in the City of Toronto. Created by the Government of Canada, the Province of Ontario, and the City of Toronto, Waterfront Toronto's mission is to deliver a revitalized waterfront. Formally created in 2001, Waterfront Toronto has a 25-year mandate to transform some 800 hectares (2,000 acres) of brownfield lands on the waterfront into beautiful, sustainable mixed-use communities and dynamic public spaces.

The City of Toronto's overall vision and objectives for the redevelopment of the Port Lands are based on the City's Official Plan, which envisions a more livable city that accommodates future growth with viable transportation and green space networks. The core values of this overall vision are articulated in the City's "Central Waterfront Secondary Plan" ("CWSP") which provides a framework for the area's future planning and development. Core principles of the CWSP include:

- removing barriers/making connections;
- building a network of spectacular waterfront parks and public spaces;
- promoting a clean and green environment; and
- creating dynamic and diverse new communities.

At the direction of Toronto City Council, Waterfront Toronto and the City of Toronto, together with Toronto and Region Conservation Authority ("TRCA"), collectively the "Project Team", embarked on the preparation of a high-level Business and Implementation Plan for consideration by Council's Executive Committee in June 2012. In preparing this plan, the Project Team was tasked with identifying opportunities to accelerate development and optimize the net economic value of Toronto's Port Lands.

In support of the City of Toronto's and Waterfront Toronto's efforts to identify opportunities for accelerating development, the Project Team retained two separate firms to conduct the following:

(a) to undertake a series of market soundings with local and international real estate development companies and financial institutions, the purpose of which was to solicit the perspectives from a select group of representatives from these industries with respect to the marketability, market constraints and financing options / preferences associated with the accelerated development of the Port Lands; and

(b) to prepare practical, implementable development scenarios, and identify a realistic, self-financing structure to guide the development of the Port lands.

PricewaterhouseCoopers Real Estate Inc. ("PwC") was retained to undertake the Market Soundings, while a consortium comprising Cushman & Wakefield and Scotia Capital were separately retained to complete the development, economic and financial analysis of the Port Lands.

Workplan and approach

As per the requirements of the RFP for the Market Sounding assignment, the specific scope of services that were provided included the following:

Development Market Sounding

- Identifying potential development participants in all development sectors, including residential, commercial, retail, institutional, hospitality, cultural, industrial and other developers, industry organizations and other participants in the development industry (not to exceed eight to ten interviews);
- Validating the marketability of the Port Lands by sector, including an examination of the potential for a strategic legacy project (for example, an institution of higher learning, a casino, a museum or the headquarters of an international conglomerate) that would provide opportunities for accelerated development;
- Identifying potential market constraints including specific concerns with respect to risk allocation; and
- Identifying assumptions to be used in the quantitative assessment that will be prepared by another consultant team to inform the business case (Cushman & Wakefield / Scotia Capital).

Financial Market Sounding

- Identifying potential financial participants in sectors such as pension funds, insurance companies, investment banking, public sector finance (including AFP and P3), and private investors (not to exceed eight to ten interviews) that may be interested in financing and underwriting this transaction;
- Identifying implementable financing options based on current market conditions using assets / revenues, development charges, land financing and other financing tools that have been successfully used in other jurisdictions (i.e., TIFs, TIGs, etc.), noting their relevance and the required governance structure to support them;
- Validating potential participant's investment preferences, debt, equity, mezzanine, size of investment, required return expectations, term of investment, security requirements, exit strategy, buyout provisions, etc.; and
- Confirming optimal financing structure(s) that would minimize the cost of borrowing for the project and optimal financial / legal structure.

For the purpose of this engagement, "Market Sounding" is defined as consultation with the private sector, the purpose of which is to solicit comment and advice on a particular project. With respect to accelerating development in the Port Lands, the Market Sounding also sought input on the suitability and attractiveness of alternative development and / or financing schemes. The insights and opinions forwarded are then reported without interpretation or commentary on their reasonableness.

As noted, the observations generated from this consultation with representatives of the real estate development and development finance industry were then to be used as inputs to the quantitative assessment undertaken by Cushman & Wakefield / Scotia Capital.

Approach

In completing this assignment, PwC undertook the following tasks:

- liaised with Waterfront Toronto to identify, prepare and finalize a roster of potential interviewees from a list provided by the Project Team;
- prepared a background document to familiarize potential interviewees with an overview of the Port Lands and the revitalization objectives of the City of Toronto and Waterfront Toronto;
- prepared a series of questions to be posed to representatives from the real estate development and development finance industries;
- contacted potential interviewees (with a target of eight to ten from each of the real estate development and development finance industries), scheduled and conducted interviews;
- scheduled, invited and staged two focus group breakfast meetings to obtain additional insights from an "industry round table" discussion; and
- summarized the various thoughts and comments into this reporting document.

Notice to reader

The Reader should note that the observations and opinions included within this report are the synthesis of information obtained from numerous Market Sounding interviews and focus group meetings / industry breakfast roundtables, the purpose of which was to inform future decision making by the City of Toronto and Waterfront Toronto on accelerating development in the Port Lands. In addition, PwC did not attempt to verify or otherwise validate the reasonableness of the comments received. As such, comments forwarded by members of the real estate development and development financing industry may include errors in fact. In addition, and given the varied nature of the interviewees and the nature of feedback they provided, comments may have conflicted with those provided by others, or may have exhibited inconsistencies across sources.

This document is not meant to be categorical or definitive in any respect; its role is to set out key observations, themes and opinions held by select members of the real estate development and development finance industry with respect to the marketability, market constraints and financing options / preferences associated with the accelerated development of the Port Lands.

Entities interviewed

Interviewees

In total, 18 interviews one-on-one interviews were completed, six with representatives from the real estate development finance community and 12 with representatives from the real estate development community (it should be noted that discussions with each group overlapped, with representatives from each group providing comment on the other). These interviews occurred over an approximate four-week period, from late January 2012 through late February / early March 2012.

In addition to holding face-to-face interviews, two focus group / industry roundtable sessions were held (on Thursday February 16, 2012 and Wednesday February 22, 2012). The purpose of these sessions was to solicit, through a "round table" format, the comments, opinions, thoughts and ideas from an invited group of real estate development, building, land servicing and financing professionals on opportunities for accelerating development in the Port Lands.

In order to obtain meaningful insights from session interviewees, PwC purposefully sought to schedule sessions with senior representatives of the following firms. These entities comprise a mix of organizations with local / regional, national and international focus, whether from a development or development finance perspective.

Development Financing (7)

- Borealis Infrastructure
- Brookfield Financial (focus group)
- Fiera Axium Infrastructure Inc.
- Fengate Capital Management Ltd.
- Infrastructure Ontario
- Macquarie Capital Markets Canada Ltd.
- National Bank Financial Group

Real Estate Development (16)

- Bratty & Partners (focus group)
- Cadillac Fairview
- Cityzen Development Corp.
- Daniels Corp.
- Euromart
- GWL Realty Advisors (focus group)
- Integrated Asset Management Corp. /
- Intermarket Group
- Mattamy Homes
- Metropia (focus group)
- Minto
- Orlando Corporation
- Oxford
- Rose Corporation
- Strata Aggregates (focus group)
- Tridel
- Westfield Group

Individuals consulted with included individuals with the following titles: Managing Partner, Vice President of Development, Executive Vice President, Executive Vice President Development, Vice President Project Management, Senior Vice President Investments, and President.

Interview questions

One hour interviews (approximate) were held with 18 entities in the real estate development and development financing industries. Both face-to-face and conference call interviews were held. Questions posed to interviewees included the following.

