



**STAFF REPORT
ACTION REQUIRED**

Approval for the Imagination, Manufacturing, Innovation, Technology (IMIT) Financial Incentive Program - 1 York Street

Date:	May 8, 2013
To:	Economic Development Committee
From:	General Manager, Economic Development and Culture
Wards:	28
Reference Number:	

SUMMARY

This report recommends approval of an application to the Imagination, Manufacturing, Innovation and Technology (IMIT) Financial Incentive Program submitted by 1 York Street Inc. (Menkes Developments Ltd. and HOOPP Realty Inc.) for a new office building to be constructed at 1 York Street. Council approval is required for IMIT projects with a construction value greater than \$150 million. This project has an estimated construction value of \$230 million and meets all eligibility criteria of the IMIT program.

RECOMMENDATIONS

The General Manager, Economic Development and Culture recommends that:

1. City Council approve the Imagination, Manufacturing, Innovation and Technology Program application submitted by 1 York Street Inc. for a new office development at 1 York Street.
2. City Council authorize the General Manager of Economic Development and Culture to negotiate and execute a Financial Incentive Agreement in a form satisfactory to the City Solicitor.

Financial Impact

IMIT incentives, often referred to as TIEGs, are funded from a portion of the Municipal Tax Increment created by the eligible new construction that would not occur "but for" the incentive. The total grant for this combined Brownfield Remediation Tax Assistance and

Development Grant application may not exceed 67% of the cumulative Municipal Tax Increment over a 12-year period.

The IMIT program provides that the financial incentive is calculated after construction has been completed and the property is reassessed by the Municipal Property Assessment Corporation (MPAC) to fully reflect the new eligible development. The resulting incentive for this project is confirmed at that time. Therefore the final incentive amount for this project and the resulting financial impact is unknown until the final assessed value is in place.

However an estimate of the post development CVA (current value assessment) can be made based on comparable developments in the area. The new assessed value would likely be between \$325 million and \$375 million. Based on this estimate, over a 10-year period the total municipal property tax received by the City on this incremental value would be approximately \$58 million. The City would retain \$23 million of this incremental municipal property tax, while \$35 million would be returned to the property owner through a series of declining annual grant payments. Starting in year eleven and onward the City would receive the full property tax.

The Brownfield Remediation Tax Assistance component of the IMIT Program would provide an additional property tax cancellation not to exceed the estimated remediation cost of \$1,000,000. The BRTA cost to the City would be reduced if the Province approves a matching education tax cancellation through the Provincial Brownfield Tax Incentive Program (BFTIP).

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

DECISION HISTORY

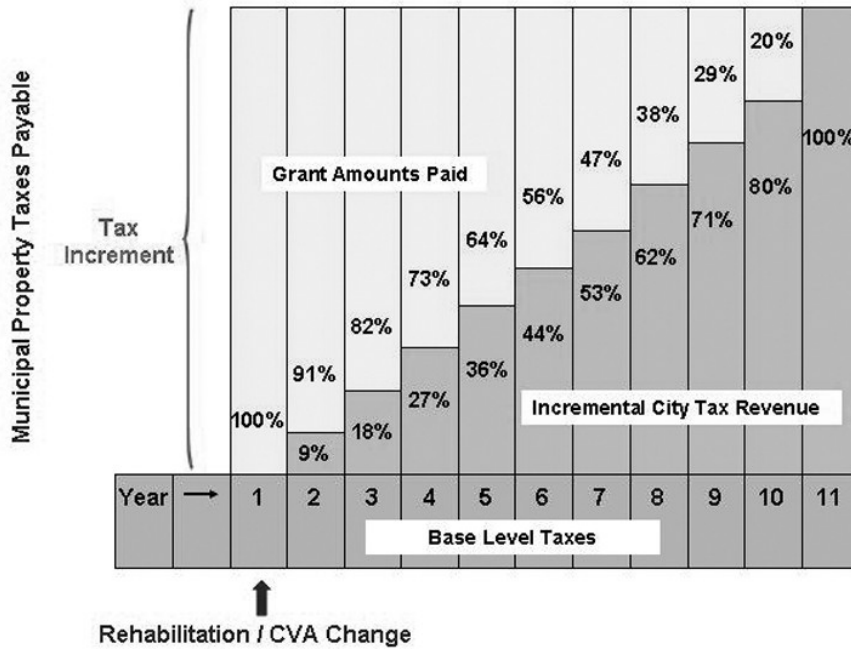
At its October 2-4, 2012 meeting, City Council adopted changes to the City-wide Community Improvement Plan (CIP) that enables the provision of financial incentives for economic development through the IMIT Program. Council's decision is at: <http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2012.PG17.5>.

ISSUE BACKGROUND

The Imagination, Manufacturing, Innovation and Technology (IMIT) and Brownfield Remediation Tax Assistance (BRTA) Property Tax Incentive Program was first approved by Council in 2008. It provides for an annual development grant and a municipal property tax cancellation for construction and remediation projects in targeted sectors and uses. These sectors and uses include not only office but biomedical, food processing, information technology, creative industries, manufacturing and others. The Program was designed to address both regional and international competitive disadvantages.

