



**STAFF REPORT
ACTION REQUIRED**

Approval for the Imagination, Manufacturing, Innovation, Technology (IMIT) Financial Incentive Program – 100 Adelaide Street West

Date:	October 15, 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 Oxford Properties Group Inc for a new office building to be constructed at 100 Adelaide Street West. Council approval is required for IMIT projects with a construction value greater than \$150 million. This project has an estimated construction value of \$270 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 Oxford Properties Group Inc. for a new office development at 100 Adelaide Street West.
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, referred to as TIEGs, (Tax Increment Equivalent Grants) 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 Development Grant application may not exceed 60% of the cumulative Municipal Tax Increment over a 10-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 the 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.

An estimate of the post development CVA (current value assessment) can be made based on comparable developments in the area. The new assessed value (CVA) of the space attributable to the eligible use (being 46% of the building leaseable area) may be in the order of \$200 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 \$33 million. The City would retain \$13 million of this incremental municipal property tax, while \$20 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 Deputy City Manager and Chief Financial Officer has reviewed this report and agrees with the financial impact information.

DECISION HISTORY

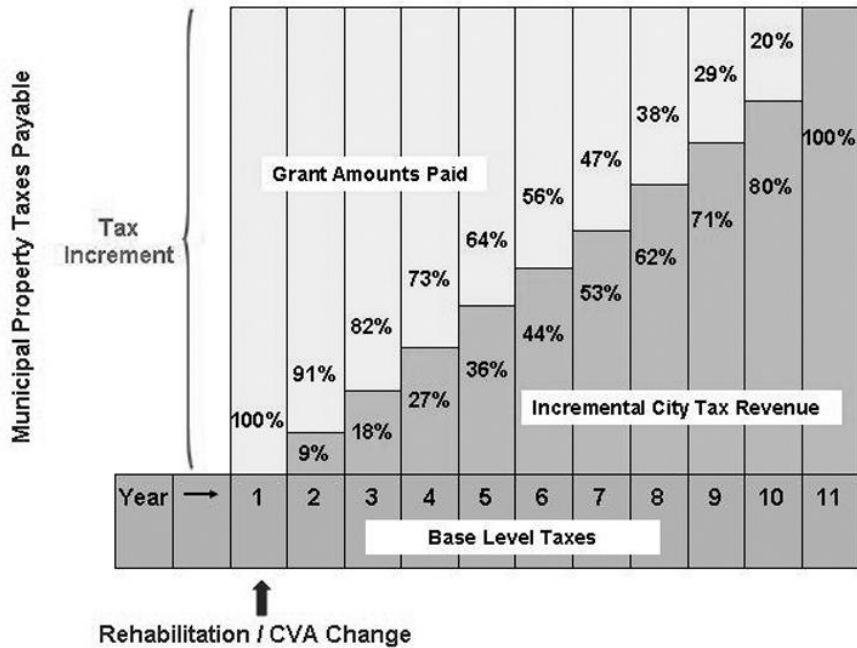
At its October 2-4, 2012 meeting, City Council adopted changes to the City-wide Community Improvement Plan (CIP) that enables the provision of financial incentives for economic development through the IMIT Program. Council's decision is at: <http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2012.PG17.5>.

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 Example



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. .

COMMENTS

The Application

On May 22, 2013 an IMIT application was received from Oxford Properties Group Inc for construction of a new 906,390 square foot, 40 storey Class A office building at 100 Adelaide Street West. This building is the third phase of the Richmond Adelaide Centre and will be connected to the PATH system. The property is located within the Financial District as shown on Map 6 of the City of Toronto Official Plan. The leaseable area is approximately 897,840 square feet. The estimated construction value of this building is \$270 million.