Real estate development industry questions

1. Given your understanding of the Port Lands, and assuming little or no physical constraints to development taking place, what do think are the market opportunities for these lands?
2. What type of developments / development projects would you see as likely constituting more immediate opportunities? What type of developments / development projects would you see as likely constituting more longer-term opportunities?
3. If these lands were under the total control of your company, where should you start?
4. What minimum return expectations would you have for these short and longer-term opportunities?
5. What specific projects / developments / sites should be immediately focused upon to achieve these short and longer-term opportunities (including, for example, the lands next to the Film Port, development south of Unwin Avenue abutting Cherry Beach, the property located next to the Don River and the Gardiner Expressway. If prospective interviewees were unfamiliar with the location of these areas, the PwC interview team identified them on a map of the Port Lands during the interview)?
6. Do you see any specific opportunities for the development of a "strategic legacy project", whether an institution of higher learning, a casino, a museum, the headquarters of an international conglomerate, etc., and if so the conditions that would need to be in place for such developments / projects to take place?
7. Again, assuming little or no physical constraints to development, what would you see as the major hurdles to achieving any potential uses in the short term?
8. How would you, if you were developing these lands, look to mitigate against these constraints?
9. What involvement would you require from the City of Toronto / Waterfront Toronto to help mitigate against these constraints?
10. Now, assuming the various constraints that do exist (i.e., fragmented ownership with various obligations tied to the lands, servicing and infrastructure constraints, soils / environmental issues, flood plain concerns, etc.), if you were developing these lands, how would you look to mitigate against these constraints?
11. How would you suggest that the City of Toronto / Waterfront Toronto engage or partner with the development and / or development finance community to help mitigate against these constraints?
12. What role do you see the development community taking in order to help accelerate the development of the Port Lands (for example, a relationship / structure similar to that entered into between Build Toronto and Tridel re the 10 York Street lands located at York Street, Harbour Street and Lake Shore Boulevard)?
13. Do you think the development industry would commit to completing the planned river improvements at "Mouth of the Don", if these lands were to be offered to you for $1?

Development finance industry questions

1. Given that there exists some significant financial challenges in regard to the servicing and readying of lands for their future development, how would you look to finance these improvements assuming this was purely a private sector initiated, owned and managed project?
2. What lending / financing parameters would you expect for a development / project of this scale (i.e., loan-to-value ratios, coverage ratios vis-à-vis future land sales, covenants and security, guarantees, participation, rates, etc.)?

3. What investment preferences (whether debt, equity, mezzanine, investment size, return expectations, term, security requirements, exit strategy, buyout provisions, etc.) would you look to achieve? How important is the governance structure that will ultimately hold / be responsible for the transaction / financing?
4. How do these parameters and preferences change given that project responsibility rests with the City of Toronto / Waterfront Toronto? Do you have any experience lending or investing in bonds or other financial instruments that are secured by tax incremental ("TIF") revenues, payments in lieu of taxes ("PILT") revenues or other cash flows from real estate developments? If so, can you elaborate on the key features of these transactions, lessons learned, etc. (if prospective interviewees were unfamiliar with these financial instruments, a description and definition was provided by the PwC interview team during the interview)?
5. What financing vehicles, whether traditional or innovative to the Canadian marketplace, do you feel could be accessed by the City of Toronto / Waterfront Toronto to accelerate development (including TIF, PILT, local improvement districts, impact fees, joint development initiatives and P3's, etc.)?
6. What structural features would you expect to see in a TIF, PILT or other similar financing (coverage ratio, maximum term, debt service reserve accounts, level of public support / back-stop, rates, etc.)?
7. Would there be any appetite for deal structured without a public back-stop? How would you approach the debt pricing of this type of financing?
8. Do you believe a structure in line with the Hudson Yard transaction as something that would be attractive in the Canadian debt capital markets? Are there any issues that you see with the high level features of this transaction (if prospective interviewees were unfamiliar with this example, the PwC interview team provided them a high level overview during the interview)?
9. Are there any other relevant approaches that should be considered by the City of Toronto / Waterfront Toronto for the financing of the required infrastructure?
10. What role do you see the development community taking in order to accelerate the development of the Port Lands (for example, a relationship / structure similar to that entered into between Build Toronto and Tridel re the 10 York Street lands located at York Street, Harbour Street and Lake Shore Boulevard)?

Backgrounder provided to Market Sounding participants

In order to adequately prepare potential Market Sounding participants for the discussions on opportunities for accelerating development in the Port Lands, interviewees were provided with background information describing:

- Waterfront Toronto corporate mission and objectives;
- The City of Toronto's development objectives for the Waterfront;
- Waterfront Toronto's development approach and progress to date; and
- A description of the Port Lands.

In addition, questions that the PwC interview team would be addressing with them were also included. A copy of the background information provided to Market Sounding participants is included as Appendix A.

Market sounding findings

The following provides commentary on the main themes which emerged from interviews with representatives from the real estate development and development finance community. While PwC strived to pose questions in the order listed above, most interviews evolved into a free-flowing discussion. As such, the following themes are presented in an order based on PwC's perception of their relevant importance and ranging from general to more specific.

Real Estate Development Industry

The following points summarize the main themes which emerged from interviews with representatives from the real estate development community.

1. At approximately 600 acres, the site is physically too large for most developers to comprehend

Most developers viewed the physical area of the Port Lands as too large and argued that a master plan must first be put in place in order to understand how the various areas and sub-areas will relate to one another, both from a use and development timing perspective. Interviewees argued that the Port Lands need to be subdivided into discrete, yet inter-related phases and sub-phases of "manageable" sizes (i.e., less than ±10 acres). However, even with such manageable-sized parcels, it was thought that development would still be many years (10+) from taking place, given the range of other constraints that need to be overcome.

2. Residential and some commercial (retail) development could immediately commence next to existing built-up areas at Cherry Street and along Lake Shore Boulevard

Residential

In order to accelerate development of the Port Lands, developers were of the opinion that any "quick wins" would logically follow from existing build-up areas / developments abutting the Port Lands, and specifically in the area immediately south of Lake Shore Boulevard and west of Cherry Street, along the south side of Lake Shore Boulevard (area "A" noted in Figure 1, following), or on lands abutting existing developments where synergistic projects could be created (for example, next to the film studios; area "B" noted in Figure 1, following). In these areas, a strong market appetite would likely exist for residential and supporting retail (i.e., retail space developed to support the day-to-day needs of new residents, including convenience retail, small restaurants, etc.). One developer felt such lands could be brought to market relatively quickly (i.e., within two to four years depending on the approvals process).

A "quick win" was felt to exist in the north-western quadrant of the property (area "A" noted in Figure 1, following), where the property could be sold to a residential developer and the proceeds from the transaction used to finance improvements and help position future phases.

Developing residential elsewhere within the Port Lands (i.e., within the more interior regions of the site) were characterized as has having significant risk (where future residents and users would be forced to live within a large redevelopment site with little or no amenities, thereby inhibiting their marketability).

While many developers felt residential constituted the highest and best use of land with "quick win potential" developers were, however, concerned with the amount of residential development currently being built and planned for development in the immediate area (including projects slated to occur within the East Bayfront area and at the Pan Am Games Athletes Village).

In positioning the lands for future development, some developers also argued that public investment in the Port Lands' edges should be made to preserve and enhance the overall area. Some believed that short term investments should be made within Cherry Beach and along other water edges to create an enhanced amenity (compared to what currently exists today) in order to attract people and future investment (i.e., to establish the area as a "go to" destination by adding additional passive and active recreation facilities and features in order to enhance the desirability of the Port Lands for future residents, commercial and employment uses and users).

Figure 1
Port Land "Quick Win" Locations

Larger scale retail development

For large scale retail developments to work (excluding retail that would need to be built to support residential), development was seen as needing to be of a sufficient size and scale to create a critical mass and create a destination (respondents felt a development in excess of 1.0 million / 1.5 million square feet would be required). Below such a size threshold, it was felt that the development may not be of a sufficient size or scale to differentiate itself from more established retail nodes in the broader GTA and provide people "reason" to visit the Port Lands instead of these competing areas. For such larger scale developments, whether retail or office, to be successful (and merit their development investment), the provision of adequate higher –level transit would be a necessity (see point 4, following).

3. *Provision of adequate servicing seen as a pre-requisite for development taking place*

The provision of adequate servicing is viewed as a key pre-requisite for development taking place (i.e., water, waste water, sewer, hydro, roads, bridges, etc. within the Port Lands). Some developers indicated a willingness to front-end such costs, however, the cost of doing so would be taken out of what they would be prepared to pay for the land.

Some concern was also expressed about the capacity of services and infrastructure leading into the Port Lands (i.e., pumping stations, water / waste water treatment facilities, etc.) as was the ability of the City to provide other necessary services and facilities (including transit, police, fire, etc.). With respect to servicing capacity issues, interviewees identified (anecdotally) issues with respect to servicing capacity issues around the Corus building.

Site specific servicing opportunities / solutions were identified by interviewees as potentially including the creation of a "Port Lands Water and Wastewater Authority" to design, build, finance, operate and maintain the in-ground services needed to be installed within the Port Lands (see point 3 in the Summary of Findings relating to the Development Finance Industry).

