

Two Applications to the Imagination, Manufacturing, Innovation and Technology (IMIT) Property Tax Incentive Program

Date: September 9, 2021

To: Economic and Community Development Committee

From: Interim General Manager, Economic Development and Culture

Wards: 10, 13

SUMMARY

The Imagination, Manufacturing, Innovation and Technology (IMIT) Property Tax Incentive Program authorized by By-law 1323-2012 states that City Council approval is required in cases where an application for Development Grants has an estimated construction value for the development exceeding \$150,000,000.

Two applications for IMIT Program Development Grants have been received for projects with a construction value exceeding \$150,000,000.

This report reviews these applications and provides staff recommendations.

Staff recommendations for IMIT Program Development Grants are based in part on a third-party review, attached as an addendum that provides a detailed analysis of each application.

RECOMMENDATIONS

The Interim General Manager, Economic Development and Culture recommends that:

1. City Council approve Imagination, Manufacturing, Innovation and Technology (IMIT) property tax incentives for the following applications:
 - a. 530 Front Street West - Portland Commons LP in the estimated grant amount of \$20.8 million over 10 years; and
 - b. 200 Front Street East - First Gulf King Street Inc. in the estimated grant amount of \$22.7 million over 10 years.

2. City Council authorize the General Manager, Economic Development and Culture to negotiate and execute a Financial Incentive Agreement for the applications in Recommendation 1 above in a form satisfactory to the City Solicitor.

FINANCIAL IMPACT

The currently applicable Community Improvement Plan (CIP) that enables the provision of financial incentives for economic development through the IMIT Program is By-law 1323-2012, as CIP By-law 1207-2018, adopted by City Council in July 2018, remains under appeal to the Ontario Land Tribunal (OLT). The IMIT Program as a whole is required to be reviewed every four years. The next review of the IMIT Program will be undertaken in 2022.

Under the CIP of 2012, IMIT grant applications with an estimated construction value above \$150 million require City Council approval. The two applications for office development presented in this report meet the eligibility criteria for IMIT grants under this CIP. Based on the opinion provided in the attached Hemson Report in Attachment 2 that the IMIT grants may be a decisive factor for the realization of the two office developments under current market conditions, the applications are recommended for approval.

The IMIT grant amount for the two developments, if provided, is estimated at \$43.5 million over 10 years, as summarized in Table 1. The financial implications of these grants will need to be included in future year budgets.

Table 1 - IMIT Grants Based on the Proposed Gross Floor Area

Address	Eligibility	Square Feet	Construction Investment (\$ millions)	Projected start of IMIT grant	Estimated IMIT Grants over 10 years (\$ millions)
530 Front Street West	Office	654,672	\$290	2027	\$20.8
200 Front Street East	Office	658,999	\$313	2024	\$22.7
					\$43.5

As of July 2021, the IMIT Program has provided \$167.61 million in grants, with another \$46.57 million in grants projected for 2021. In addition, the estimated amount for grants that the program is committed to provide until 2036 is \$467.38 million. The total cumulative estimated value of IMIT grants approved to date is therefore \$681.56 million. These figures do not include the potential grants for the two applications considered in

this report.

At its meeting on April 24, 25, 26 and 27, 2018, City Council approved a financing and funding strategy for the SmartTrack Stations. This strategy is based on anticipated allocation of funding from tax increment revenues, development charges and the City Building Fund. The two applications recommended for IMIT grant approval in this report are not in a SmartTrack Tax Increment Financing (TIF) zone and will not impact the SmartTrack funding plan.

The Chief Financial Officer and Treasurer has reviewed this report and agrees with the financial implications as identified in the Financial Impact section.