Office buildings undergoing construction within the boundaries of the Financial District are held to the most restrictive eligibility criteria of the IMIT Program. Only those buildings that meet all other IMIT eligibility requirements and that have tenants meeting the Corporate Headquarters eligibility criteria will qualify and then only the gross floor area (gfa) occupied by that eligible use will qualify. In other words the incentive will be apportioned from the total assessment/gfa of the building. The eligible tenants have affirmed that they meet the Corporate Headquarters criteria as defined in the CIP.

Corporate Headquarters are held to the following criteria:

Office space that serves as the operational and administrative centre for a company and which must demonstrate the following characteristics:

- a declaration in corporate statements that it is a Global Headquarters, or Canadian Headquarters;
- represents the Command & Control Centre for corporate activities within a prescribed national or international geography;
- represents the Strategic Planning Centre for corporate activities within a prescribed national or international geography;
- represents the principal office location for the Chief Executive Officer and senior executive team;
- occupies a minimum floorspace of 10,000 m² (107,639 sf);
- maintains a minimum employment of 300 persons.

There are two eligible Corporate Headquarters tenants for this development:

The TSX Group will occupy 157,418 sf with approximately 2,000 employees once the building is complete in 2017. They will be relocating their offices from another location within the Financial District. This long term lease will solidify their City of Toronto presence in a new more efficient office space. The TSX group operates one of the largest stock exchanges in North America. In addition to conventional securities, the exchange lists various exchange-traded funds, split share corporations, income trusts and investment funds. It is the leader in the mining and oil & gas sector; more mining and oil & gas companies are listed on TSX than any other exchange in the world.

Ernst & Young will occupy 254,181 sf with approximately 2,400 employees once the building is complete in 2017. They will be consolidating three GTA locations including two within the Financial District and one located outside of the City of Toronto. This long term lease will solidify their City of Toronto presence in a new more efficient office space. Ernst & Young LLP (Canada) offers assurance, taxation, auditing, transaction support, and financial advisory services. Ernst & Young caters to the energy, chemicals, financial services, technology, utilities, industrial products, real estate, hospitality, construction, consumer products, technology, communication, and entertainment sectors.

Both tenants are part of the important financial services sector. Toronto is the third largest financial services centre in North America after NYC and Chicago and the fastest growing in employment. Financial services are a significant contributor to the Toronto region economy employing approximately 8% of the region's workforce of 1.5 million. The sector leads all other service-producing sectors, contributing roughly 14 per cent to Toronto's Gross Domestic Product. Including direct and indirect impacts, the sector contributes roughly 21% of the region's GDP.¹

¹ Toronto Financial Services Alliance- Toronto Financial Services Sector Overview-2011

The IMIT incentive was a key factor in the location decision for both tenants. Both tenants took a regional approach to their office search and considered properties outside of the City of Toronto within the Greater Toronto Area. Other factors taken into account during their search included the efficiency and design of the building and an enhanced ability to recruit and retain employees. The ability to sign these tenants enabled the Oxford Properties Group Inc to proceed with construction of the tower.

The economic impact from the \$270 million in construction related investment is estimated to provide an additional \$207 million in economic output from indirect and induced activities along with an additional 3,159 temporary short term jobs (1,836 direct jobs and 1,323 indirect jobs).²

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 378 long and short term bicycle parking spaces, a green roof and bird friendly window treatments.

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 100 Adelaide Street West involve a variety of complex factors that include the IMIT incentive.

The IMIT incentive is a key factor for the 100 Adelaide Street West 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

² SRRI Stimulus Calculation Tool- Sacramento Regional Research Institute

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.

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*³ 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 in the Waterfront area and most of that is within office buildings.⁴

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 space to enhance the area's competitiveness.

³ Long-Term Employment Land Strategy City of Toronto- Hemson Consulting Ltd-2007

⁴ 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 includes 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.⁵ 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.⁶

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 100 Adelaide Street West office project is a key new office development that represents a significant investment that will support thousands of jobs.

⁵ Sustainable Competitive Advantage and Prosperity- Malone,Given,Parsons Ltd-2012

⁶ 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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SIGNATURE

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