

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

**Date:** January 15, 2024

**To:** Executive Committee

**From:** General Manager, Economic Development and Culture

**Wards:** Ward 14 - Toronto-Danforth

### **SUMMARY**

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This report provides recommendations on Imagination, Manufacturing, Innovation, and Technology (IMIT) program applications for three proposed projects in East Harbour, an area of land on the east side of the Don River in Ward 14 (Toronto – Danforth).

The three IMIT program applications were submitted by Cadillac Fairview on August 11, 2020, and are subject to the South of Eastern Community Improvement Plan (CIP), By-law 1324-2012, which was the bylaw in effect at the time of application.

Under this CIP, IMIT applications for projects with an estimated construction value above \$150 million require City Council approval. Due to the potential financial implications to the City of approving an IMIT incentive for a project with a construction value exceeding \$150 million, the City contracted with Hemson Consulting Ltd. to provide a third-party review of the subject applications.

Among other factors, staff's assessment of the applications considers Hemson's analysis (Attachment 2); the City's aggregate investment in East Harbour and the surrounding area (in flood protection, transit, roads, and community infrastructure); Toronto's fiscal position and priorities; and changes to land use planning permissions in East Harbour resulting from the issuance of Minister's Zoning Order 329/22 (MZO).

For the reasons detailed in this report, staff recommends refusal of the three applications.

This report was prepared by the Economic Development and Culture division in consultation with City Planning, Legal Services, and Finance and Treasury Services divisions.

## RECOMMENDATIONS

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

1. City Council refuse Imagination, Manufacturing, Innovation, and Technology incentives for the following applications:

- 21 Don Roadway-Building 1A- CF EHL (21 Don Roadway) Holdings Inc. (Cadillac Fairview)
- 21 Don Roadway-Building 1B- CF EHL (21 Don Roadway) Holdings Inc. (Cadillac Fairview)
- 21 Don Roadway-Building 2A- CF EHL (21 Don Roadway) Holdings Inc. (Cadillac Fairview)

## FINANCIAL IMPACT

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The cumulative IMIT grant amount for these three developments, if provided, is estimated to be \$230 Million over 10 years, as summarized in Table 1.

**Table 1 – IMIT Grant Amounts Based on Proposed Gross Floor Area**

<i>Not Recommended for IMIT Grant Approval</i>				
Address	Use Eligibility	Square Feet	Construction Investment (\$ Million)	Est. IMIT Grants over 10 years (\$ Million)
21 Don Roadway – Building 1A	Office Building	1,200,000	\$845	\$69
21 Don Roadway – Building 1B	Office Building	1,300,000	\$891	\$76
21 Don Roadway – Building 2A	Office Building	1,300,000	\$937	\$85
<b>TOTAL</b>		<b>3,800,000 Sq. Ft.</b>	<b>\$2,673 Million</b>	<b>\$230 Million</b>

As of December 2023, the IMIT program has approved 74 applications and disbursed or provisioned \$269.45 million in grants, with another \$50.1 million in grants projected for

2024. In addition, the estimated amount of grants that the IMIT program is committed to provide until 2037 is \$459.55 million. Therefore, the total cumulative value of IMIT grants approved to date is approximately \$729 million, not including the estimated amount required for the 3 grant applications that are the subject of this report. If the above three applications are approved, the City's total committed grants under this program are projected to be \$959 million by 2037.

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

## **DECISION HISTORY**

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At its October 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.

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

At its April 2018 meeting, City Council adopted a new Community Improvement Plan to modify the IMIT Program. This CIP was subsequently appealed.

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

At its June 2022 meeting, City Council adopted a settlement of the appeal to the 2018 CIP. This settlement was presented to the Ontario Land Tribunal (OLT). An order was issued by the OLT on October 7, 2022, bringing the updated CIP into effect.

<https://secure.toronto.ca/council/agenda-item.do?item=2022.CC45.8>

At its July 2022 meeting, City Council considered an update on IMIT applications for 21 Don Roadway - Buildings 1A, 1B and 2A (East Harbour) -- which anticipated that staff recommendations on these applications would be presented to Council in Q1 2023.

