

## Final Report

Prepared by Hemson for the City of Toronto

# Review of Basin Media Studio's Application under the IMIT Property Tax Incentive Program

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# Executive Summary

The City of Toronto's Imagination, Manufacturing, Innovation, Technology (IMIT) Program provides property tax grants to eligible landowners to support new non-residential building construction. The objective of the program is to help provide new space at a lower cost to tenants in targeted sectors and in areas across the City. Under the City's current Community Improvement Plan (CIP) by-law which provides 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 an application for the Basin Media Studios film studio complex and wishes to bring this submission forward for Council's consideration in February 2024.

Hemson was retained to undertake a review and analysis of the application in order to assist City staff in making recommendations for Council's consideration. This report summarizes the results of the application review. The review of the Basin Media Studios application is 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.

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

<b>Basin Media Studios 29,35,41 &amp; 75 Basin St.</b>	
<b>Description</b>	<ul style="list-style-type: none"> <li>▪ 565,000 sq. ft. film studio complex including 12 sound stages, production support offices, mill shops and production and management offices.</li> <li>▪ Located in the Port Lands</li> </ul>
<b>CIP Objectives</b>	<ul style="list-style-type: none"> <li>▪ Supports many CIP objectives related to preservation and promotion of employment areas.</li> </ul>
<b>“But For” Test</b>	<ul style="list-style-type: none"> <li>▪ Meets the test considering site challenges and construction cost risks</li> </ul>
<b>Land Use Planning Objectives</b>	<ul style="list-style-type: none"> <li>▪ Supports Central Waterfront Secondary Plan objective to create a film and media convergence centre in the Port Lands.</li> </ul>
<b>Community Infrastructure Benefits</b>	<ul style="list-style-type: none"> <li>▪ Construction of a public waterfront promenade</li> </ul>
<b>Other Fiscal Considerations</b>	<ul style="list-style-type: none"> <li>▪ Total grants estimated at approximately \$21.6 million (in 2023\$).</li> <li>▪ Net new City tax revenues of \$7.2M over 12-year grant period and \$2.4 million annually thereafter (in 2023\$).</li> </ul>
<b>Market Context</b>	<ul style="list-style-type: none"> <li>▪ Outlook for Film and TV industry positive with strong employment growth potential. Growth could be hampered by shortage of studio space</li> </ul>
<b>Project Status</b>	<ul style="list-style-type: none"> <li>▪ Site Plan application currently under review. Construction to begin following approval and completion targeted in 2026.</li> </ul>
<b>Conclusion</b>	<ul style="list-style-type: none"> <li>▪ Project meets program criteria for IMIT grant.</li> </ul>

# 1. Introduction & Background

The following provides background and context related to the IMIT Program and the review of the Basin Media Studios application under consideration.

## A. The IMIT Program & CIP By-law

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.

Eligibility for the IMIT program 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 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), and extends the total grant period to up to 12 years and the grant amount up to 67 per cent of the municipal tax increment over this period. Enhanced grant amounts up to 70 per cent of the municipal tax increment are also available for eligible development projects containing manufacturing, food and beverage wholesaling, creative industries, film studio complexes, convergence centres, and incubators, as well as eligible development located within an Urban Growth Centre. When this enhanced grant amount is combined with BRTA program eligibility, the total maximum grant amount available is equivalent to 77 per cent of the municipal tax increment over a 12-year period.

The IMIT grants are provided on a declining basis over the 10- to 12-year period. As such, they help to offset some of the initial one-time costs associated with new buildings.

Grants are administered through a Community Improvement Plan (CIP) By-law. Under the current (2018) CIP By-law, in cases where the construction value of a building 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.

## **B. Application for Review**

This report considers an application from Hackman Capital Partners and Create TO for the IMIT grant for the Basin Media Studios project. The construction project will exceed \$150 million and will include a purpose-built film, television, and digital-media studio complex including 12 sound stages, production support offices, mill shops and production and management offices.

