

Attachment 2

REVIEW OF APPLICATIONS UNDER THE IMIT PROGRAM



HEMSON Consulting Ltd.

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EXECUTIVE SUMMARY

The City of Toronto's Imagination, Manufacturing, Innovation, Technology (IMIT) Program provides property tax grants to eligible non-residential landowners to support new building construction, and to provide new space at a lower cost to tenants, in targeted sectors and areas across the City. Under the City's current Community Improvement Plan (CIP) by-law for the IMIT Program, where the construction value exceeds \$150 million any application for the grants requires City Council approval. The City has recently received eight such applications and wishes to bring these submissions forward for Council's consideration in July 2018.

Hemson Consulting Ltd. was retained to undertake a review and analysis of each of the eight applications, and provide recommendations for City staff and Council's consideration. This report summarizes the results of the application reviews. The reviews were framed by the following key considerations:

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

It is noted that the analyses and recommendations of this report assume that prevailing market conditions will continue. The report also assumes continuance the City's current development charges exemptions for non-residential development. Should these conditions change substantially in the future, a re-examination of the recommendations may be warranted.

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

Address & Description	Performance under Evaluation Criteria						Recommendation
	CIP Objectives	"But For" Test	Land Use Planning Objectives	Infrastructure Benefits	Other Fiscal Considerations	Market Context	
440 Front Street "The Well" 1 million sq.ft. office space across 3 buildings	-Employment growth -Brownfield remediation -Improvement to underutilized space	Grants may be a deciding factor	Will help to achieve balance between residential and non-res. development in King-Spadina	-Two public parks & one privately owned park space (POPS) -Child care facility -Public art -GO connection	Total grants approx. \$40M vs. net new City tax revenues of \$35M over grant period	Strong; but market favours residential development	IMIT grant recommended
100 Queens Quay E. 600,000 sq.ft. office building to include new LCBO HQ	-Employment growth -Brownfield remediation -Improvement to underutilized space	Grants are not likely to be a deciding factor	Falls within proposed expanded Financial District boundaries; supports Financial District planning objectives	-Significant public realm benefits associated with "Sugar Wharf" development incl. one-hectare park	Total grants approx. \$28M vs. net new City tax revenues of \$17M over grant period	Strong office market, though anticipated rents are lower than central Financial District	IMIT grant not recommended
16 York St. 33-storey, 900,000 sq.ft. office tower	-Employment and economic growth -Improvement to underutilized space	Grants are not likely to be a deciding factor	Supportive of Financial District land use objectives	-PATH connection -Streetscaping -Courtyard POPS -Public art	Total grants approx. \$40M vs. net new City tax revenues of \$34M over grant period	Very strong office market	IMIT grant not recommended
30 Bay St. & 60 Harbour St. "The HUB" 60-storey, 1.5 million sq.ft. office tower	-Employment and economic growth -Improvement to underutilized space	Grants are not likely to be a deciding factor	Supportive of Financial District land use objectives	-Public realm improvements below Gardiner -PATH expansion -Potential POPS	Total grants approx. \$93M vs. net new City tax revenues of \$77M over grant period	Very strong office market	IMIT grant not recommended
56 Yonge St. "Commerce Court 3" 64-storey, 2 million sq.ft. office tower	-Employment and economic growth	Grants are not likely to be a deciding factor	Supportive of Financial District land use objectives	-Various public realm improvements -PATH improvement -King subway connection	Total grants approx. \$110M vs. net new City tax revenues of \$91M over grant period	Very strong office market	IMIT grant not recommended
40 Temperance St. "Bay Adelaide North" 32-storey, 855,000 sq.ft. office building	-Employment and economic growth	Grants are not likely to be a deciding factor	Supportive of Financial District land use objectives	-Urban plaza -Improvements to Cloud Gardens park -Streetscaping	Total grants approx. \$46M vs. net new City tax revenues of \$38M over grant period	Very strong office market	IMIT grant not recommended
160 Front St. 50-storey, 1.3 million sq.ft. office tower	-Employment and economic growth	Grants are not likely to be a deciding factor	Supportive of Financial District land use objectives	-PATH connection -Streetscape improvements -Public art	Total grants approx. \$47M vs. net new City tax revenues of \$39M over grant period	Very strong office market	IMIT grant not recommended
1755 Steeles Ave. W. Sanofi Pasteur 170,000 sq.ft. manufacturing facility	Supports many CIP objectives related to preservation and promotion of employment areas	N/A	Strongly supportive; involves conversion of residentially zoned lands for manufacturing use	-Public realm and streetscaping	Grants expected to total approximately \$15 million	Manufacturing sector is strengthening, but challenges remain	IMIT grant recommended

I INTRODUCTION AND BACKGROUND

The following provides background and context related to the IMIT Program and the review of the eight applications under consideration.