DECISION HISTORY

At its October 2-4, 2012 meeting, City Council adopted amendments to the City-wide, Waterfront and South of Eastern Community Improvement Plans (CIPs) that enable the provision of financial incentives for economic development through the IMIT Program. This decision can be viewed at:

<http://aptoronto.ca/tmmis/ViewAgendaItemHistory.do?item=2012.PG17.5>

At its April 2018 meeting, Council adopted a new Community Improvement Plan to modify the IMIT Program. This CIP is currently under appeal and not in force.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.EX30.6>

COMMENTS

Background

The Imagination, Manufacturing, Innovation and Technology (IMIT) Financial Incentive Program (the "Program") provides incentives in the form of grants to support the new construction or major renovation of buildings in targeted employment sectors and for certain uses throughout the city. The Program also includes an added grant element for brownfield remediation (Brownfield Remediation Tax Assistance or BRTA). The Program provides grants to approved applicants relative to the incremental property taxes that are paid due to the new development. Generally speaking, the total grants are equal to 60 percent of the increased municipal property taxes over the first ten years following construction and reassessment. Thereafter, the City collects the entire municipal property tax.

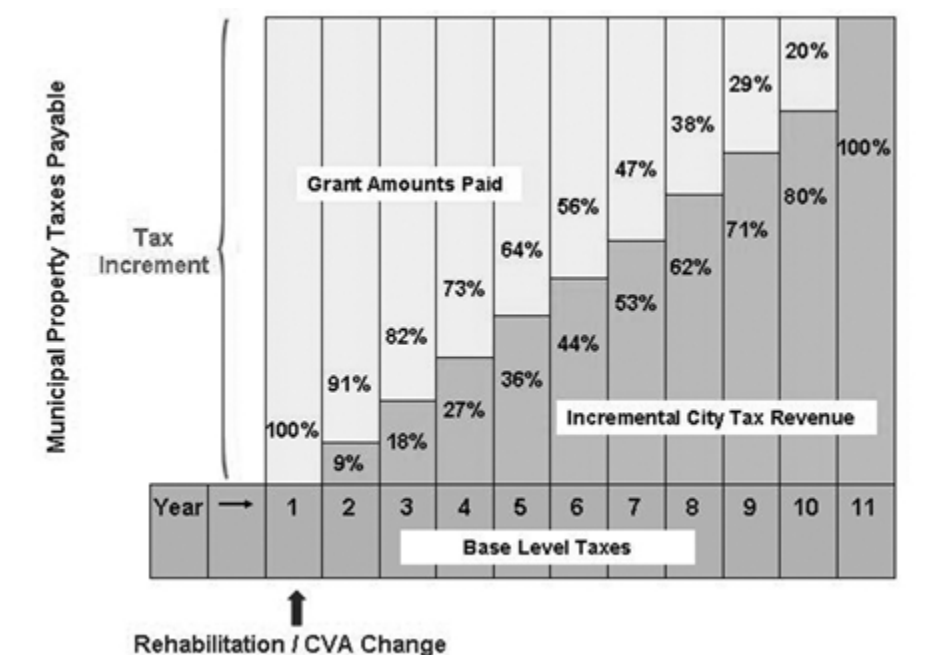
Section 28 of the *Planning Act* authorizes municipalities to designate a Community Improvement Project Area (CIPA) where there is an official plan in effect that contains provisions relating to community improvement in the municipality. Development Grants through this Community Improvement Plan are designed to provide assistance through a series of annual grants to eligible owners who undertake development for targeted employment uses. The grants are intended to stimulate building construction and expansion within key sectors of the economy along with supporting job growth across

Toronto.

The current By-law (No. 1323-2012) requires that the IMIT Program be reviewed every four years. The review shall recommend whether the Brownfield Remediation Tax Assistance and Development Grant Programs should continue, be modified or terminated. The next review is required to take place in 2022.

The Program provides a property tax incentive to qualified employment generating developments based on the incremental or new increased assessment value -- as determined by the Municipal Property Assessment Corporation (MPAC) created by that development. A portion of the municipal property tax that is applied to that value is returned to the qualified applicant over a ten year period (up to twelve years if brownfield remediation occurs).

Table 1: IMIT Payment Example



Economic Development and Culture staff reviewed the applications received and requested additional information where clarifications were required. All applications were assessed by staff for adherence to Program intent and eligibility including meeting a minimum of Tier 1 requirements of the Toronto Green Standard. In alignment with the City's climate goals, the Toronto Green Standard addresses the City of Toronto's environmental priorities to reduce energy use and greenhouse gas emissions from new buildings, among other environmental benefits. The two developments referenced in this report are both expected to achieve LEED certification.