4. *Provision of adequate transit service also critical for development to take place*

One of the more common opinions provided by real estate development industry representatives (and in some cases this was identified as the most significant issue facing the future development of the Port Lands) was the absolute necessity for transit provision to and within the Port Lands. Without transit and more importantly without an "iron clad guarantee that transit would be made available to the Port Lands", it was regularly stated that no developer would commit to doing any medium to large scale development (whether residential, office, retail or mixed-use).

In some instances, developers indicated that regular transit service was an absolute requirement for development taking place; in a more limited number of cases, some developers indicated that without a guarantee that transit access will be provided to the Port Lands, any master plan to guide the redevelopment of the lands will be viewed by the development community as unattainable ("the plan is nice in theory, but…").

By way of example, one interviewee indicated their company's strong willingness to commit significant capital to create a meaningful destination development within the Port Lands. However without higher order transit and an absolute guarantee that transit will be made available to the site, they would not be prepared to commit to developing the lands.

An example cited was Canary Wharf in London, a project that was reported to have failed until a subway line was committed to the area. The Canary Wharf development was only able to achieve its full development potential and the success that was originally achieved for this area, once rapid transit had been brought to the area.

By "transit", some members of the development community referred to regularly scheduled "rubber tire" service, while others referred to more higher order transit uses capable of moving large numbers of people including light rail transit, elevated rail and subway.

5. *The Port Lands themselves have significant hurdles that must be overcome in order for development to take place*

Despite the significant advantage and opportunity associated with some 600 acres of land located next to downtown Toronto and abutting Lake Ontario, the Port Lands are saddled with significant development limitations requiring large capital expenditures to overcome. For example:

- The cost of servicing the Port Lands has been notionally estimated to cost in excess of $1.0 billion, a cost that includes upgrading and / or installing new in-ground services, and repairing, replacing and enhancing the existing internal road and bridge network.
- Naturalizing the "Mouth of the Don River" and resolving the Don River's flooding issues has been estimated to cost more than $600 million. With this issue resolved, a sizable amount of property will be removed from the Don River's flood plain.

- As the Port Lands were created through fill, the lands have a high water table, have soils that are generally considered “problematic” from a geotechnical perspective, and have unknown environmental / soil contamination issues (brought about from years of fill and heavy industrial use) requiring extensive remediation. The cost of addressing these issues is currently unknown.
- While much of the Port Lands are in public ownership, no one party controls this site, rendering the implementation of a comprehensive master plan governing their redevelopment difficult. In addition, some of the public lands are subject to long-term leases, further complicating the achievement of an overall master development strategy.

  The cost associated with consolidating ownership to facilitate the implementation and achievement of an overall master development strategy is also not currently known.

For the purpose of the Market Sounding interviews, interviewees were notionally given a figure of $2.0 billion in costs associated with servicing the site, ameliorating the flood plain issues, remediating the property and consolidating ownership. Given the enormity of the site and the significant costs associated with addressing its various development limitations (a figure which some interviewees cited as requiring the recovery of more than $3.0 million per acre), no real estate development industry representative we spoke with indicated a willingness to acquire the entire Port Lands area for $1 and also assume all these costs and potential liabilities. In responding to this question, some interviewees went further and indicated that they would require a minimum of six months to one year to more fully understand the site and complete their own development and market due diligence before being able to state categorically if they would be interested in acquiring the site for $1.

If the aforementioned issues were to be resolved, all developers indicated a willingness to purchase development sites.

Because of the significant limitations associated with the site, it was suggested that some public investment in the lands would be required in order to resolve these issues and ready the lands for their eventual redevelopment. In committing such capital, it was recommended that government look to the net economic benefits of the lands and their future revitalization as a basis for public investment in infrastructure, transit, access, site remediation, etc. to kick start the development of the lands.

6. *Developers may be more inclined to take on development and infrastructure risk on smaller, more defined blocks and projects*

In addition to asking the real estate development community if they would be prepared to acquire the entirety of the Port Lands (and its inherent servicing and development risks) for $1, the development community was similarly asked if they would commit to achieving the “intent” of the planned Don River naturalization those lands were offered to them for $1 (and thereby transferring this cost directly to the private sector). In exchange, the developer would be provided title to these lands and the right to redevelop the site once the area was re-naturalized and development parcels created.

Such a scenario was more favourably viewed, although significant due diligence would be required to more accurately quantify the costs associated with (a) achieving the intent of the naturalization plan, (b) evaluating the development potential able to be generated from the created development parcels, (c) quantifying the site’s servicing and other infrastructure costs, and (d) assessing the timeframes associated with completing the required naturalization improvements and when development sites could be brought to market (including the time frames associated with obtaining environmental and municipal approvals), among other issues.

Depending on the cost of achieving the naturalization (many in the development community felt the estimated cost of $600 million was significantly high) and the other required works, it may be that some form of partnership with the City of Toronto / Waterfront Toronto would be required in order to effect these improvements. In this regard, it was suggested that the City / Waterfront Toronto could commit some amount of capital to reduce the net cost of effecting the improvements to the developer, thereby allowing the developer to finance all or a majority of the cost of the naturalization (i.e., the cost associated with naturalizing the mouth of the Don River could be viewed as the developer's land purchase cost; depending on the development yield the developer is able to achieve versus the cost of the naturalization, the developer may be able to finance these improvements in the same manner as it would have normally financed the land's acquisition).

7. *Attracting "strategic legacy projects" will likely require government capital and operational support*

Real estate developers were asked if they foresaw any specific opportunity for the development of a "strategic legacy project". In this regard, interviewees were specifically asked about whether an institution of higher learning, a casino, a museum, the headquarters of an international conglomerate, or some other development / use that could help stimulate additional development, could be developed, and what conditions would need to be in place in order to attract such a project.

Generally, it was felt that the attraction of such a use was difficult to assess and somewhat outside traditional real estate demand / supply forces (i.e., they are basically perceived as government-subsidized developments that could kick-off / spawn additional development). With respect to casinos, museums, colleges and universities, etc., the attraction of such uses to the Port Lands would require funding commitments from senior levels of government (for construction and perhaps operational support); if funding is not available, then such uses would not materialize.

It was also felt that if a casino were placed in the Port Lands by the Ontario Lottery & Gaming Corporation, a portion of the net profits able to be generated from such a use could be used to finance all / a significant portion of the required improvements needed to be made in the Port Lands.

With respect to attracting the headquarters of an international conglomerate, development industry representations felt that the Port Lands would be competing with numerous other locations within the GTA (and beyond). In some instances, particularly in the short term, these competing locations are more established, already have supporting infrastructure and amenities (including access, transit, neighbourhood amenities, etc.) and are more readily able to accommodate such a use.

For the most part, the development industry felt these uses would constitute longer term opportunities. Moreover, it was felt that such uses could not be accommodated until after transit and access issues have been resolved.

Lastly, given the size of the Port Lands, it was felt that if such a use arose in the future, there would likely exist sufficient land to accommodate their requirements.

8. *Return expectations*

Developers were asked to identify what return on equity expectations they would have on new development projects. For the most part, the development industry indicated returns in the range of 15% for commercial projects to 20% or more on residential developments.

9. *Partnership opportunities*

While real estate development industry interviewees expressed a strong desire to purchase development ready sites in the Portlands, a number suggested a range of development partnership opportunities may be possible in order to reduce their net cost of readying these lands for development.

Examples forwarded included:

- Developers acquiring property on an "as is" basis and financing all required improvements (whether servicing, soil remediation, etc.). The net proceeds payable to the City / Waterfront Toronto would be reduced by the cost(s) associated with making those required improvements.
- Partnering with the City / Waterfront Toronto where the City / Waterfront Toronto provides property as its "equity investment" while the developer provides its experience and capital to improve the lands and construct a project. Upon completion, the City / Waterfront Toronto would be provided with its land price plus a portion of profit (the exact amount being subject to negotiation and will be dependent upon the nature of the project under consideration).