In order to assist Council in its decision-making process, the City has requested Hemson to review this application in the context of the objectives and intent of the Basin Media Studios application meets the basic eligibility requirements as set out by the CIP By-law.

## **C. Report Structure**

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

**Section 2** describes the key considerations and evaluation criteria which formed the basis of the review.

**Section 3** summarizes the results of the review of the Basin Media Studios application, along with Hemson’s opinion regarding whether the application meets the criteria for the grant.

**Section 4** concludes the report with a summary of the findings.

## 2. Key Considerations

This section reviews the key considerations which formed the basis of the evaluation of the Basin Media Studios IMIT application. This application is measured against key considerations as set out below.

### A. Policy & Planning Context

The City's Community Improvement Plan (CIP) By-law (By-law 1207-2018) is guided by the objectives of the City's policy and planning framework, including its Official Plan policies.

#### i. The IMIT Program CIP By-law Objectives

As stated in the CIP By-law, the primary objectives of the program are to “encourage brownfield remediation and the development of targeted employment uses within the City of Toronto”. Objectives identified in the by-law include:

- i. Support the City in achieving the Provincial Policy Statement, including policies related to brownfield redevelopment and economic development and competitiveness;
- ii. Support the Council approved Collaborating for Competitiveness recommendation to use tax incentives to stimulate development;
- iii. Support the remediation of contaminated sites in preparation of their future redevelopment as employment uses;
- iv. Support the vision of the Official Plan for a City with a strong and competitive economy with a vital downtown that creates and sustains well-paid, stable, safe and fulfilling employment opportunities for all Torontonians;

- v. Support the Official Plan's vision for the City's future as one where diverse employment areas can adapt to changing economic trends and are poised to capture new business opportunities;
- vi. Encourage "the establishment of key clusters of economic activity with significant value-added investment and employment";
- vii. Support the Official Plan's overall direction to protect employment land for employment uses;
- viii. Promote the development of key sectors;
- ix. Improve the built form and physical character of underutilized spaces; and
- x. Improve air quality, energy efficiency and reduce water consumption by requiring non-office development to achieve the minimum requirements of the Toronto Green Standard before being eligible for Development Grants. Office developments must meet the Tier 2 standards.

The application was reviewed in the context of these objectives.

## **ii. The “But For” Test**

The IMIT Program operates 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 not otherwise receive. Notwithstanding this requirement, there is no universally accepted “but for” test and therefore it is necessary to use an approach that takes account of the program objectives and the characteristics of the development projects being evaluated.

For the purposes of this review, the “but for” test has been considered in relation to the broader market context in addition to the specific details of

the project being considered. In particular, costs and revenues were evaluated with and without the IMIT grants assess the potential impacts of the grants on project viability. As well, its projected performance was compared to the relative return expectations of other types of real estate.

To perform these analyses, access to sensitive financial details about the project was essential. Hemson worked closely with the applicant who provided detailed financial material including construction costs, projected timing and revenue and operating expense estimates. Additional information was provided regarding positive and negative qualitative aspects of project.

Detailed information of this type is highly sensitive and was provided on a confidential basis. It is important to note that due to the confidentiality of the data provided, comments regarding the impact of the IMIT grants included in this report are general in nature.

### **iii. 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 application was reviewed within this land use planning context.

The Basin Media Studios project is located within the Central Waterfront Area, and is designated as a Regeneration Area within the Official Plan. The Regeneration Area designation is intended to attract investment to re-integrate areas of the City that are not currently in productive urban use, and to “provide a broad mix of commercial, residential, light industrial, parks and open space, institutional, live/work and utility uses in an urban form”.

The City’s Central Waterfront Secondary Plan is centred around four core principles: Removing Barriers/Making Connections, Building a Network of Spectacular Waterfront Parks and Public Spaces, Promoting a Clean and Green Environment, and Creating Dynamic and Diverse New Communities.