The following table briefly summarizes the total square footage and construction value for the two applicant projects considered in this report. Attachment 1 provides additional detail for each application.

Applicant	Address	Eligibility	Square Feet	Investment \$
First Gulf King Street Inc.	200 Front Street East	Office	658,999	\$312,958,834
Portland Commons LP	530 Front Street West	Office	654,672	\$289,938,447

Evaluation of the Applications

Staff support the approval of these applications for the following reasons:

1. The need for incentives

The IMIT Program is based on the premise that "but for" the incentives, the development would not occur. The notion is that with incentives the development will yield incremental tax revenues that the City would not otherwise realize. This "but for" consideration is the underlying premise of the IMIT Program.

Decisions to build large office buildings in Toronto involve a variety of complex factors that include the IMIT incentive. The IMIT incentive in the instance of the two applications appears to make a material difference in the ability of these new buildings to be competitive within the overall office market and therefore to proceed as currently planned. Conversely, if the IMIT incentive is not provided, there is a risk that the planned office development at these sites may not proceed or may be changed to a different permitted use.

Over their full lifespan, 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 the two developments. For 530 Front St W the City would receive approximately \$13.9 million in net new property tax revenue over the grant period. Thereafter, the development will generate an estimated \$3.5 million in new annual City property tax revenues. For 200 Front St E the City would receive approximately \$15.1 million in net new property tax revenue over the 10-year grant period. Thereafter, the development will continue to generate an estimated \$3.8 million in new annual City property tax revenues. In addition, it is expected that 530 Front St W will support approximately 2500 jobs upon completion and 200 Front St E is expected to support approximately 4000 jobs.

2. Supports economic development

Toronto competes for office development and investment not only in the North American market but against other jurisdictions in the Greater Toronto Area (GTA). These regional municipalities have two primary competitive advantages over the City when attracting employment uses. First, commercial and industrial tax rates in surrounding municipalities are generally lower than those in Toronto. Second, available land in many areas of the GTA is more abundant, and greenfield development in particular may be

easier and more profitable than the redevelopment of land in Toronto.

The office sector plays a critical role in promoting and sustaining wealth-creating economic growth in the city, and underpins Toronto's position as a premier location for business, investment and innovation. According to the 2020 Toronto Employment Survey the office category continues to be Toronto's largest employment category representing over half of all jobs (51.2 percent). Office employment comprises 70 percent of downtown jobs and 51 percent of establishments.

Many companies are looking to locate in Toronto to take advantage of the city's skilled and diverse workforce, infrastructure, urban amenities, and high quality of life. It is important, therefore, 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 city's attractiveness and competitiveness.

An example of the type of businesses attracted to modern office buildings in Toronto is the technology sector, which continues to experience significant employment growth after almost doubling in size over the past five years, from 32,830 jobs in 2015 to 60,670 jobs in 2020.

3. Aligns with City Planning policy directions

Planning policy directions seek to promote economic development and competitiveness by supporting 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.

These applications are part of the King- Parliament (200 Front St E) and King-Spadina (530 Front St W) Secondary Plans, both adopted by City Council and both under appeal to the Ontario Land Tribunal. The Downtown Secondary Plan which captures both locations is currently in force for both areas. These three plans all acknowledge the intense pressure in these areas to develop properties for residential uses. They rely on the 2018 study *Planning Downtown-The Outlook for Office & Institutional Employment to 2041*. This study states that although a number of large office buildings have been completed within downtown, opportunities to expand the supply of office space are increasingly constrained as residential development competes for prime sites. New downtown office development will be an important component in assisting the City to meet the 2051 *A Place to Grow: Growth Plan for the Greater Golden Horseshoe* employment targets.