10. Summary of uses

The following summarize the market opportunities which various real estate development industry participants felt exist for the Port Lands, by land use:

- Residential – indicated that there will be strong interest from the development community to purchase property for residential purposes. As a waterfront site, these lands are considered an "A+" development opportunity.
- Industrial – access and transportation issues we felt to prohibit interest from new, larger scale manufacturers, logistics companies, etc. looking to locate new facilities in the area.
- Office – given the Port Land's proximity to downtown, other competing / established locations in the GTA and access / transit issues, office use opportunities in the short term were viewed as being limited to uses that service the local residential population (i.e., medical offices, small tenancies, etc.). Given the long-term development nature of the Port Lands, it was felt that if an opportunity were to arise in the future, it could likely be accommodated.
- Retail – in the short term, retail was seen as a logical complementary use as residential is established. Retail uses were also viewed as possible for those areas abutting the south side of Lake Shore Boulevard between the Don Roadway and Leslie Street, where the potential exists for larger scale developments. For regional / destination retail to be established, the Port Lands will need enhanced transit and access, and the development will need to be seen by the public as "convenient", offering unique "choices", in a "distinctive" environment.
- Hotels / Convention Centres – seen as a longer term opportunity once the area has been developed and become established (and as amenities are added and access / transit issues are resolved, etc.).
- Casino / Museum / College / University – subject to senior government approval and / or funding.

11. Other comments

Other comments forwarded by the real estate development community included the following:

- An overall master development strategy and phasing plan must be defined to ensure that immediate opportunities are consistent with future phases and help achieve the overall strategy. Moreover, the strategy must include a detailed quantification of all major costs (servicing, remediation, flood plain resolution, title consolidation, etc.), noting when such costs need to be funded.
- Developers would likely agree to absorb the cost of remediation (the cost of which would be deducted from the amount it would be willing to pay for the land) but would not accept liability (which was argued must remain with the land's owner). Developers are not likely to be interested in acquiring property until all risk mitigation costs are quantified and a schedule of remediation efforts are identified and quantified. Depending on the nature and cost of remediation, soil clean up may require public sector intervention and financial support.

- The regulatory and development approvals process is seen as one of the biggest risks to realizing any development. In addition, developer interviewees considered the current over-sight hierarchy associated with the Port Lands (including the City of Toronto, Waterfront Toronto, Build Toronto, Toronto Port Lands Company, Toronto Economic Development, etc.) as too cumbersome and with too many layers to be effective and to facilitate development occurring quickly.
- The City / Waterfront Toronto should specifically allocate all revenue generated from development within the Port Lands (whether development charge levies, Section 37 fees, other special levies or "cash in lieu" payments) to pay for improvements needed to be made to lands within the Port Lands to facilitate their eventual development. As will be discussed in the following section, concern was expressed that these fees were being amassed within the consolidated revenue of the City, whereas the City should consider allocating these revenue to assist in paying for needed servicing and other improvements.
- "Catalyst" projects were concluded to help stimulate development; however, the attraction of such uses would require the resolution of, or at a minimum a commitment to resolve the major development and access limitations associated with the site (including transit / access, environmental, title, servicing / infrastructure, flooding, etc.).

Development Finance Industry

The following points summarize the main themes which emerged from interviews with representatives from the development finance community. Entities indicated their willingness to participate as an equity investor in the project, so long as the form/structure was consistent with their investment parameters and preferences.

1. *Providing specifics on project financing opportunities at this time is difficult given the current uncertainty regarding the amount and timing of capital needed to be invested in the property*

As noted previously, the Port Lands are saddled with significant development limitations requiring large capital expenditures to overcome. However, the magnitude of such costs, which costs / projects will be the responsibility of the City / Waterfront Toronto to fund (and which could be the responsibility of a developer to fund), and the timing of when such capital expenditures are required are currently not known.

Each of the development finance individuals interviewed as part of this assignment noted that overall development financing requirements must be quantified and understood, including phasing, timing and amount of capital needed, in order to begin to understand how these capital works could be paid for.

2. *Predictable returns and corporate guarantees / covenants will be required*

The development finance group expressed limited appetite for front-ending any such pre-development costs without some level of corporate / government guarantee or other form of predictable return / repayment schedule, arguing that investors / financiers will ultimately look to the quantum (or relative security) of future cash flows (and where such revenues will be generated from) when determining how much and over what term funds may be advanced. Ultimately, prospective financiers will require some level of corporate / government guarantee / covenant on any funds advanced.

Speculation was offered that foreign investors may prove more patient in being able to wait for returns, however caution was still expressed that they too will look to future cash flows (and where and how such revenues will be generated) when determining how much and over what term funds may be advanced. It was also cautioned that a prospective foreign financier would similarly require some level of corporate guarantee / covenant on any funds advanced, including perhaps title to some / all of the property.

3. AFP opportunities potentially limited

A number of potential alternative financing procurement ("AFP") models were discussed with members of the development finance industry. AFP models were noted as being most appropriate when applied to discrete, well defined infrastructure projects that were capable of generating income; interviewees however raised the question who would guarantee the debt / insure against default.

In one example, it was suggested that a "Special Purpose Vehicle" ("SPV") could be created to design, build, finance, operate and maintain the in-ground infrastructure needed to service the area (for the purpose of this presentation, this SPV is notionally referred to as the "Port Lands Water and Waterwater Authority"). Under such an arrangement, the City / Waterfront Toronto could joint-venture with the private sector who in turn designs, builds, finances, operates and maintains the water / wastewater facility; the Port Lands Water and Wastewater Authority would then recoup both their operating, maintenance and financing costs from user fees charged to residents and business located in the Port Lands area. Should these user fee payments prove to be insufficient to cover its annual obligations, they would likely require that any shortfall be supplemented with support payments from the City / Waterfront Toronto.

4. TIF's and other financing options

Tax Increment Financing ("TIF") is a public finance technique used by local government jurisdictions to fund infrastructure initiatives and stimulate economic development within designated geographic areas ("TIF zones"). TIFs have been used to finance infrastructure projects by leveraging future tax revenue increases within a TIF zone and allocating the incremental tax revenue to support the infrastructure project's capital repayment obligations.

TIFs were viewed as an interesting opportunity by development finance interviewees. Each, however, questioned how the financial markets would react to such an offering given they have never been used in Ontario; they also questioned which government entity would ultimately guarantee the debt being supported by the TIF. Key considerations in the structuring a TIF financing include:

- Applicability to the Canadian context. In the US, public entities have issued TIF bonds for motives that are less applicable to the Canadian market. In the US, as revenue bonds, TIF bonds are not included as a general obligation of the Issuer.
- Recourse to the City. Bond investors will not typically take revenue ramp up risk and therefore TIF bonds may require some level of recourse to the City.
- Capacity Constraints. The amount of financing that can be raised under a TIF structure is directly related to the timing, certainty and magnitude of the future tax revenues.

On its own, the pledging of future property tax increases was not felt to be sufficient to cover the cost of improvements needed to be made to the lands.

A second potential financing structure discussed with representatives of the development finance industry was the adoption of a "Community Revitalization Levy" ("CRL") or "Area Betterment Tax" ("ABT"), a specially designed levy (or tax) that is in addition to traditional property taxes, and is applied within a specific geographic area, the proceeds of which are used to finance the cost of a specific urban renewal / revitalization / improvement project. The specific example discussed for this CRL / ABT was a special tax designed and implemented to help pay for the design and implementation of flood protection improvements / the naturalization of the Don River.

In this regard, it was noted that once the mouth of the Don River was naturalized and the threat of the Don River flooding and impacting a geographically wide area was minimized (and eliminated in some instances), the positive effects of these improvements would be far reaching and providing a direct benefit to land owners not residing or positioned in the Port Lands. An ABT would then be specifically applied to the area that is positively impacted by the flood remediation (for example, as an added charge to the home owner's / business' annual assessment), the proceeds of which would be used to support the capital costs associated with effecting the flood remediation.

A CRL would more generally relate to and be applied within the Port Lands themselves (as opposed to a broader geographical region discussed immediately above for an ABT), and could be applied to such capital projects as site servicing, site remediation, waterfront edge rehabilitation, and area amenity development / enhancement.

A final financing option thought to be available was through the specific allocation of revenues generated from development within the Port Lands (whether from development charge levies, Section 37 fees, other special levies or "cash in lieu" payments) to specifically pay for improvements made in the Port Lands area (as opposed to these fees being amassed in the consolidated revenue of the City).

5. Return expectations

Development finance interviewees were asked to identify what return expectations they would have on funds they advance. For the most part, institutional investors indicated that returns in the range of 8% to 10% were desired. Low interest rate, long-term financing (i.e., 30-year money with an interest rate below the rate available to the City of Toronto) was identified as being available from Infrastructure Ontario. In securing such financing, the covenant / guarantee of the City was stated as being required (as was stated during the interviews, such financing is available from Infrastructure Ontario to public agencies and as part of the underwriting of such a loan, the City would be required to guarantee the loan).