<https://secure.toronto.ca/council/agenda-item.do?item=2022.EC31.32>

## **COMMENTS**

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### **Background**

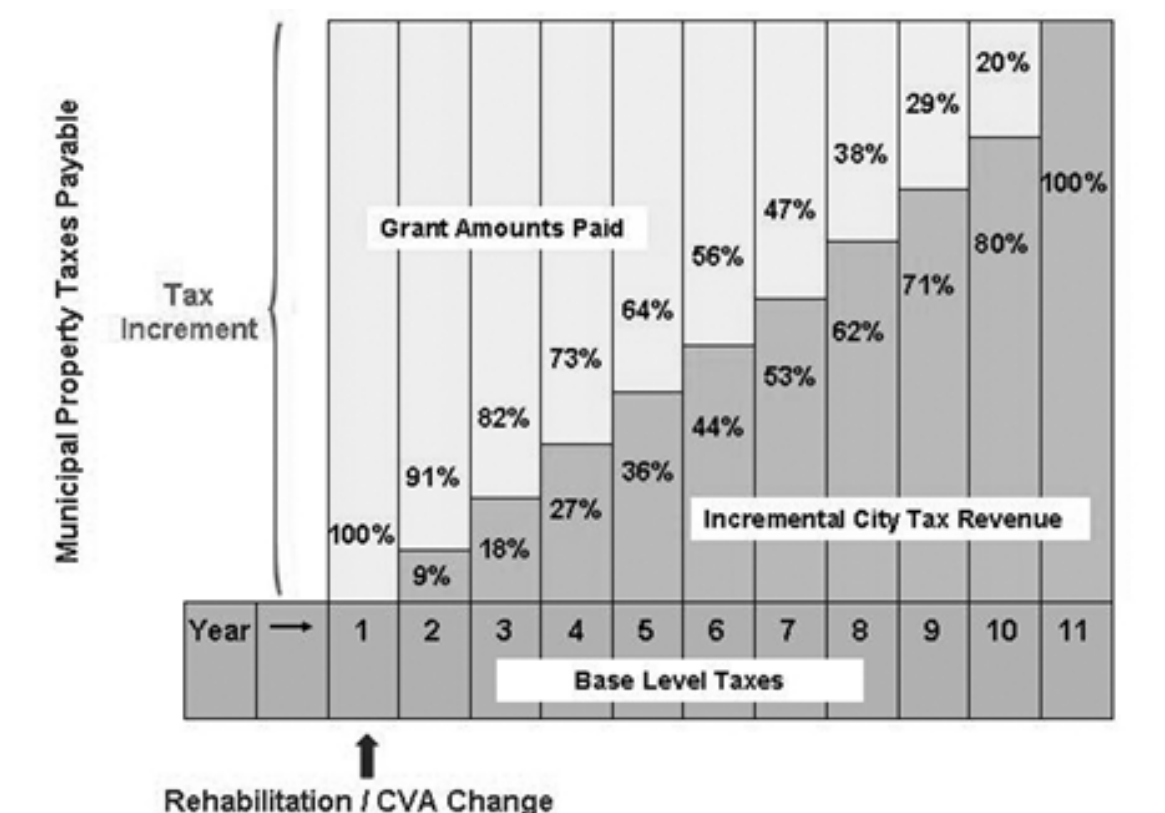
Section 28 of the Planning Act authorizes municipalities to designate a Community Improvement Project Area (CIPA) where there is an Official Plan in effect that contains provisions relating to community improvement in the municipality. A Community Improvement Plan (CIP) may then be adopted for the CIPA that among other things may provide for grants directed to incentivize community improvement.

The Imagination, Manufacturing, Innovation, and Technology (IMIT) Financial Incentive Program (the "Program") is a CIP that provides development grants to support new construction or major renovation of buildings in targeted employment sectors and for

certain uses throughout Toronto. The Program also includes an added grant element for brownfield remediation (Brownfield Remediation Tax Assistance or BRTA).

The Program provides a property tax incentive to a qualified employment-generating development 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). The total value of the IMIT grants is typically equal to 60% of the increased municipal property taxes which the City will receive over the first ten years following construction and reassessment. Thereafter, the City collects and retains the entire municipal property tax attributable to the project. Table 2 below provides an example of the IMIT payment structure over the course of the development project.

Table 2 IMIT Payment Example



An IMIT application for a development with a construction value greater than \$150 million requires Council approval. City Council can exercise its discretionary authority to approve or refuse the application, based on its determination of whether granting or denying the application is in the City's best interests.

The primary purposes addressed in the Community Improvement Plan for the IMIT Program are to stimulate building construction and expansion within key sectors of the

economy and support job growth across Toronto. However, there are other municipal purposes that City Council can consider when assessing a given IMIT application.