Under the “Creating Dynamic and Diverse New Communities” principle, the Secondary Plan makes several references to the film industry, including reference to creating “an international Centre for Creativity and Innovation for knowledge-based industries, film, and new media activities”. Policy 42 in particular emphasizes the role of the Port Lands in creating a convergence district, utilizing its vacant land and proximity to downtown to build upon the existing base of film and media activities.

#### **iv. Community Infrastructure Benefits to the City**

The review gave consideration to broader benefits to be paid for by the applicant that the development is expected to bring to the surrounding community and City, such as contributions to the public realm, public amenities, and transportation connections.

#### **v. 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 proposed development project would be expected to bring to the City.

### **B. Market Context**

The IMIT application for the Basin Media Studio was reviewed in the context of current and projected market conditions. Key considerations are discussed below.

#### **i. Toronto Screen Industry Employment Trends**

The Film and TV production industry is a large and growing sector within Toronto’s base of employment. According to a 2021 study<sup>i</sup> prepared for the City of Toronto, the industry has experienced enormous influx of investment since subscriber-based video-on-demand services, notably Netflix, began to grow around 2013. In 2019, the Toronto screen industry employed more than

35,000 people on either a full or part-time basis. Jobs are spread between 18 different categories, reflecting the diverse and complex nature of the industry. Currently, there is a shortage of workers in a wide range of categories in the live action, animation and post-production segments. The outlook for the industry is very positive, and is likely to create a substantial number of new jobs requiring people with a diverse range of skills. This growth will in turn increase the need for additional new space; much of it specialized in nature because of the requirements of the screen industry. This outlook dovetails with the IMIT program was developed with the objective of incenting the development of new space to accommodate employment growth.

## **ii. Trends in Construction Costs**

In the last few years, the construction sector in Toronto has experienced significant increases as confirmed by 2021 Statistics Canada non-residential construction price data which reports an increase of over 20% since Q3 2021. The increases that have been experienced are the result of several factors including bottlenecks in the supply of materials and increasing shortages of skilled labour. Although the recent slowdown in the economy may somewhat ease the pressure, the many major infrastructure projects currently under construction in the GTAH are likely to result in persistent high construction costs and labour scarcity challenges. These factors will affect construction costs for the Basin Media Studio. Additionally, interest rates have risen sharply since 2021 and are not anticipated to decline significantly over the period during which the project is likely to be in the development phase.

## **iii. The Film & TV Studio Space Sector**

According to a 2021 assessment of the production studios in Los Angeles, Toronto and London prepared by Deloitte:

*“Toronto is an affordable production location with significant tax credits, a large virtual production hub, and the ability to mimic backdrops of North American cities, especially NYC. However, there is limited below the line talent, which increases cost of production to fly talent in and production studios are competing with last-mile logistic companies for space. While Toronto has a smaller set of film industry workers, the city is investing in upskilling programs to meet the need from content creators.”*

Toronto has a well-established inventory of studio space which is predominately comprised of converted industrial buildings. The one notable exception is Canada’s largest facility, the Pinewood Studios complex located in the Port Lands.

For many years, the largest concentration of studio space and ancillary services in Toronto has been in the South of Eastern Area and the Port Lands. More recently, however, because of redevelopment pressures in the area, two large studios operated by Cinesphere were closed. This loss has been partially offset by the opening of a new studio, occupied by Netflix, in a former marine terminal building located in the Port Lands, south of the ship channel.

The next largest facility in Toronto is Cinesphere’s Kipling Studio Campus in Etobicoke. The balance of Toronto’s inventory is made up of studios varying size and quality, spread across the city. None of these facilities however, match the quality of space and amenities that a new purpose-built facility offers.

The TV and Film industry is global and the broad outlook is positive as the demand for content continues to rise. The Port Lands in Toronto is regarded as key hub production centre within North America and its facilities are currently operating at full capacity<sup>1</sup>. However, because the industry by nature is not tied to any particular location or country, competition among cities to attract studio investment is stiff. For this reason, in order for Toronto to maintain its strong role and keep up with the pace of growth in both production and employment, additional studio space will be required.