A. THE IMIT PROGRAM AND CURRENT CIP BY-LAWS

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

Program eligibility is based on targeted employment sectors and land uses. The incentive program provides an annual Tax Increment Equivalent Grant (TIEG), typically capped at 60 per cent of the cumulative municipal tax increment increase for the new development over a 10-year period. The IMIT program also includes the Brownfield Remediation Tax Assistance (BRTA) program, which provides an incentive to support the remediation of contaminated land associated with development projects for employment uses (excluding retail uses).

As the IMIT grants are provided on a declining basis over the 10-year period, they help to offset some of the initial costs associated with operation of new buildings. It is understood that for tenant-occupied buildings, including most offices, the tax incentives are passed directly through to tenants, resulting in lower gross rents payable. For office building owners and developers, the grants serve as a useful tool in helping to secure tenants.

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

relevant CIP by-law.¹ It is noted that the CIP by-laws do not include any provisions for the award of partial IMIT grants.

B. 2017 IMIT PROGRAM REVIEW

In the decade since the IMIT Program was started, the City of Toronto's economic climate has experienced significant change. In particular, the City's core has become the focal point for new office development in the GTA. A review of the IMIT Program was undertaken in 2017 to evaluate the program's performance to date and recommend refinements to ensure that the program continues to meet its objectives within the current market context. This review has led to a number of proposed changes to the IMIT program, including but not limited to:

- Repeal of the three CIP by-laws and enactment of a single CIP by-law to simplify the program;
- Elimination of office eligibility within the City's proposed expanded Financial District, as per the recently Council-adopted Downtown Plan, with the exception of those deemed to be Transformative Projects under the by-law;
- Implementation of a sector-based enhanced grant for certain eligible sectors, including Manufacturing; and
- Financial cap of \$30 million on individual incentive approvals, excluding Transformative Projects and the BRTA portion.

It is noted that as a new CIP by-law has yet to come into force, the applications considered in this report are subject to the previous program eligibility criteria.

C. APPLICATIONS FOR REVIEW

The City has recently received eight applications for IMIT grants each involving a construction value of over \$150 million. The applications involve:

¹ For applications under the \$150 million construction value threshold, grant approval decisions fall within the authority of the City's General Manager of Economic Development & Culture.

- Six office development projects located within the proposed expanded boundary of the Financial District;
- One office development project located within the King-Spadina area of the City's Downtown; and
- One manufacturing facility project located on Steeles Avenue West.

In order to assist Council in its decision-making process, the City has requested Hemson to review these applications within the context of the objectives and intent of the current City-wide CIP By-law, broader City objectives, and the current and projected market context. Each of the applications meets the basic eligibility requirements as set out by the CIP by-law.

D. REPORT STRUCTURE

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

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

Section III summarizes the results of the review of each of the eight applications, along with recommendations and suggestions.

Section IV concludes the report with a summary of general findings and recommendations.

II KEY CONSIDERATIONS

This section provides a review of the key considerations which formed the basis of the evaluation of each IMIT application. The evaluation of each application against these key considerations is set out in Section III.

A. POLICY AND PLANNING CONTEXT

The City's Community Improvement Plan (CIP) by-laws are guided by provincial statute, the *Planning Act*, and the City's Official Plan and secondary plan policies.

1. IMIT Program CIP By-law Objectives

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

- Help Toronto meet its employment targets as per the City's Official Plan and the Province's *Growth Plan for the Greater Golden Horseshoe*;
- Encourage intensification of employment areas through expansion and new development;
- Promote economic development and competitiveness with an appropriate mix and range of employment, opportunities for a diversified economic base, protection and preservation of employment areas for current and future use, and necessary infrastructure to support current and projected needs;
- Support the remediation of contaminated sites for future employment use;
- Support diverse employment areas that can adapt to changing economic trends;
- Enhance Employment Districts to ensure they are attractive and function well by revitalizing those which may be experiencing decline, promoting the distinctive character or specialized function of Employment Districts, facilitating the development of vacant lands, and creating comfortable streets, parks and open spaces, and landscaped streetscapes;
- Encourage key clusters or economic activity;
- Protect employment land for employment uses;

- Promote development of key sectors; and
- Improve the built form and physical character of underutilized spaces.

Each application was reviewed in the context of these objectives.

2. The “But For” Test

Consistent with provincial regulations, the IMIT Program is intended to operate under the general premise that “but for” the grants, the investment would not occur. Hence, the grants are notionally being paid from tax revenue that the City would otherwise not receive. Notwithstanding this requirement, there is no universally accepted “but for” test and many municipalities are tasked with determining methods of evaluating development projects in this context.