The IMIT Program provides an annual grant back over a 10 year period to the property owner based on the increase in assessed value directly attributable to the new eligible construction.

Table 1 IMIT Payment Sample



On October 4, 2012 Council approved amendments to the City-wide, Waterfront and South of Eastern Community Improvement Plans that continue the IMIT Program and require that Council approve all IMIT applications that have a total construction value of greater than \$150 million as shown on the initial IMIT application form and confirmed by the main building permit. Projects of this level of economic significance will benefit from this additional oversight.

City Council also approved an amendment to the IMIT Program that provides incentives for any Office Building with a minimum gross floor area (gfa) of 5,000 square metres that is located within 800 metres of a subway, GO train or LRT station. Sites located within the Financial District as shown on Map 6 of the Official Plan are not eligible. This amendment is expected to assist in directing new office development to within walking distance of higher ordered transit and outside of the traditional Financial District office development locations.

COMMENTS

The Application

On February 13, 2013 an IMIT application was received from One York Street Inc. (Menkes Developments Ltd. and HOOPP Realty Inc.) for the remediation of the site and construction of a new 1 million square foot, 35 storey Class A office building at 1 York Street. This office development is part of a larger mixed-use development that includes two residential towers encompassing approximately 2 million square feet of density on a two-acre site. The property is located within 800 metres of Union Station and is adjacent to the Harbourfront LRT Line and is located outside of the Financial District. The rentable area is expected to be approximately 765,000 square feet. The location, generally referred to as the "South Core District", has been the location of several recent office developments. These developments are expanding the historical "marquee" office boundaries in the downtown area.

The building will support about 4,500 jobs. This projection assumes that 50% of the office building will use an open space floor plan and that 50% will use a closed space floor plan. Most of these jobs will be in high value, high wage and knowledge based sectors. The estimated construction value of this building is \$230 million.

The construction related economic impact is estimated to provide an additional 2,691 temporary short term jobs (1564 direct jobs and 1127 indirect jobs). This would create an additional \$177 million in economic output from indirect and induced construction related activities.¹

The IMIT eligibility criteria in this instance do not require a specific sector based tenant and only address aspects of the building, the location and the type and amount of investment.

The first, and only, office tenant to sign a lease in the building to date is Healthcare of Ontario Pension Plan (HOOPP). They will be relocating from their current office as part of a planned expansion. They will be leasing approximately 132,000 square feet or 17% of the building gross floor area. They will bring approximately 600 jobs to this building increasing their current employment by 100. The IMIT incentive was a key factor in their location decision along with other factors including proximity to Union Station, the efficiency and design of the building and an enhanced ability to recruit and retain employees.

It is also noteworthy that 1 York Street Inc. is 80% owned by HOOPP Realty Inc. ("HRI"), a subsidiary of HOOPP. Notwithstanding the ownership interest in this building via its subsidiary, HOOPP went through a rigorous real estate search before finally deciding on the 1 York Street development. The search entailed a detailed analysis of their current location as well as a study of other potential buildings.

¹ SRRI Stimulus Calculation Tool- Sacramento Regional Research Institute

The IMIT incentive will be critical in recruiting additional tenants and ensuring that the development goes forward

The site at 1 York Street is currently contaminated with Arsenic, Lead and Benzo(a)pyrenes and other contaminants to the extent that the site is unable to have a Record of Site Condition entered into the Ontario's Ministry of the Environment Environmental Site Registry. The land will be fully remediated as part of the development, at a cost of approximately \$1,000,000.

The building will, as an IMIT Program requirement, meet the minimum Tier 1 requirements of the Toronto Green Standard and is expected to achieve LEED Platinum Certification. Green Standard requirements include features such as 1,000 long and short term bicycle parking spaces, the planting of new shade trees, a green roof and bird friendly window treatments.

Once constructed, as an IMIT Program requirement, tenants that occupy this building will be required to enter into a Local Employment Plan (LEP). The LEP will identify opportunities for local hiring and training and document how the applicant or property user will utilize City endorsed or sponsored employment programs to achieve this. This Local Employment Plan will span the term of the incentive and outcomes will be tracked and monitored with the ultimate objective of providing employment and training opportunities to City of Toronto residents.

Finally, the applicant will be required to enter into a Financial Incentive Agreement with the City that will outline all terms and conditions of the IMIT Program. Included in this Agreement is the ability of the City to "clawback" any incentives paid to the property owner if they default by not meeting the incentive program requirements.

Evaluation of the Application

Staff support the approval of the application for the following reasons.

1. The need for incentives

The IMIT program is based on the premise that "but for" this program the development will not occur, and that the development will yield incremental tax revenues that the City will not otherwise realize. The application meets the eligibility criteria as outlined in the CIP. Decisions to build large office buildings such as 1 York Street involve a variety of complex factors that include the IMIT incentive.