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<sup>1</sup> Recent industry strikes will have reduced the production volume for 2023, but are not expected to have a long-term impact.

### **3. Analysis of the Basin Media Studios IMIT Application**

This section discusses the analysis of the Basin Media Studios IMIT application in relation to the key considerations described in Section 2. The analysis involves a review of all relevant application details and financial information provided by the applicant. Multiple interviews were conducted with the applicant to obtain information about the projects and explain the approach to the analysis.

#### **A. Project Description**

Basin Media Studios will be a 565,000 square foot film studio complex including 12 sound stages, production support offices, mill shops, and production and management offices, located in Toronto's Port Lands. The project is expected to create/maintain 1,200 jobs in the sector. The project is a partnership between CreateTO and Hackman Capital Partners. The 13-acre site is partially owned by CreateTO with a long-term lease awarded to Hackman through an RFP process, which a portion of the site has been acquired by Hackman.

Construction costs are estimated at \$225 million, including over \$8 million in remediation costs. The project will also include delivery of an 18-metre public waterfront promenade.

#### **B. Site Context**

The Basin Media Studios project is a purpose built facility that will be located on a site within the Port Lands. It will replace six existing vacant buildings and retain one heritage building. As discussed above, the Port Lands are a well-established location for Film and TV production facilities

and therefore benefits ready access to experienced technical staff and services. The area also has the benefit of being close to the city’s downtown and providing a wide variety of locations nearby.

At the same time, because the Port Lands are filled former marshlands, soil conditions present considerable foundation challenges particularly for studio buildings. The requirement to provide for roads and public access to the waterfront section of the site add further complexity.

**C. IMIT Program CIP By-law Objectives**

This project is supportive of the CIP By-law’s primary objectives of brownfield remediation and development of targeted employment uses. As a film studio complex, the project is represents one of the “targeted sectors” eligible for enhanced grants, while also contributing to the remediation of Toronto’s Port Lands. The project’s performance against the other objectives of the CIP by-law is summarized in the table below.

<b>CIP By-law Objective</b>	<b>Basin Media Studios Performance</b>
i. Support the City in achieving the Provincial Policy Statement, including policies related to brownfield redevelopment and economic development and competitiveness	Supports brownfield redevelopment, economic development and Toronto's competitiveness within the film industry.
ii. Support the Council approved Collaborating for Competitiveness recommendation to use tax incentives to stimulate development	Supports objective.
iii. Support the remediation of contaminated sites in preparation of their future redevelopment as employment uses	Supports objective.
iv. Support the vision of the Official Plan for a City with a strong and competitive economy with a vital downtown that creates and sustains well-paid, stable, safe and fulfilling employment opportunities for all Torontonians	Supports objective: Project is located in the "Downtown and Central Waterfront" area as identified within the City's Official Plan. Project will support film industry and related employment.
v. Support the Official Plan's vision for the City's future as one where diverse employment areas can adapt to changing economic trends and are poised to capture new business opportunities	Supports objective: Toronto has few purpose-built film studios; potential to appeal to major media producers that require state-of-the art film spaces.
vi. Encourage "the establishment of key clusters of economic activity with significant value-added investment and employment"	Supports objective: aligns with Central Waterfront Secondary Plan's emphasis on the role of the Port Lands in creating a convergence district of film and media activities.
vii. Support the Official Plan's overall direction to protect employment land for employment uses	Project is not located on employment land, but is supportive of City's land use planning objectives.
viii. Promote the development of key sectors	Supports objective.
ix. Improve the built form and physical character of underutilized spaces	Supports objective: Development of underutilized site and contributions to public realm.
x. Improve air quality, energy efficiency and reduce water consumption by requiring non-office development to achieve the minimum requirements of the Toronto Green Standard before being eligible for Development Grants. Office developments must meet the Tier 2 standards	Supports objective: Project meets Toronto Green Standard requirements.