For the purposes of this review, the “but for” test has been considered in a broader market context in addition to an individual project basis. A strong market would indicate that irrespective of whether an individual project proceeds, there is sufficient demand that the City will see growth in new space in future years.

For the individual assessments, costs and revenues were evaluated without the IMIT grants in order to determine the potential impacts of the grants on development viability, as well as the overall performance of the project against typical development industry targets. In order to perform these analyses, access to sensitive financial details about each project was essential. The applicants provided information regarding the projects including estimated capital costs, anticipated revenues and expenses and, in certain cases, their own pro forma analyses related to the projects. Details of this type are highly sensitive and were provided on a confidential basis.

Typically, IMIT grants are passed directly onto tenants. For the purposes of this review, the “but for” financial analyses assume that in the absence of IMIT grants, a notionally lower net rent would be charged by the owner in order to secure tenants. Again, it is important to note that any comments regarding development viability and the impact of the IMIT grants included in this report are general in nature due to the confidential nature of the data provided.

It is noted that the rent-based analyses were undertaken for the seven office development projects only; the review of the Sanofi Pasteur Limited did not involve detailed financial analyses due to the unique nature of the project as an owner-occupied manufacturing facility.

3. Land Use Planning Objectives

Non-residential development is essential to the fiscal health and vitality of the City. As such, Toronto is actively working to encourage a variety of non-residential

development and employment through various policy initiatives. The IMIT applications were reviewed within this land use planning context.

Of particular relevance to this review process is the City's recent TOcore initiative which led to Council adoption of a new Downtown Plan (OPA 406) in May 2018. The Downtown Plan recognizes that in certain areas of the City, significant residential development pressures exist and that non-residential development is not occurring to the same extent. It introduced a number of initiatives to strengthen Official Plan policies regarding non-residential development and employment growth in the City's core, including:

- A requirement that at least 50% of any GFA above the as-of-right permissions be non-residential GFA within the King-Spadina and King-Parliament areas. This policy is intended to support a balance between residential and non-residential growth in these areas; and
- A recommended expansion to the boundaries of the Financial District to include the South Core area along with expansions to Church Street in the east and John Street in the west. This policy supports continued employment growth in the core by recognizing non-residential development as a priority within this expanded area.

Additionally, in accordance with the provisions of OPA 231 the City is requiring the replacement and retention of office space in new mixed use developments City-wide. This requirement is accompanied by planning incentives include reduced parking requirements, density calculation exemptions, and priority application processing, and is intended to prevent the loss of employment to residential development.

Finally, City planning policies recognize the importance of preserving the City's Employment Districts and the manufacturing sector. The City's Official Plan recognizes that conversion of Employment Districts to other land uses, such as residential development, results in a loss of economic activity that is difficult to regain. City planning policies are structured to protect these employment uses, as well as support growth of key economic clusters in strategic locations.

4. Infrastructure Benefits to the City

The review gave consideration to any broader benefits that the development is expected to bring to the surrounding community and City at the cost of the proponent. For example, certain development projects bring new publicly accessible open space, transportation linkages, and other public realm improvements or public amenities which may not have otherwise occurred.

5. Other Fiscal Considerations

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

It is important to note that the City continues to exempt all industrial and other above ground floor non-residential development from the payment of development charges. In the scale of the development projects considered in this report, this exemption represents substantial savings to the development industry and an equivalently large amount of foregone revenue for the City.

B. MARKET CONTEXT

As part of the 2017 IMIT Program Review, a detailed analysis of the market context was undertaken across various locations in the City and across various employment sectors. It was found that employment growth, specifically in the Downtown core, has improved dramatically since the IMIT Program was introduced in 2008.

The 2017 Toronto Employment Survey shows that overall, this trend is continuing: over the 2016-2017 period the City experienced its highest annual employment growth rate in nearly two decades at 3.9%, with total employment now reaching approximately 1.52 million jobs. Half of this employment growth is represented by the office category.