6. Other comments

Other comments forwarded by the development finance community included the following:

- Lenders and investors will be required to take a long-term view of the opportunity, given the size of the property and the time frames over which the Port Lands are likely to be developed. Because of the magnitude of costs needed to be front-ended versus the revenue potential available from land sales, some form of government guarantee will be required in order to secure development financing.
- The quantum of the revenue stream and where it will be sourced from will be critical to evaluating how financing can be secured. Some believed it to be impractical to expect an entity to advance billions of dollars with no guarantee of repayment (including interest only payments) for a period of time.
- Without an understanding of what needs to be financed and when, an appropriate approach to assessing how the various infrastructure works could be financed would involve dividing the lands into "manageable" blocks, evaluating their various capital requirements and devising discrete financing strategies for each component. It was felt that by looking at the property in this fashion, the magnitude of financing requirements would be made more manageable and potentially allow for prospective investors / financiers to devise financing strategies that minimize government guarantees.
- The form and structure of the project being financed was identified as being of prime importance as development finance entities consulted with typically invest in projects with stable cash flows, long-term contracts, long-term concessions, appropriate risk transfers and long-term, fixed-rate senior debt. In essence, the preferences of this group would be for projects (whether on their own or as part of some P3 structure) with availability payments from the public sector.
- For equity investors, risk transfer will play a large role in the decision-making process. Companies were concerned about how risk would be transferred, including development risk, environmental risk, construction risk, and operations risk; for project's structured through a P3, such risks should be transferred to highly-qualified, creditworthy counterparts under fixed-price, date-certain contracts.
- A number of interviewees indicated that they would likely not be prepared to invest in projects with a complex governance structure.
- Interviewees indicated that they would be supportive of any initiative to raise capital for any Port Lands project, whether as a senior lender to assist in providing a temporary solution, or as part of a broader financing consortium to place investment-grade, long-term capital market or private placement debt.

Concluding comments

Based on the feedback and commentary provided from numerous market soundings with representatives from the real estate development and development financing communities, the following summarize the key themes associated with the marketability, market constraints and financing options / preferences associated with the accelerated development of the Port Lands.

- ***Quick wins.*** Would logically follow from existing build-up areas / developments abutting the Port Lands, and specifically in the area immediately south of Lake Shore Boulevard and west of Cherry Street, along the south side of Lake Shore Boulevard, or on lands abutting existing developments where synergistic projects could be created (for example, next to the film studios). In these areas, a strong market appetite would likely exist for residential and supporting retail. Developing elsewhere within the Port Lands (i.e., within the more interior regions of the site) were characterized as has having significant risk (where future residents and users would be forced to live within a large redevelopment site with little or no amenities, thereby inhibiting their marketability). A more immediate "win" was felt to exist in the north-western quadrant of the property (East Bay Front / Lower Don Lands), where the property could be sold to a residential developer and the proceeds from the transaction used to finance improvements and help position future phases.

- ***Partnership opportunities.*** While most developers expressed a strong desire to purchase development ready sites, no developer expressed an interest in acquiring the entirety of the Port Lands (and assume all risks and obligations associated with the site). Developers would, however, be more inclined to take on development and infrastructure risk on smaller, more defined blocks including, for example, the lands directly impacted by the naturalization of the Don River. Other development partnership opportunities could involve the City / Waterfront Toronto providing property as an equity contribution and the development community taking all risk associated with servicing, marketing and developing the property (with the City / Waterfront Toronto being provided with its land price plus a portion of development profit).

- ***Financing opportunities.*** While interviewees were not able to provide specifics on project financing options and opportunities (given uncertainties regarding the amount and timing of capital requirements and their respective repayment opportunities), it was generally concluded that predicable returns coupled with corporate guarantees / covenants would be required.

  Various alternative financing procurement models were discussed, with the creation of a special purpose vehicle ("SPV") to design, build, finance, operate and maintain the in-ground infrastructure needed to service the area identified as a potential model (with the SPV recouping its investment in the water – wastewater system through user fee payments and / or supplemented with municipal support payments).

  Tax increment financing models, while viewed as an interesting opportunity, were generally dismissed as being viable, particularly in the short term. Community Revitalization Levies and Area Betterment Taxes were felt to hold more promise, particularly if they were to be applied to specific capital works projects (including, for example, the naturalization of the Don River and the reduction of flooding risk within a defined geographic area). Implementing such a tax / levy would require the specific allocation of revenues generated there from to pay for improvements made in the Port Lands area (as opposed to those taxes / fees / levies being amassed in the consolidated revenue of the City).

  It was generally concluded that lenders and investors will be required to take a long-term view of the opportunity, given the size of the property and the time frames over which the Port Lands are likely to be developed. Because of the magnitude of costs needed to be front-ended versus the revenue potential available from land sales, some form of government guarantee was also noted as likely being required in order to secure development financing.

- ***Key challenges.*** A number of key challenges were noted as impacting both the development and financing of the Port Lands, particularly in the short term. These challenges were identified as including:
    - the site is physically too large for most developers to comprehend and needs to be subdivided into discrete yet inter-related phases and sub-phases of manageable sizes;
    - the provision of adequate servicing is seen as a pre-requisite for development taking place;
    - the provision of adequate transit service is viewed as critical for development taking place
    - the provision of higher order transit is viewed as an absolute necessity for significant development to take place.
    - the enormous costs associated with addressing the Port Lands' various development limitations (including site servicing, flood proofing, remediation, title consolidation, etc.) necessitates government involvement in financing their solutions; and
    - the current regulatory and development approvals process, coupled with the current over-sight hierarchy associated with the Port Lands, were viewed as cumbersome and containing too many layers to be effective in facilitating development occurring quickly.

Because of the significant limitations associated with the site, it was suggested that some public investment in the lands would be required in order to resolve these issues and ready the lands for their eventual redevelopment. In committing such capital, it was recommended that government look to the net economic benefits of the lands and their future revitalization as a basis for public investment in infrastructure, transit, access, site remediation, etc. to kick start the development of the lands.

Appendix A

Background information package provided to interviewees and focus group attendees

www.pwc.com/ca

Market Sounding in support of the Port Lands Development Plan

Background Information for Interviewees

Context for the Project

Waterfront Toronto Corporate Mission and Objectives

Waterfront Toronto is the public advocate and steward of waterfront revitalization. Created by the Government of Canada, the Province of Ontario, and the City of Toronto, Waterfront Toronto's mission is to deliver a revitalized waterfront. Formally created in 2001, Waterfront Toronto has a 25-year mandate to transform 800 hectares (2,000 acres) of brownfield lands on the waterfront into beautiful, sustainable mixed-use communities and dynamic public spaces.

This revitalization project is the largest urban renewal project currently underway in North America and one of the largest waterfront redevelopment initiatives in the world. Waterfront Toronto is delivering a leading edge city-building model that seeks to place Toronto at the forefront of global cities in the 21st century.

A primary objective of waterfront revitalization is to leverage public investments in infrastructure to deliver key economic and social benefits that enable the City of Toronto to compete aggressively with other top tier global cities for investment, jobs and people. To do this, Waterfront Toronto brings together the most innovative approaches to sustainable development, excellence in urban design, real estate development, and advanced technology infrastructure. Further details may be obtained from Waterfront Toronto's website: www.waterfrontoronto.ca.

City of Toronto's Waterfront Development Objectives

The City of Toronto's overall vision and objectives for the redevelopment of the Port Lands are based on the City's Official Plan, which envisions a more livable city that accommodates future growth with viable transportation and green space networks.

The Central Waterfront Secondary Plan ("CWSP") provides a framework for the planning and development of the Toronto waterfront over the next 30+ years. Core principles of the CWSP include:

- removing barriers/making connections;
- building a network of spectacular waterfront parks and public spaces;
- promoting a clean and green environment; and
- creating dynamic and diverse new communities.

At the direction of Toronto City Council, Waterfront Toronto and the City of Toronto, together with Toronto and Region Conservation Authority ("TRCA"), collectively the "Project Team", are preparing a high-level Port Lands Development Plan, for consideration by Council's Executive Committee in June 2012. The Project Team has been tasked with finding opportunities to accelerate development and optimize the net economic value of Toronto's Port Lands.