## D. The “But For” Test

The “But For” test is an important consideration in the evaluation of IMIT grant applications. Under the test, the provision of an IMIT grant must be considered essential in order for a proposed project to proceed. In instances where sufficient relevant and reliable information is available, assessments can employ standard financial feasibility measures. For some projects where there are more uncertainties, the element of risk has greater bearing on the assessment.

The applicant provided detailed financial information regarding the Basin Media Studio project on a confidential basis. Follow-up discussions provided context and details for particular elements.

Based on this information, a number of factors were taken into account in considering the “But For” test. As noted previously, given the sensitivity of the financial details, comments in this section regarding the impact of the IMIT grants are general in nature.

Factors considered included:

- Challenging site conditions stemming from the fill soil composition represent higher than normal risk to initial construction and long-term stability.
- Site constraint of providing road rights-of-way and waterfront pedestrian walkway.
- Recent rapid increases in the cost of construction materials together with high cost and shortages of skilled labour.
- Potential disruptions to access and operations stemming from ongoing development activity in the Port Lands.
- Likely high demand for the facility given its high quality and purpose-built nature.
- Inherently higher risk than other types of real estate because of the lower certainty of long-term leases with secure covenants.
- External risks relating to dollar fluctuations and tax rules.

Based on the financial information and taking into account factors that add to the risk of the project relative to other types of space (e.g. offices and industrial) the proposed project satisfies the “But For” test.

## **E. Land Use Planning Objectives**

The Basin Media Studios project is supportive of the City’s land use planning objectives for the Central Waterfront, and more specifically the Port Lands. The project supports the Official Plan’s objectives to attract investment and re-integrate underutilized Regeneration Areas. The project also aligns with the policies of the Central Waterfront Secondary Plan, particularly in supporting the creation of a convergence district for film and media activities in the Port Lands.

## **F. Community Infrastructure Benefits to the City**

The project will include the construction of an 18-metre wide public waterfront promenade.

## **G. Other Fiscal Considerations**

Based on assessed value estimates provided by the applicant’s property tax consultant an estimated IMIT grant amounts were calculated. Hemson’s estimates are based on the City’s (2023) tax rates and are represented in 2023 dollars. The total IMIT grants for this project are projected to be in the order of \$21.6 million over the 12-year enhanced grant period. BRTA grants are anticipated to be \$7.2 million (slightly less than the total remediation cost of \$8.3 million). The remaining \$14.4 million will be in the form of Enhanced Development Grants.

It is important that the grant amount be viewed in the context of the full net annual tax revenues that the project will generate on an ongoing basis. Over the 12-year grant period, the City is anticipated to receive approximately \$7.1 million in net new tax revenues. Thereafter, the development will generate an estimated \$2.4 million in annual City property tax revenues. Once again, it is to be noted that all estimates are expressed in 2023 dollars. The actual grant and tax revenue amounts will depend on the assessed value of the building once it is completed and the City tax rates in future years.

## **H. Conclusion**

It is recommended that the Basin Media Studios IMIT grant application be approved due to its close alignment with the CIP's objectives as well as the important role it will play in Toronto's film industry.

It is a unique opportunity to secure a large state-of-the-art purpose built studio. It will help attract major producers and will help reinforce Toronto's position as a key production hub in a highly competitive global industry. Importantly, and in keeping with the key objective of the IIMIT program, it will enable employment in Film and TV industry to grow together with employment in other sectors that the industry supports.

## 4. Summary of Report Conclusions

The conclusion of this report is guided by the detailed qualitative analyses. The key conclusion is that **the Basin Media Studios project warrants receiving grants under the IMIT Program**. The provision of grants for this project will support the advancement of Toronto's film industry by helping to offset some of the ongoing economic challenges faced within the industry, as well as the costs of remediation and other construction challenges. The grants could contribute to Toronto's competitiveness within the film industry at an international scale.

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<sup>i</sup> "Toronto Screen Industry Workforce Study". Prepared by Nordicity Group Ltd. March 2021