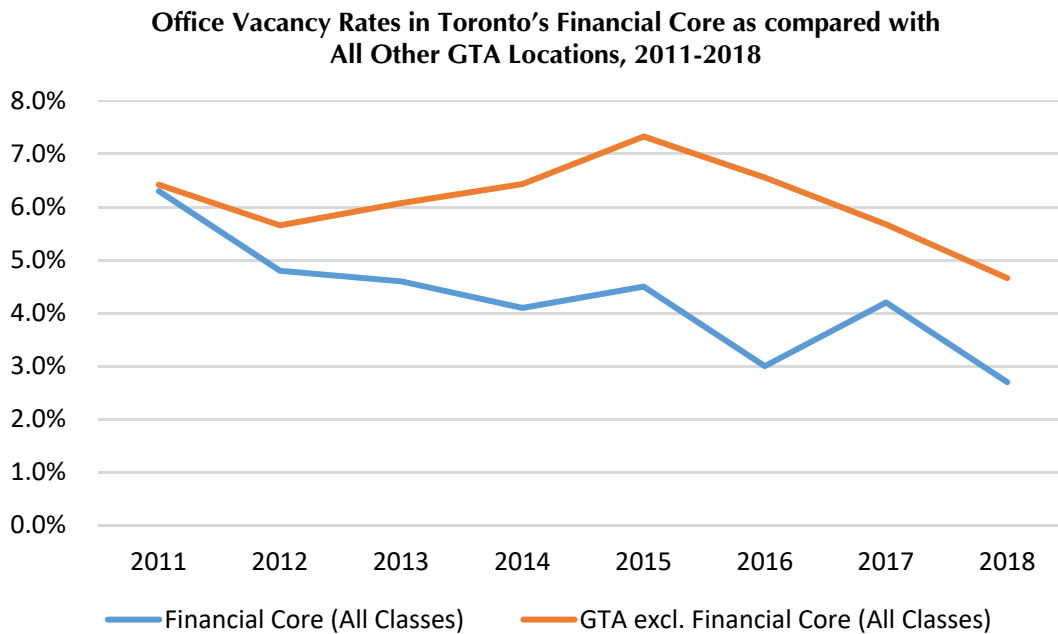
Each of the IMIT applications was reviewed against its current and projected market context. Key market considerations relevant to the applications are described below, including the findings of the 2017 IMIT Program Review as well as more recently available data.

1. The Office Market in Toronto's Financial Core is Very Strong

Over the past several years, Toronto's financial core has become a focal point for employment growth. Office vacancy rates in this area are at a historical low, despite large amounts of office space supply being added to the market over recent years. Reportedly the rates are among the lowest in all major North American markets. The South Core area, located immediately south of the pre-2018 boundaries of the Financial District (as per the 2002 Official Plan), has been transformed from a largely vacant area cut off from the City by the railway tracks, to a vibrant mixed use community anchored by many large office developments and well-connected to Union Station, PATH, and many other important amenities.

Like many major cities, Toronto has seen increasing demand for new, centrally located office buildings which offer flexible work spaces, efficient design features, and other amenities which contribute to significant cost efficiencies while helping to attract talented workers. Much of this has been driven by growth in the millennial work force, as well as new growth in the City’s technology sector. At the same time, the City and Province are planning a number of major transit projects which will further improve connectivity to the core and make this area increasingly attractive for office development. These market conditions and considerations led to the 2017 IMIT Program Review direction to scale back IMIT grants for office development within the expanded Financial District.

The chart below displays recent (2011 to 2018) office vacancy rates trends in Toronto’s financial core, as compared with the broader GTA excluding the financial core. The declining trend in financial core office vacancy rates is apparent, with the lowest vacancy rate recorded in the first quarter of 2018 at 2.7%. By comparison, vacancy rates have only recently dropped below the 5.0% mark in the broader GTA. This is despite the supply in the financial core increasing by 9.2% over this time period, compared with growth of 6.6% outside of the financial core.



Source: *GTA Office Statistics, Colliers International*

These trends are also reflected in increasing rents: data from Colliers International indicates that over the same time period, average net asking rents for Class ‘AAA’ class office buildings within the financial core have increased by approximately 27%.

2. Toward the Periphery of the Downtown, the Office Market is Not Yet Well Established

Office development at the periphery of the City's Downtown faces unique challenges. Despite very low office vacancy rates, due to a very strong residential market these areas face significant residential development pressures. Further, without direct access to Union Station and subway routes, rents are typically lower in these areas and securing tenants can be more of a challenge than in the Financial District.

In recent years the City has been challenged in achieving a balance of non-residential development, particularly in areas such as King-Spadina and King-Parliament. Recent land use policy changes have been designed to help achieve this balance, in combination with continued support from the IMIT Program where appropriate.

3. The Manufacturing Sector is Strengthening, But Continues to Face Challenges

The manufacturing sector is a valued component of Toronto's economy. However, it faces a number of financial challenges as many neighbouring municipalities offer lower tax rates and land costs, and the City also competes internationally for manufacturing establishments. Locational decisions for businesses in this sector tend to be highly sensitive to financial factors.