Other Considerations

The COVID-19 pandemic has disrupted and introduced increased risk for new investment in the Toronto office real estate market. For 2021-q2, the city's office vacancy rate increased to 10.2 percent from 9.4 percent in the previous quarter, the highest percentage in the past decade. For the same period, the downtown vacancy rate increased to 8.9 percent, up from the previous quarter's vacancy rate of 8.2

percent.¹ The return to office schedule is uncertain as new variants expose the population to further waves of disease. At the beginning of 2021, 32 percent of Canadian employees aged 15 to 69 worked most of their hours from home, compared with only 4 percent in 2016.² It is anticipated that some degree of employment that was previously office-based will become permanently "remote" (home based), and that many workplaces will adopt a hybrid model whereby employees will work from both the office and home. Companies risk losing employees if they do not provide flexibility in where employees can work. In view of the anticipated challenges with operationalizing hybrid work arrangements, it anticipated that energy-efficient offices with desired amenities and modern floorplates will be in greater demand. Finally it is expected that there may be increased interest in flexible shared workplaces that may include smaller satellite neighborhood offices. This evolving context may provide opportunities for new commercial development in neighborhoods that have seen little commercial investment, and may dampen demand for new office developments downtown.

Ontario's recently introduced Transit Oriented Communities Act (July 2020) coupled with the province's increased involvement in municipal planning processes may have a further impact on the future of office development in the city and region. The provincial government is using Ministerial Zoning Orders (MZO) more frequently to exercise greater control over development decisions with the stated goals of accelerating and, in some cases, increasing density near higher order transit lines. These changes can significantly impact land values, land use permissions, and represent a material change to the context and economics of development investment decisions.

General IMIT Program Eligibility Criteria:

The two applications addressed in this report are being processed under the currently in-force Community Improvement Plan By-law 1323-2012, which includes the following IMIT eligibility criteria:

- Applications must be submitted prior to issuance of the main building permit;
- The property must not be in tax arrears;
- The owner must develop a Local Employment Plan to support local hiring;
- Construction must:
 - conform to all City processes and permits. Status to be confirmed annually
 - value at least \$1 million as evidenced on application and the main building permit
 - meet minimum Toronto Green Standard (Tier 1)
 - not be demolished over the term of the incentive
- The development must increase the amount of GFA for Eligible Uses by at least 500 square metres
- Eligible Location
- Eligible Employment Sector or Use
- Applicant must be the owner of property or their designated agent
- Agree to meet annual reporting requirement

¹ City of Toronto-Toronto Economic Bulletin; August 6, 2021

² Statistics Canada, <https://www150.statcan.gc.ca/n1/pub/45-28-0001/2021001/article/00012-eng.htm>

Both applications meet the general IMIT eligibility criteria. City Council approval is an additional requirement for these applications given their construction value which, in both cases, exceeds \$150,000,000.

An independent third party review was conducted by Hemson Consulting Ltd. to provide a detailed analysis of each application and the need for financial incentives. The Hemson Consulting Ltd. report is attached as Attachment 2 to this report.

CONTACT

Rebecca Condon, Senior Business Development Officer, Business Growth Services
Economic Development and Culture, 416-392-0626, Rebecca.Condon@toronto.ca

Tobias Novogrodsky, Acting Director, Business Growth Services, Economic
Development and Culture, 416-392-6004, Tobias.Novogrodsky@toronto.ca

SIGNATURE

Cheryl Blackman
Interim General Manager, Economic Development and Culture

ATTACHMENTS

Attachment 1 - Summary of Imagination, Manufacturing, Innovation and Technology
(IMIT) Applications Reviewed

Attachment 2 - Hemson Consulting Ltd.'s Review of Applications Under the IMIT
Property Tax Incentive Program

Attachment 1: Summary of Imagination, Manufacturing, Innovation and Technology (IMIT) Applications Reviewed

200 Front Street East- First Gulf King Street Inc. (King East Centre) Applicable IMIT By-law 1323-2012 (City-wide Community Improvement Plan)

This IMIT application was submitted on March 12, 2020 and proposes a 27 storey, 658,999 square foot office tower as part of an existing office node. This office node includes an existing building at the corner of King Street East and Princess Street, being the Coca Cola Canada corporate head office and the existing Globe and Mail Centre office building at the site's east end. Both of these developments are currently receiving IMIT incentives.

The estimated construction value of the proposed building is \$313 million. The development will support approximately 4,000 jobs. No tenants have been identified to date. The development is located outside of the Financial District and is in the King-Parliament Secondary Plan area.