Development Approach and Progress to Date

Given the large investment in public infrastructure and amenities required to facilitate waterfront revitalization, Waterfront Toronto has been taking a market-oriented phased approach to development. The initial phases of revitalization have focused primarily on the areas closest to Toronto's downtown core. Two new mixed-use neighbourhoods, the East Bayfront and the West Don Lands, are rapidly coming to life and are currently being successfully marketed.

The award-winning plans for the new lakeside community of East Bayfront, located immediately to the west of the Port Lands, will provide an exceptional quality of place. Defined by architectural design excellence with direct access to the lake, signature parks and public places, East Bayfront is being targeted as a significant new employment district attracting knowledge-based companies and institutions across the Information and Communications Technology ("ICT") and creative sectors.

To the north of the Port Lands, the West Don Lands will be one of Toronto's next great urban neighbourhoods. While the area requires significant brownfield remediation, as well as the construction of a massive 3.4-hectare (8.4-acre) landform (berm) designed to protect it and part of Toronto's financial district from Don River floodwaters during large storm events, the West Don Lands will include 6,000 new residential units, 1,200 of which will be affordable housing, at least one elementary school, and two daycare centres, all close to 9.3 hectares (23 acres) of parks and delightful public spaces. With the 2015 Pan Am Games coming to Toronto, development of the West Don Lands will be accelerated to complete the Athletes' Village and most of the infrastructure by 2015. More than half of the West Don Lands will be developed in order to host the Games.

Sustainable Development

Sustainable development is embedded as a core principle in every aspect of Waterfront Toronto's approach to waterfront revitalization. Waterfront's Toronto's goal is to create green, liveable and prosperous communities, incorporating beautiful and functional public spaces, which will enhance the environment, benefit the economy, and produce social-cultural gains in a triple bottom line approach.

Waterfront Toronto has a "Sustainability Framework" that leads to remediated brownfields, reduced energy consumption, green buildings, improved air and water quality, expanded public transit and diverse, flourishing downtown communities. In May 2009, the Lower Don Lands precinct was selected as one of 17 founding projects of the global Climate Positive Development Program, a Clinton Climate Initiative program, to support large urban developments in achieving zero carbon emissions. Waterfront Toronto has developed several implementation tools to ensure that sustainability principles are applied in planning, design and construction across all waterfront projects. The "Environmental Management Plan" is one such tool, which identifies processes and procedures to mitigate environmental effects that could result from project-related activities in the Waterfront Toronto development area, and specifies the minimum environmental standards to which all Waterfront Toronto consultants and contractors are expected to adhere. Waterfront Toronto's "Green Building Requirements" are also mandatory for all waterfront development. Achieving LEED Gold on all waterfront projects eligible for this accreditation is a key part of Waterfront Toronto's mandate.

The "Sustainability Framework" and the "Environmental Management Plan," along with the "Green Building Requirements," may be viewed at www.waterfrontoronto.ca, under the "Waterfront Vision" tab and "Our Future Is Green" sub-tab.

Design Excellence

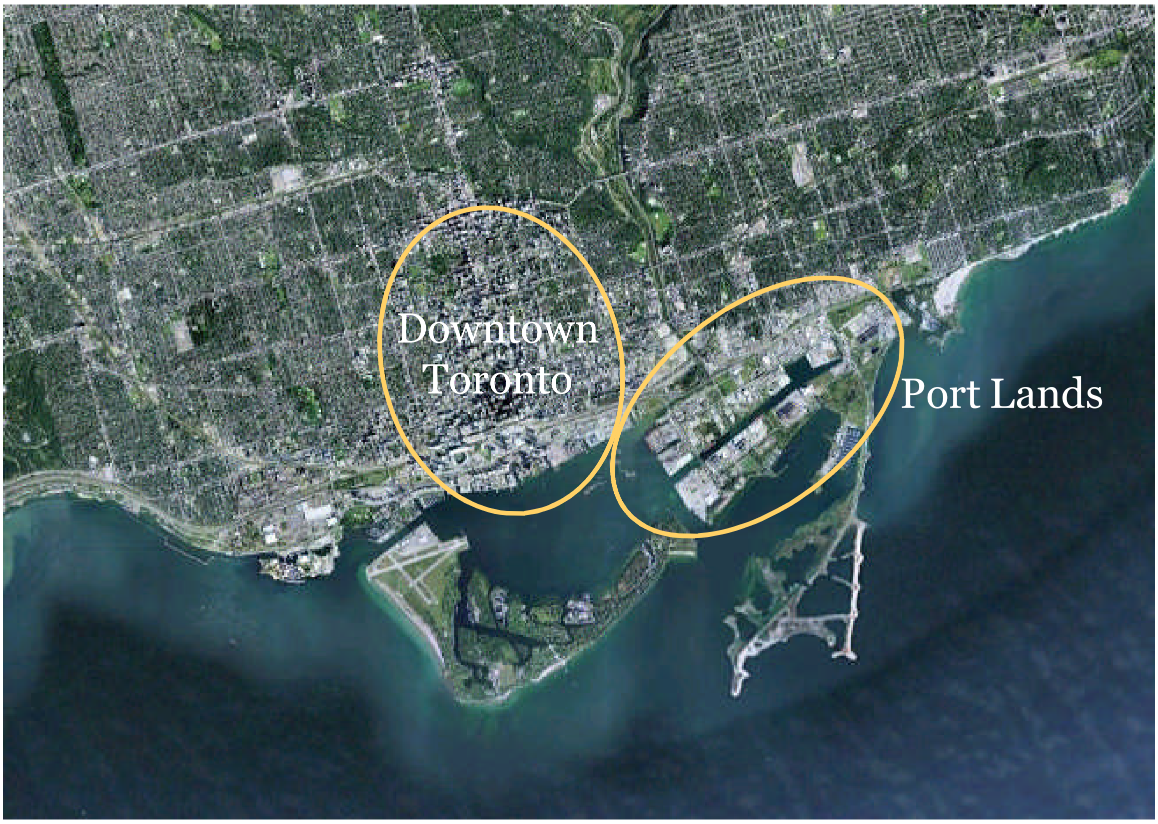
Excellence in design inspires and propels Waterfront Toronto's vision. By putting design excellence at the centre of all revitalization efforts, Waterfront Toronto strives, in everything from buildings and streets to parks and public art, to set new standards for architecture and the public realm across the city and around the world. Since its creation in 2005, Waterfront Toronto's Design Review Panel has comprised a premium cast of architects, landscape architects and other design experts across Canada. The Panel has made strides in fostering a culture of high quality design, raising the bar for builders and architects alike. It is worth noting that four of the world's top ten landscape architectural firms are currently working on Waterfront Toronto projects. Waterfront Toronto plans and designs have won numerous Canadian and international awards.

THE SITE AND THE PROJECT

The Port Lands Today

At over 400 hectares (1,000+ acres), the Port Lands are immense and, while near the City's downtown, are relatively isolated from the rest of the city. The physical, legal, environmental, financial, and political challenges of transforming such a vast parcel of land are significant.

Figure 1
Downtown Toronto and Area



The Port Lands are man-made and were created by decades of land filling what was once one of the largest wetlands on the Great Lakes. The primary use of the lands over the years has been for heavy industrial and bulk storage uses that took advantage of the port and marine shipping facilities, and left a legacy of contaminated soil and groundwater requiring extensive remediation. Today, the Port Lands accommodate a mix of commercial, industrial, open storage, and open space uses, and contain significant vacant land. Much of the Port Lands are in public ownership, but some of these public lands are subject to long-term leases.

The geotechnical quality of the soil varies, but is generally considered problematic. Being a land filled area next to the lake, the site has a high water table. Even after the West Don Lands flood protection landform is completed, much of the area will remain in the flood plain of the Don River. A significant additional investment in flood protection will be required before most of those lands can be fully developed.

Site services were introduced over the decades; however, the quality and quantity of services vary from location to location. Some areas, such as those located south of the Ship Channel do not have full municipal services. The supporting road and bridge network, originally designed to support heavy industrial uses, is not laid out to support urban intensification and remains in relatively poor condition overall. In other locations, existing infrastructure such as hydro towers and rail spurs dot the landscape, with many no longer in use. Overall, it is generally accepted that existing infrastructure will not support additional development or changes of use.