Following several years of decline in manufacturing establishments and employment, the City has experienced recent growth: the 2017 Toronto Employment Survey found a 6.7% increase in manufacturing sector employment as well as a 1.4% increase in the number of manufacturing establishments over the 2016-2017 period. This is attributed to factors such as competitive corporate tax rates, a lower Canadian dollar, and decreasing transportation costs. Despite this recent growth, however, employment in Toronto's manufacturing sector has still experienced a significant overall decline of over 11% from 2007 levels. The IMIT Program continues to be helpful in retaining employment and encouraging job growth in this sector.

III ANALYSIS OF IMIT APPLICATIONS

This Section presents an analysis of each of the eight IMIT applications against the key considerations described in Section II. These analyses involved a review of all relevant application details and financial information provided by the applicant. Telephone interviews were held with applicants where additional information or clarification was required. Each analysis concludes with a recommendation for the City's consideration.

A. 440 FRONT STREET

Approximately one million square feet of office space is proposed across three office buildings as part of the mixed use development "The Well". The site of the development formerly served as the Globe and Mail headquarters.

1. IMIT Program CIP By-law Objectives

This development project supports a number of the CIP's objectives as follows:

- It will contribute to significant employment growth and intensification, accommodating an estimated 8,000 jobs;
- It involves the remediation of a brownfield site; and
- It will improve the built form and physical character of underutilized spaces.

2. The "But For" Test

Through standardized financial analysis, the IMIT grants appear to impact development viability at a scale that may influence project outcomes. The financial tests were considered within the context of the high residential development pressures at this location.

3. Land Use Planning Objectives

This project will introduce a significant amount of new office space to the King-Spadina neighbourhood, which will help to meet the objective of the City's Downtown Plan of achieving a balance between residential and non-residential development in this area.

4. Infrastructure Benefits to the City

As part of “The Well”, a broader mixed-use development, this project will be associated with a number of significant investments in public infrastructure including two new parks and one Privately-Owned Publicly Accessible Space (POPS), a child care facility, public art, an underground connection to the future adjacent GO station, and improvements to the Wellington Street Watermain.

5. Other Fiscal Considerations

It is estimated that the IMIT grant amounts for this project, including Development Grants and BRTA grants, would be in the order of \$40 million. However, at the same time the City would receive approximately \$35 million in net new property tax revenue over the estimated 11-year grant period. Thereafter the development will continue to generate an estimated \$8 million in annual City property tax revenues.

6. Market Context

While office vacancy rates at this location are very low, market factors at this location tend to favour residential development while market rents for office space are lower than in the central Financial District. This component of The Well will help the City to achieve a balance between residential and non-residential development.

7. Recommendation

It is recommended that IMIT grants be awarded to this development project due to the significant residential development pressures in this area as well as its potential to advance the City’s land use planning objectives.

B. 100 QUEENS QUAY EAST

This project will serve as the new headquarters location for the LCBO along with a flagship LCBO retail store. As well there will be approximately 400,000 square feet of additional office space. The site was acquired from the Province through a public bidding process. As part of the same development, 5,000 residential units and a new public park are proposed.

1. IMIT Program CIP By-law Objectives

This development project supports a number of the CIP’s objectives as follows:

- It will contribute to employment growth, accommodating an estimated 4,000 jobs in addition to the replacement of the existing LCBO headquarters;
- It involves the remediation of a brownfield site; and

- It will improve the built form and physical character of underutilized spaces.

2. The “But For” Test

Standardized financial analyses indicated that the grants are not likely to be a deciding factor in development decisions. It is important to note that the new LCBO headquarters component of the project was a requirement of the Province’s RFP and thus was a known “pre-lease” factor in the purchase of the site. As such, this portion of the development would likely proceed regardless of whether IMIT grants are awarded. For these reasons the factors required to satisfy the “but for” test are not evident.

3. Land Use Planning Objectives

The site is located within the boundaries of the proposed expanded Financial District. The City aims to encourage the development of prestige commercial office buildings within the Financial District, including its proposed expanded boundaries. This development project is supportive of these principles.

4. Infrastructure Benefits to the City

As part of the broader mixed-use “Sugar Wharf” redevelopment project, this project will be associated with a number of public investments. These include a new one-hectare park, a school and daycare, affordable housing units, an improved street grid with new transportation linkages between the downtown core and the waterfront, streetscape improvements, significant investments in public art, improvements to the Jack Layton Ferry Terminal, and an extension of the PATH network to the building. In addition to these community benefits, the proponent is working to minimize the environmental impacts of the development and is targeting LEED Platinum certification.

5. Other Fiscal Considerations

Total IMIT grant amounts are estimated at \$28 million for the entire building. These amounts include estimated Development Grants as well as anticipated BRTA grants. The project will also bring significant new annual property tax revenue to the City, though it should be considered that the project likely would have proceeded without the grants.