**Base IMIT Program Eligibility Criteria pursuant to By-law 1324-2012**

- 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
- Construction must conform to all City processes and permits
- Construction value of at least \$1 million as evidenced on application and the main building permit
- Meet the 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 m<sup>2</sup>
- Eligible location
- Eligible employment sector or use
- Applicant must be the owner of property or their designated agent
- Applicant agrees to meet annual reporting requirements

**Evaluation of the IMIT Application for 21 Don Roadway - Building 1A, 1B and 2A**

Economic Development and Culture staff reviewed the IMIT applications received for 21 Don Roadway – Building 1A, 1B and 2A and requested additional information where clarification was required. All applications were assessed by staff for adherence to base Program eligibility.

The following table indicates the total square footage, sector/use, and construction value for the applicant projects considered in this report. Attachment 1 provides additional details.

Applicant	Address	Use Eligibility	Square Feet	Construction Investment (\$ Millions)
Cadillac Fairview (Building 1A)	21 Don Roadway- Building 1A	Office Building	1,200,000	\$845
Cadillac Fairview (Building 1B)	21 Don Roadway – Building 1B	Office Building	1,300,000	\$891

Applicant	Address	Use Eligibility	Square Feet	Construction Investment (\$ Millions)
Cadillac Fairview (Building 2A)	21 Don Roadway- Building 2A	Office Building	1,300,000	\$937

While all three applications reviewed meet the base IMIT Program eligibility criteria, staff’s assessment and final recommendations are also informed by the following considerations:

- Hemson Consulting Ltd.’s third-party analysis (Attachment 2);
- Aggregate City / public investment in East Harbour and surrounding area;
- City of Toronto’s fiscal position and priorities;
- Changes to land use permissions; and
- Other market, project and area-specific factors as detailed below

Based on the balance of the above considerations, staff recommend refusal of the applications for 21 Don Roadway – Building 1A, 1B and 2A.

**Basis for Recommendation**

**1. Third Party Analysis from Hemson Consulting Ltd.:**

As detailed in Attachment 2, Hemson identifies several factors which may impact the viability of Building 1B, the first proposed office tower in East Harbour, including office-work patterns, current trends in vacancy rates, and timing risks associated with transit infrastructure in East Harbour. Hemson observes, further, that proceeding with the development of Building 1B could play a catalytic role in the establishment of an important new employment cluster in this area of Toronto. With reference to these considerations and based on its analysis of available data and market dynamics, Hemson concludes that while Building 1B “may not satisfy the IMIT grant [program’s] ‘but for’ test, we are of the opinion that should the grant be provided, it will improve the [project’s] development viability and advance the timing of when the project will proceed.”

The “but for” test evaluates whether a development project would or could proceed without the grants provided under the program, i.e., the development project would not be undertaken but for the development grants that make it financially viable to proceed.

The farther out in time a proposed development is likely to occur, the weaker the “but for” attribution or linkage becomes between an incentive like IMIT and the decision of a project proponent to proceed with a given investment. While Hemson’s report states that the construction timeframe for Building 1B is 2024 to 2028 with an anticipated occupancy date of October 2028, subsequent information provided to the City suggests

that construction work zone coordination with the East Harbour Transit Hub will delay the timeline for this project.

Additionally, according to Hemson's review, the two other IMIT applications for Buildings 1A and 2A are premature and are therefore not warranted or recommended for approval.

## **2. Market Dynamics and Development Timeline**

As proposed, East Harbour is a large and ambitious development project that will add millions of square feet of commercial space to the area at full implementation. It is likely, however, that it will take the market a significant amount of time to develop and absorb this amount of new space, due in part to the current high levels of office vacancies across Toronto. Given current market conditions, the three proposed office developments for which IMIT applications were submitted are unlikely to be built and occupied within the original timeframe, with or without the IMIT grants. While Hemson's report states that the construction timeframe for Building 1B is 2024 to 2028 with an anticipated occupancy of October 2028, the City anticipates adjacent infrastructure projects and work zone coordination will substantially delay the construction start date.

## **3. Public Investment in the East Harbour area and Toronto's Fiscal Position and Priorities**

Toronto, Ontario, and Canada have made significant public investments in the vicinity of East Harbour and many additional infrastructure investments are planned in the near term. Previous flood protection investments in the West Don Lands and the Port Lands are being augmented with new government infrastructure investments in the area, including SmartTrack; the Ontario Line; the East Harbour Transit Hub; the Broadview Eastern Flood Protection Landform; and the extension of Broadview Avenue north of the Metrolinx rail embankment. These projects are being supported with significant funding from the City of Toronto.

The aggregate City and broader public investment within East Harbour and its surrounding area has significantly increased the value of public and privately owned land in the precinct and enhanced its development potential. The unique scale, quantum, and form of public infrastructure investment in East Harbour, however, also makes it challenging to isolate, with the degree of confidence required, the contribution that the provision of IMIT incentives would make to any given development investment decision.