Figure 2
Toronto Port Lands Area

Figure 3
Port Lands Study Area

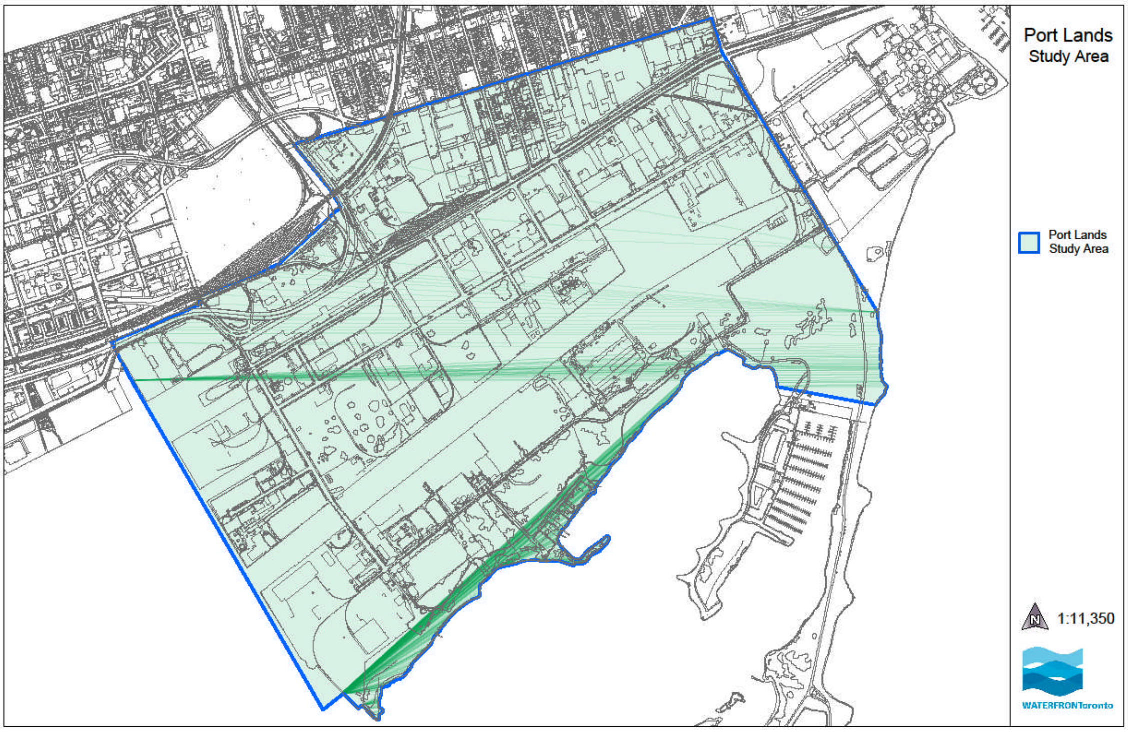
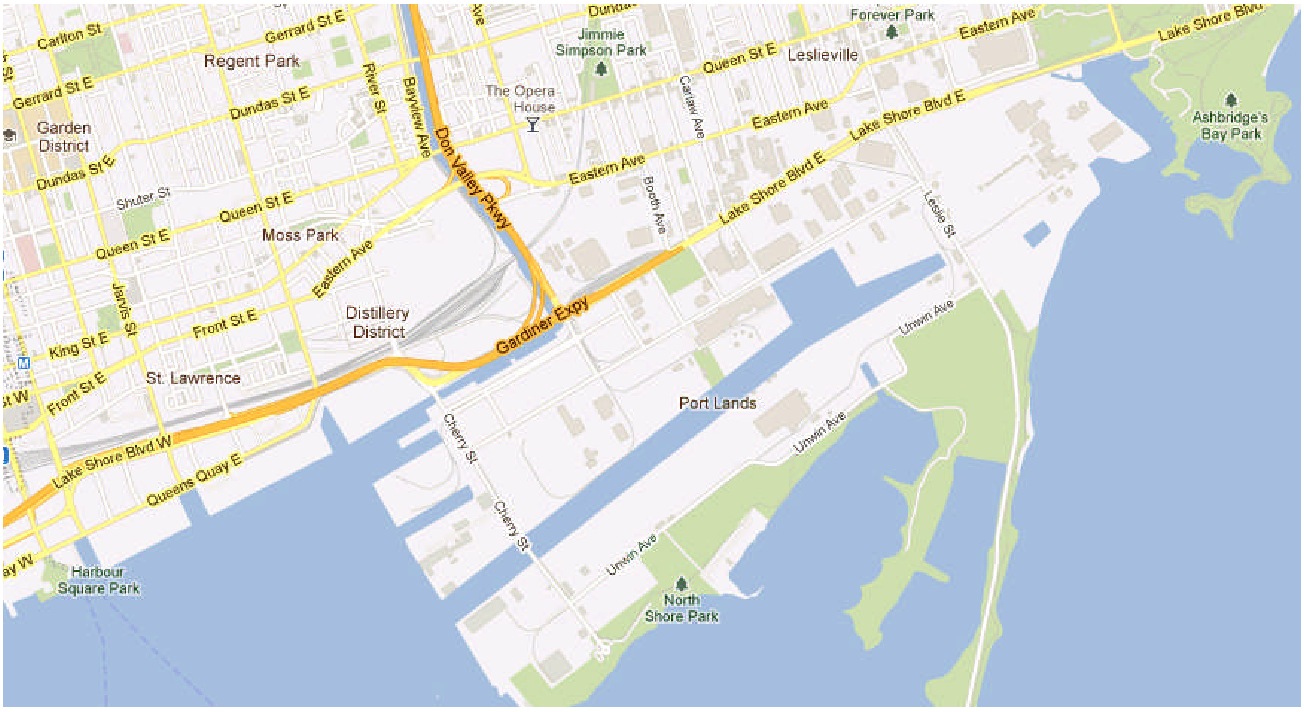


Figure 4
Port Lands Street Layout



Work by Waterfront Toronto

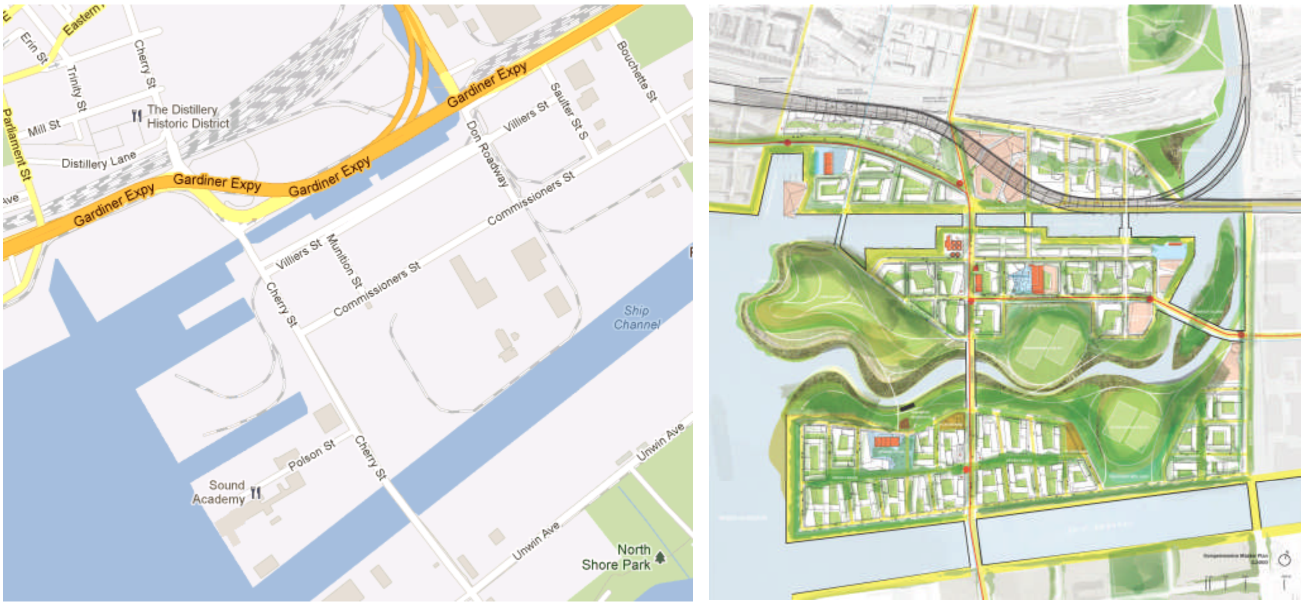
To date, Waterfront Toronto's investment in the Port Lands has consisted of smaller scale park and streetscaping projects, along with the extensive environmental assessment, planning and design work that forms the foundation for future development. The primary focus of planning efforts to date has been the "Lower Don Lands" (that sub-area of the Port Lands north of the Ship Channel and west of the Don Roadway), which are closest to the West Don Lands and the East Bayfront, where development is already underway.