6. Market Context

The office market at this location, within the proposed expanded boundaries of the Financial District, is strong. The site benefits from the LCBO as an anchor tenant, as well as the recent and ongoing revitalization of adjacent waterfront properties, particularly within the East Bayfront.

7. Recommendation

It is not recommended that Development Grants under the IMIT Program be awarded to this development project. While the project will play an important role in revitalizing the waterfront, it seems that it would likely proceed in a similar manner without the grants, in part due to the secure presence of the LCBO headquarters and flagship store. Further, it is of note that the site falls within the proposed expanded boundaries of the Financial District, and as a result would not be considered eligible for grants under the future CIP by-law.

While Development Grants are not recommended, the project would likely be eligible for BRTA grants to offset any remaining costs of remediation. It is understood that the BRTA grants would be equivalent to up to 100% of the municipal tax increment over a period of up to three years following construction; these grants would likely be sufficient to cover the full costs incurred by the applicant for remediation of the development site.

C. 16 YORK STREET

A 33 storey office tower is proposed within the City's South Core, containing a total of nearly 900,000 square feet of office space.

1. IMIT Program CIP By-law Objectives

This development project supports the following CIP objectives:

- It will contribute to employment growth, accommodating an estimated 4,000 jobs in addition to the relocation of the First National headquarters;
- It will further grow the cluster of economic activity in the South Core; and
- It will improve the built form and physical character of underutilized spaces.

2. The "But For" Test

Financial analysis indicates that the IMIT grants are not likely to be a determinative factor in project outcomes. It is of note that this project has progressed very quickly relative to other large office developments, and in advance of an IMIT application being made. The strong office market, and particularly given this location as a prime, vacant site directly connected to Union Station, indicates that this project would likely proceed without the grants.

3. Land Use Planning Objectives

The development site is located within Toronto's Financial District. The development project supports the City's objective of promoting non-residential development, and in particular landmark office buildings, in this location.

4. Infrastructure Benefits to the City

The project will include a new PATH connection, streetscape and landscape improvements, a courtyard POPS, and significant investments in public art.

5. Other Fiscal Considerations

IMIT grants are estimated to be in the order of \$40 million for this development. The City would receive an estimated \$34 million in net new property tax revenue over the course of the 10-year grant period, and approximately \$7 million in annual revenues following the grant period. However, it should be considered that this project is still likely to proceed in the absence of grants.

6. Market Context

The South Core office market is currently very strong and continues to show signs of strong ongoing demand. These are conditions that result in low vacancy rates and rising rents. In addition, 16 York is an ideally located site in the South Core with immediate access to Union Station.

7. Recommendation

It is not recommended that this project be awarded IMIT grants due to the very strong office market at this location. Furthermore, under the proposed amendments to the CIP by-law, this project would not be eligible for grants due to its location within the Financial District.

D. 30 BAY STREET & 60 HARBOUR STREET

A 60-storey office tower is proposed within Toronto's South Core, providing an estimated 1.5 million square feet of new office space.

1. IMIT Program CIP By-law Objectives

This development project supports the following CIP objectives:

- It will contribute to employment growth, accommodating an estimated 12,000 to 14,000 jobs;
- It will grow the cluster of economic activity in the South Core; and

- It will improve the built form and physical character of underutilized spaces.

2. The “But For” Test

Financial analysis indicates that the IMIT grants are not likely to have a determinative impact on project outcomes.

3. Land Use Planning Objectives

The development site is located within the proposed expanded boundaries of Toronto’s Financial District. The development project supports the City’s objective of promoting non-residential development, and in particular landmark office buildings, in this location.

4. Infrastructure Benefits to the City

The project will include public realm improvements underneath the Gardiner Expressway and along Bay Street, and expansion to the PATH system, and a potential POPS. The project also includes preservation of the existing heritage building on the site.

5. Other Fiscal Considerations

IMIT grants are expected to total approximately \$93 million for this development, though the City would receive \$77 million in net new tax revenue over the 10-year grant period and roughly \$15 million in annual property taxes following the grant period.

6. Market Context

The office market in this area is currently very strong; a condition that is likely to persist for an extended period.

7. Recommendation

It is recommended that this project not be awarded IMIT grants due to the very strong office market at this location. Further, it is to be noted that under the proposed amendments to the CIP by-law, this project would not be eligible for grants due to its location within the expanded Financial District.

E. 56 YONGE STREET

A 64-storey, two million square foot office tower is proposed in the centre of the Financial District, as an expansion of the existing Commerce Court complex.

1. IMIT Program CIP By-law Objectives

This development project supports the following CIP objectives:

- It will contribute to employment growth, accommodating an estimated 12,000 jobs; and
- It will contribute to the growth of the cluster of economic activity in Financial District.