The IMIT incentive is a key factor for the 1 York Street development going forward. From the developer's perspective a certain base rent is required in order to justify the costs and risks of new construction. Thereafter, it becomes a decision by the prospective tenants as to whether or not the quality of the new space justifies the incremental base rent cost versus their current location. Beyond the base rent, tenants generally expect that the taxes and operating costs for Class A office space within the same office node will be similar. The IMIT incentive makes a material difference in the ability of a new building to be competitive with the existing office buildings or with new developments outside of

the City. There is also an increased demand for the new efficiencies and workplace design flexibility that new buildings provide. New buildings ensure the area's future as the premier business district and as a major job generator for Toronto.

Further the location of the 1 York Street development is outside of the traditional Financial District in the informally named "South Core District". This area that is south of the Gardiner Expressway and a large rail corridor had seen no significant new office development prior to the implementation of the IMIT incentive program.

The office sector plays a critical role in promoting and sustaining wealth-creating economic growth in the City. The regional Greater Toronto Area (GTA) municipalities have two primary competitive advantages over the City when attracting employment uses. The commercial and industrial tax rates in surrounding municipalities are generally lower than those in Toronto. Secondly, employment land in many areas of the GTA is abundant, and greenfield developments may be easier and more profitable than the redevelopment of existing land in Toronto. Pro formas completed as part of the City's *Long-Term Employment Land Strategy*² showed that in Toronto office development is at a financial disadvantage compared to developments in surrounding municipalities. As a result, potential jobs go to places other than Toronto and incentives are useful in retaining existing employment and in attracting new investment.

2. Supports economic development

The January 2013 Report, *Collaborating for Competitiveness: A Strategic Plan for Accelerating Economic Growth and Job Creation in Toronto*, supports not only the use of the recently renewed and modified IMIT property tax incentive program to attract new development throughout the City, but also emphasizes the need for new office development. The creation of \$400 million in net new commercial and industrial assessment is targeted for each year. Incentives support and encourage the construction of new office buildings and will assist in meeting that goal.

The City is set to realize substantial returns from the increase in tax revenues, new and retained employment and other benefits as a direct result of this development. The office sector plays an important role in promoting and sustaining wealth-creating economic growth in the City. For example, forty-eight percent of all employment in Toronto is office based. Fifty-one percent of Toronto's wealth creation is located Downtown and the Waterfront and most of that is within office buildings.³

Many companies are looking to locate in Toronto to assist them in attracting and retaining a qualified workforce. The remarkable increase in residential development along with the existing transportation infrastructure has created a new momentum for office development. It is important that the City have new office buildings that meet modern design and efficiency standards to add to the mix of available office to enhance the area's competitiveness.

² Long-Term Employment Land Strategy City of Toronto- Hemson Consulting Ltd-2007

³ Sustainable Competitive Advantage and Prosperity- Malone, Given, Parsons Ltd-2012

Financial incentives are a significant tool in facilitating business development in Toronto to help the City achieve its job growth and investment objectives. Toronto businesses operate in a global economic environment. These businesses must respond to clients and competitors on a daily basis in order to remain profitable and relevant. The many positive benefits which these companies bring to Toronto require support from the City.

3. Aligns with planning policy directions

Planning policy directions seek to promote economic development and competitiveness by providing for an appropriate mix and range of employment to meet long-term needs. This would include providing opportunities for a diversified economic base, including maintaining a range and choice of suitable sites, including office, for employment uses which support a variety of economic activities and take into account the needs of existing and future businesses.

The recently-completed study on employment uses in Toronto concluded that the City requires a renewed focus on targeting office space construction to realize future growth potential. Since the 1990's the City's rate of new office development has lagged behind the 905 region. Only recently has new office tower development in Toronto begun to make an impact on this differential.⁴ Achieving new office growth will depend upon an integral alignment of planning, transit and economic development initiatives.

An additional 20.5 million square feet of office space will be required in Toronto by 2031 to meet Provincial Growth Plan employment targets. Beyond that additional space may be required depending on emerging growth drivers such as the continued and increasing strength of the financial services and creative sectors and the concentration of residential development housing a skilled labour force downtown.⁵

More recently City Council has directed for consultation draft policies for the Official Plan that target office development in Downtown and the Centres and within walking distance of transit stations.

Other Divisions Consulted

Corporate Finance, Legal Services and City Planning staff has been consulted in the preparation of this report.

CONCLUSION

The City of Toronto must be pro-active in its efforts to achieve the goals set out in its economic development and planning strategies. Encouraging this new office development through the use of incentives is essential to meeting those goals. The 1 York Street office project is a key new office development that represents a significant investment that will support thousands of jobs.

⁴ Sustainable Competitive Advantage and Prosperity- Malone, Given, Parsons Ltd-2012

⁵ Planning for a Strong and Diverse Economy-City of Toronto Staff Report- 2012

The proposed incentive, based on the IMIT program that was recently renewed and modified by City Council and is further supported by Council's Collaborating for Competitiveness Strategic Plan, is an essential component in allowing this project to go forward. Approval of this application will send an important signal to both developers and prospective tenants that the City encourages and supports new office development. Finally, this project meets all eligibility criteria of the IMIT Program and should receive full IMIT property tax incentive support.

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