The Lower Don Lands

When Waterfront Toronto was first formed, one of the priority projects mandated by its government partners was transforming the existing channelized Don River mouth into a healthier, more natural river outlet to the lake, while eliminating the flood risk posed by a regulatory storm event to several large spill zones, including a significant portion of the Port Lands. In 2005, after concluding an Environmental Assessment that addressed flood protection of the West Don Lands and adjacent downtown areas, TRCA and Waterfront Toronto turned their attention to naturalizing the mouth of the Don River and protecting the Port Lands (as well as other lands beyond) from flood risk.

In 2007, seeking common ground for several environmental assessments required for developing the Lower Don Lands, and a solution that would merge the natural and urban fabric into a green, integrated, and sustainable community, Waterfront Toronto held an international design competition. The winning plan for the Lower Don Lands, prepared by an interdisciplinary team led by Michael Van Valkenburg Associates, Inc., included an ambitious program for flood-protecting the entire Port Lands area, naturalizing the mouth of the Don River, and promoting sustainable city-building around a new open space system. The plan was crafted to take into account soil conditions and remediation, engineering requirements, and land ownership. As a result of this exercise, new EA alternatives were generated.

Figure 5
Naturalization of the Mouth of the Don River



Extensive public and stakeholder consultations were carried out, Toronto City Council endorsed the preferred alternative, and the final EA document was submitted to the Ministry of the Environment (MOE) for approval in 2010. At the same time, Council also endorsed Waterfront Toronto's framework plan and servicing infrastructure EA master plan for the Lower Don Lands, and approved amendments to the City's Central Waterfront Secondary Plan to reflect associated changes in land use and transportation.

The Don Mouth Naturalization and Flood Protection EA process was paused in 2011 to allow more time to resolve outstanding landowner objections to the preferred solution. Since then, additional concerns have been raised by the City of Toronto regarding the affordability and public finance impacts of the proposed flood protection, culminating in the recent Council direction to re-examine the EA options with a view toward accelerating flood protection and development intensification in the Port Lands.

Port Lands Development Feasibility

The planning and design work completed to date by Waterfront Toronto has focused on the Lower Don Lands. As that area could form a gateway to the rest of the Port Lands, Waterfront Toronto's analysis of the Lower Don Lands has also involved examining the potential land uses and transit, road, and servicing needs of the overall Port Lands. Some prior work has also been done on establishing the financial feasibility of developing the entire Port Lands, although planning concepts have not been developed for the areas beyond the Lower Don Lands, and infrastructure layouts have been established only at a very coarse level of detail.

Using the Lower Don Lands conceptual design and the CWSP as the foundations for analysis, a report commissioned by Waterfront Toronto in 2009 undertook to identify and allocate the environmental and infrastructure costs (for local infrastructure, Port Lands-wide "master developer" infrastructure, and the unique flood control infrastructure, i.e., the river, which also benefits other parts of the city) and to identify potential land revenues associated with revitalizing the Port Lands.

It concluded that the financial feasibility of revitalization depended on significant overall increases in market value of land in the Port Lands and on finding an alternative funding source or broader funding base for reconstruction of the river.

Soil Management and Treatment

Waterfront Toronto's sustainability objectives view soil as a resource, and mandate treatment and re-use, rather than "digging and dumping," wherever possible. In order to further this objective, Waterfront Toronto has recently entered into a memorandum of understanding with a private sector operator to establish a soil treatment facility on City-owned land on Unwin Avenue, and to provide a preferential rate for treating excavated soils from Waterfront Toronto projects.

Lake Ontario Park

Waterfront Toronto and the City of Toronto, numerous other public and agency stakeholders, and a consulting team led by Field Operations have prepared a Master Plan for the future Lake Ontario Park which includes all of the lands south of a realigned Unwin Avenue. To date, the plan has not been formally endorsed by the City of Toronto. Although funding has not yet been identified for implementation, completion of the park remains one of Waterfront Toronto's long-term objectives.

MARKET SOUNDING QUESTIONS

Questions to the Real Estate Development Community

1. Given your understanding of the Port Lands, and assuming little or no physical constraints to development taking place, what do think are the market opportunities for these lands?
   - looking for specific uses, and perhaps specific areas.
2. What type of developments / development projects would you see as likely constituting more immediate opportunities? What type of developments / development projects would you see as likely constituting more longer-term opportunities?
   - again, looking for specific uses, and perhaps specific areas.
3. If these lands were under the total control of your company, where should you start?
4. What minimum return expectations would you have for these short and longer-term opportunities?
5. What specific projects / developments / sites should be immediately focused upon to achieve these short and longer-term opportunities (including, for example, the lands next to the Film Port, development south of Unwin Avenue abutting Cherry Beach, the property located next to the Don River and the Gardiner Expressway)?
6. Do you see any specific opportunities for the development of a "strategic legacy project", whether an institution of higher learning, a casino, a museum, the headquarters of an international conglomerate, etc., and if so the conditions that would need to be in place for such developments / projects to take place?
   - Looking for things like market, competitive supply, development timing, involvement by local / senior levels of government (for financing, operations, etc.), etc.
7. Again, assuming little or no physical constraints to development, what would you see as the major hurdles to achieving any potential uses in the short term.
   - Looking for things like market, competitive supply, development timing
8. How would you, if you were developing these lands, look to mitigate against these constraints.
9. What involvement would you require from Waterfront Toronto and the City of Toronto to help mitigate against these constraints?
10. Now, assuming the various constraints that do exist (i.e., fragmented ownership with various obligations tied to the lands, servicing and infrastructure constraints, soils / environmental issues, flood plain concerns, etc.), if you were developing these lands, how would you look to mitigate against these constraints.
11. How would you suggest that Waterfront Toronto and the City of Toronto engage or partner with the development and / or development finance community to help mitigate against these constraints?
12. What role do you see the development community taking in order to help accelerate the development of the Port Lands (for example, a relationship / structure similar to that entered into between Build Toronto and Tridel re the 10 York Street lands located at York Street, Harbour Street and Lake Shore Boulevard?)
13. Do you think the development industry would commit to completing the planned river improvements at "Mouth of the Don", if these lands were to be offered to you for $1?

Questions to the Development Financing Community

1. Given that there exists some significant financial challenges in regard to the servicing and readying of lands for their future development, how would you look to finance these improvements assuming this was purely a private sector initiated, owned and managed project?

2. What lending / financing parameters would you expect for a development / project of this scale (i.e., loan-to-value ratios, coverage ratios vis-à-vis future land sales, covenants and security, guarantees, participation, rates, etc.)?

3. What investment preferences (whether debt, equity, mezzanine, investment size, return expectations, term, security requirements, exit strategy, buyout provisions, etc.) would you look to achieve?

    - How important is the governance structure that will ultimately hold / be responsible for the transaction / financing?

4. How do these parameters and preferences change given that project responsibility rests with Waterfront Toronto and the City of Toronto?

5. Do you have any experience lending or investing in bonds or other financial instruments that are secured by tax incremental ("TIF") revenues, payments in lieu of taxes ("PILT") revenues or other cash flows from real estate developments? If so, can you elaborate on the key features of these transactions, lessons learned, etc?

6. What financing vehicles, whether traditional or innovative to the Canadian marketplace, do you feel could be accessed by Waterfront Toronto and the City of Toronto to accelerate development (including TIF, PILT, local improvement districts, impact fees, joint development initiatives and P3's, etc.)?

7. What structural features would you expect to see in a TIF, PILT or other similar financing (coverage ratio, maximum term, debt service reserve accounts, level of public support / back-stop, rates, etc.)?

8. Would there be any appetite for deal structured without a public back-stop? How would you approach the debt pricing of this type of financing?

9. Do you believe a structure in line with the Hudson Yard transaction as something that would be attractive in the Canadian debt capital markets? Are there any issues that you see with the high level features of this transaction?

10. Are there any other relevant approaches that should be considered by Waterfront Toronto and the City of Toronto for the financing of the required infrastructure?

11. What role do you see the development community taking in order to accelerate the development of the Port Lands (for example, a relationship / structure similar to that entered into between Build Toronto and Tridel re the 10 York Street lands located at York Street, Harbour Street and Lake Shore Boulevard?)