2. The “But For” Test

Financial analysis indicates that the IMIT grants are not likely to have a determinative impact on project outcomes.

3. Land Use Planning Objectives

The development site is located within Toronto’s Financial District. The development project supports the City’s objective of promoting non-residential development, and in particular landmark office buildings, in this location.

4. Infrastructure Benefits to the City

The project will include a new parkette, a 40,000 square foot glass pavilion, improvements to the PATH network and connectivity to the King Street subway station, significant streetscape improvements, and improvements to the existing courtyard and fountain

5. Other Fiscal Considerations

IMIT grants are expected to total approximately \$110 million for this development, though the City would receive \$91 million in net new tax revenue over the 10-year grant period and roughly \$18 million in annual property taxes following the grant period.

6. Market Context

The Financial District office market is very strong; a condition that is expected to persist for an extended period, leading to low vacancy rates and rising rents.

7. Recommendation

It is not recommended that this project be awarded IMIT grants. The office market at this location is very strong and continues to strengthen. Further, the City may consider that under the proposed amendments to the CIP by-law, this project would not be eligible for grants due to its location within the Financial District.

F. 40 TEMPERANCE STREET

As the third and final tower in the Bay Adelaide Centre development project, this 32-storey office building will provide 855,000 square feet of new office space.

1. IMIT Program CIP By-law Objectives

This development project supports the following CIP objectives:

- It will contribute to employment growth, accommodating an estimated 5,000 jobs; and
- It will contribute to the growth of the cluster of economic activity in Financial District.

2. The “But For” Test

Financial analysis indicates that the IMIT grants are not likely to have a determinative impact on project outcomes. This development is sufficiently well placed that it is likely to proceed with or without the grants.

3. Land Use Planning Objectives

The development site is located within Toronto’s Financial District. The development project supports the City’s objective of promoting non-residential development, and in particular prestige commercial office buildings, in this location.

4. Infrastructure Benefits to the City

The project will include a significant public realm improvements, including an urban plaza, streetscape improvements along Temperance Street, as well as significant improvements to the adjacent Cloud Gardens park.

5. Other Fiscal Considerations

IMIT grants are expected to total roughly \$46 million for this development. The City would receive an estimated \$38 million in net new property tax revenue over the course of the 10-year grant period, and approximately \$8 million in annual revenues thereafter. However, it should be considered that this project is likely to proceed without the grants.

6. Market Context

The Financial District office market is very strong; a condition that is expected to persist for an extended period, leading to low vacancy rates and rising rents.

7. Recommendation

It is not recommended that this project be awarded IMIT grants due to the very strong office market at this location. Further, the City may consider that under the proposed amendments to the CIP by-law, this project would not be eligible for grants due to its location within the Financial District.

G. 160 FRONT STREET

A 50-storey, 1.3 million square foot office building is proposed. It was recently announced that nine floors of the building will be occupied by the new head office of the Ontario Teachers' Pension Plan, owner of the project developer. As such, the proposed development is a partially owner-occupied building.

1. IMIT Program CIP By-law Objectives

This development project supports the following CIP objectives:

- It will contribute to employment growth, accommodating an estimated 6,200 jobs in addition to the relocation of the Ontario Teachers' Pension Plan office;
- It will contribute to the growth of the cluster of economic activity in Financial District; and
- It will improve the built form and physical character of underutilized spaces.

2. The "But For" Test

Financial analysis indicates that the IMIT grants are not likely to have a determinative impact on project outcomes. The project would likely proceed irrespective of grants, particularly given its prime Financial District location in close proximity to Union Station, as well as the fact that it will be partially owner-occupied.

3. Land Use Planning Objectives

The development site is located within Toronto's Financial District. The development project supports the City's objective of promoting non-residential development, and in particular landmark office buildings, in this location.

4. Infrastructure Benefits to the City

The project will include a new PATH connection, streetscape and landscape improvements, and significant investments in public art.

5. Other Fiscal Considerations

IMIT grants are expected to total roughly \$47 million for this development. The City would receive an estimated \$39 million in net new property tax revenue over the course of the 10-year grant period, and approximately \$8 million in annual revenues following the grant period. However, it should be considered that this project is likely to proceed without the grants.

6. Market Context

The Financial District office market is very strong; a condition that is expected to persist for an extended period, leading to low vacancy rates and rising rents. This site is very centrally located within the Financial District.

7. Recommendation

It is not recommended that this project be awarded IMIT grants due to the very strong office market at this location. Finally, the City may consider that under the proposed amendments to the CIP by-law, this project would not be eligible for grants due to its location within the Financial District.