Initial discussions regarding IMIT eligibility for this development commenced in 2018. A Zoning By-law Amendment application is currently under review by City Planning and a Site Plan Application is expected shortly. The proposed new office tower has been designed by WZMH Architects. The site is currently occupied by single-storey retail (Dollarama, LCBO and CIBC), a surface parking lot and a 6-storey commercial building. Along with the proposed office building the development plans include a 37-storey purpose-built rental residential tower in the site's southwest corner along with a retail podium to replace the existing retail. IMIT incentives would only apply to the commercial office component of the development.

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 Certification. Green Standard requirements include features such as long and short term bicycle parking spaces, a green roof and bird friendly window treatments.

The development will provide a 13,885 square feet of Privately Owned Publicly-Accessible Space (POPS).

Finally, the property owner and tenants will be required to develop a Local Employment Plan (LEP). The LEP will identify opportunities for local hiring and training and document how the applicant and/or property user will deliver these benefits. This LEP 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 Toronto residents.

The estimated completion of the office building and occupancy date is 2026 with grant payments, if approved, starting in 2027.

The Hemson Report concludes that IMIT grants appear to impact this development's viability to the degree that it may influence project outcomes, meaning there is a need

for incentives for the development to proceed. The development meets overall economic development objectives and the integration of planning policy in support of office development in this area. As such, an IMIT approval estimated at \$22.7 million over 10 years is recommended.

**530 Front Street West- Portland Commons LP (Portland Commons)
Applicable IMIT By-law 1323-2012 (City-wide Community Improvement Plan)**

The IMIT application was submitted on July 24, 2020 and proposes a 15 storey, 654,672 square foot office building. The site was previously an auto dealership and public surface parking lot.

The estimated construction value of the building is \$289,938,447. The development will support approximately 2500 jobs. No tenants have been identified to date. The development is located outside of the Financial District and is in the King-Spadina Secondary Plan area.

Initial discussions regarding IMIT eligibility for this development commenced in 2017. A Site Plan Application is currently under review by City Planning. The proposed new office tower was designed by Sweeny & Co Architects.

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 Certification. Green Standard requirements include features such as long and short term bicycle parking spaces, a green roof and bird friendly window treatments. The developer is targeting LEED Platinum and WELL Gold Standards. The development will also tie into Enwave's Deep Lake Water Cooling system to provide sustainable heating and cooling.

The developer has recently remediated the site to Ministry of the Environment, Conservation and Parks standards and applied for Brownfield Remediation Tax Assistance (BRTA). The CIP states that BRTA will only be provided to offset remediation costs incurred after the BRTA bylaw is adopted by Council. In this case the remediation was completed and expenses incurred prior to the enactment of the By-law if the application were approved. Therefore those expenses do not qualify for BRTA. Costs for environmental testing incurred within 12 months prior to submission of a BRTA application will be eligible for BRTA. In this case, environmental costs of \$37,050 were incurred within the 12 month period prior to submission of the application and therefore may be eligible for BRTA.

The development will provide a 21,000 square foot community courtyard that will be accessible 24 hours a day, 7 days a week and available for public, private or community events. It will also provide 242 underground public parking spaces and 108 short term bike stalls that will be available to the general public.

The development will provide two 3,000 square foot and 1,350 square foot Privately Owned Publicly-Accessible Space (POPS).

Finally, the property owner and tenants will be required to develop a Local Employment Plan (LEP). The LEP will identify opportunities for local hiring and training and document how the applicant and/or property user will deliver these benefits. This LEP 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 Toronto residents.

Portland Commons indicates they will include the following commitments in their LEP:

- have a diverse, inclusive and equitable hiring policy
- have a Living Wage policy for staff at Portland Commons
- leases at Portland Commons will include a commitment from tenants to support local employment
- CBRE, Property Managers for Portland Commons, will create a Local Employment guideline to assist tenants in supporting local employment and to make tenants aware of City-endorsed programs
- will encourage Ellis Don, contractor, to work with the City of Toronto or City supported services to provide opportunities in the construction trades.

The estimated completion and occupancy date is 2023 with grant payments, if approved, starting in 2024.

The Hemson Report concludes that IMIT grants appear to impact this development's viability to a degree that may influence project outcomes, meaning there is a need for incentives. The development meets overall economic development objectives and the integration of planning policy in support of office development in this area. As such, an IMIT approval estimated at \$20.8 million over 10 years is recommended.