H. 1755 STEELES AVE WEST

Approximately 170,000 square feet of new bio-medical manufacturing space is proposed as an expansion to the existing Sanofi Pasteur Canadian headquarters at Steeles Avenue and Dufferin Street. The new space will allow Sanofi Pasteur to significantly increase production levels.

1. IMIT Program CIP By-law Objectives

As a manufacturing facility this development project supports a number of CIP objectives, as follows:

- It will contribute to the intensification of an employment area through expansion and new development;
- It will contribute to the City's diversity of employment types;
- It will protecting and preserve employment areas for current and future use;
- It will contribute to the enhancement of an Employment District including promoting its distinctive character and developing available vacant lands;
- It will contribute to a key cluster of economic activity;

- It will contribute to the growth of the cluster of economic activity in Financial District; and
- It will improve the built form and physical character of underutilized spaces.

2. The “But For” Test

A financial analysis was not performed for this development project due to its unique nature as an owner-occupied manufacturing facility. Rather, the application was reviewed based on qualitative research and a telephone interview with the applicant. Due to the significant construction investment associated with this project, and the relatively long time before the facility is expected to become fully operational, the grants would be highly valued by the applicant.

It must also be recognized that the City competes for manufacturing sector enterprises such as Sanofi Pasteur at an international scale. Such businesses are often very sensitive to cost factors as they can be highly flexible in their locational decisions, unlike many office-based industries which benefit from proximity to large urban centres. Grants such as those provided through the IMIT Program are thus more likely to influence site selection processes within the manufacturing sector.

3. Land Use Planning Objectives

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

4. Infrastructure Benefits to the City

The development project will provide a number of public realm and streetscape improvements. Further, Sanofi Pasteur aims to reduce environmental impacts through a car share program and transit pass subsidies for its employees.

5. Other Fiscal Considerations

Hemson’s estimate of the total IMIT grants for this development project is approximately \$15 million over the 10-year period. It should be considered that the project will also be associated with net new annual tax revenue for the City on an ongoing basis.

6. Market Context

While it has rebounded somewhat in recent years, Toronto’s manufacturing sector has undergone recent periods of decline and has not yet fully recovered from the downturn

experienced during the global recession. Competition with other municipalities as well as international locations remains a challenge.

7. Recommendation

It is recommended that IMIT grants be awarded to this project due to its close alignment with the CIP's objectives as well as the important role it will play in Toronto's manufacturing sector. Further, within the manufacturing sector the IMIT Program plays an important role in helping the Toronto to remain competitive at an international scale.

IV CONCLUSIONS

The recommendations of this report were formulated through detailed qualitative and quantitative analyses, and are consistent with the findings of the 2017 IMIT Program Review. The broad recommendations are summarized below.

A. SUBSTANTIAL OFFICE DEVELOPMENT IS LIKELY TO OCCUR IN THE FINANCIAL DISTRICT, IRRESPECTIVE OF GRANTS

It is generally recommended that IMIT grants not be awarded to office development projects within the proposed expanded boundaries of the City's Financial District. A total of nearly 7.3 million square feet of new Financial District office space is proposed across the six applications considered in this report. While these projects will bring great value to the City in terms of employment growth and significant additions to the City's property tax base, the very number and scale of these projects is indicative of the expectation of an extended period of strong market conditions in this area. For this reason it is considered that IMIT grants should not be provided. Finally, as these recommendations are consistent with the future amendments to the CIP by-law, any similar development proposals that should arise in the future would be excluded from IMIT grants.

It is important to note that these recommendations assume that the office market in Toronto's financial core will remain strong in the coming years, and further that the City will continue to provide development charges exemptions for any above ground floor non-residential development. Should these conditions change substantially in future years, it may be necessary to reconsider the treatment of this projects under the IMIT Program.

B. GRANTS MAY CONTRIBUTE TO ACHIEVING A BALANCE BETWEEN RESIDENTIAL AND NON-RESIDENTIAL DEVELOPMENT IN KING-SPADINA

It is recommended that an IMIT grant be awarded to The Well office development project located within the King-Spadina area. This location is a priority for non-residential development in the City; while office vacancy rates are currently low throughout the Downtown, the market continues to favour residential development outside of the Financial District. The proposed office buildings will bring valued non-residential space and employment growth to this location.

C. GRANTS ARE WELL JUSTIFIED WITHIN THE MANUFACTURING SECTOR

It is recommended that an IMIT grant be awarded to the Sanofi Pasteur manufacturing facility due to this project's close alignment with the objectives of the CIP, its contribution to a diverse employment base, as well as the continued challenges faced by Toronto's manufacturing sector. Throughout the 2017 IMIT Program Review process, the manufacturing sector received high levels of support for continued financial assistance from various stakeholders due to these factors.