Additionally, given that approval of these three IMIT applications could result (assuming all projects moved forward) in total property tax rebate grants of approximately \$230 million, it is appropriate for Council to assess whether incentives of this magnitude are warranted in the context of the City of Toronto's current and forecast fiscal pressures and priorities, as detailed most recently in the staff report entitled [Updated Long-Term Financial Plan \(EX 7.1\)](#).

#### **4. Land Use Planning Considerations**

In April 2022, the Government of Ontario issued a Minister's Zoning Order (MZO) to advance the East Harbour Transit Oriented Community (TOC) and introduce permissions for 3.25M square feet of residential development in the precinct, in addition to the previously planned 10M square feet of employment space. While Ontario and Cadillac Fairview have indicated a commitment to develop employment space at East Harbour as market conditions warrant, there are no requirements in the MZO for employment development to happen on a given schedule or be sequenced in any specific manner (e.g., at pace or concurrent) with the residential development.

Planning frameworks and development incentives are typically used in concert by a municipality to shape development outcomes and advance locally determined public policy and planning objectives. The MZO has changed the planning context of East Harbour. Whereas an IMIT financial incentive may have been more supportable when East Harbour was zoned solely for employment uses, the introduction of significant residential permissions changes the economics, timing, functioning and trajectory of development in the area with respect to employment uses.

#### **CONCLUSION**

On the balance of the considerations identified above, staff recommend refusal of the three IMIT applications for development at 21 Don Roadway.

The City remains committed to the creation of an employment hub in East Harbour, as demonstrated by the scale of its investment in the area's enabling infrastructure and transit.

#### **CONTACT**

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#### **SIGNATURE**

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Patrick Tobin, General Manager  
Economic Development and Culture

#### **ATTACHMENTS**

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Attachment 1: Summary of IMIT Applications Reviewed  
Attachment 2: Hemson Consulting Ltd.'s Review of Three Applications Under the IMIT Property Tax Incentive Program



## **Attachment 1: Summary of IMIT Applications Reviewed**

### **21 Don Roadway- Building 1B-CF EHL (21 Don Roadway) Holdings Inc. (Cadillac Fairview)**

#### **Applicable IMIT By-law 1324-2012 (South of Eastern Community Improvement Plan)**

East Harbour is a 38-acre master-planned district located east of the downtown Toronto core. It is expected that, over time, 10 million square feet of commercial development will take place accommodating over 50,000 jobs. Three separate IMIT applications were submitted for three separate office developments.

The IMIT application for the first office development (Building 1B) was submitted on August 11, 2020, and proposes a 48 storey, 1.3 million square foot building. The site was previously a soap manufacturing facility and surface parking lot.

The estimated construction value of the proposed building is \$890,946,147. The development will support approximately 6,500 jobs. No tenants have been identified to date. The development is targeting high-skilled knowledge workers. Potential tenancies include (but are not limited to): technology, professional, scientific & technical services, finance, insurance & real estate, management of companies and enterprises, information, government, transportation, education, manufacturing, and healthcare. It is expected that any IMIT incentive would accrue directly to building tenants as it relates to tenants' obligations to pay their proportionate share of a building's realty taxes as part of a triple net lease arrangement.

Initial discussions regarding IMIT eligibility for this development commenced in 2020. A Site Plan application is currently under review by City Planning. The proposed new office tower was designed by Adamson Associates Architects.

The building would, as an IMIT Program requirement, need to meet the minimum Tier 1 requirements of the Toronto Green Standard Certification, which includes features such as long and short-term bicycle parking spaces, a green/cool roof and bird-friendly window treatments.

As part of its IMIT application, the developer also applied for Brownfield Remediation Tax Assistance (BRTA). The site has an industrial history stretching back to the 1880s. Notable historical uses have been as a coal gasification plant, bulk petroleum storage facility and soap factory. Contaminants of concern in soil and groundwater above the applicable MECP Table 7 criteria have been identified throughout the site. Evidence of phase separated light and dense non-aqueous phase liquids (NAPLs) was encountered in soil samples and groundwater across the site. A risk assessment-based risk management and remediation approach will be carried out at the property, leading to the filing of a Record of Site Condition (RSC) for the overall East Harbour property. Targeted removal for off-site disposal of impacted soil and groundwater will be undertaken to facilitate construction of risk management measures and site infrastructure or where residual impact exceeds site specific criteria for contaminants of concern (prior to the filing of the RSC). Treatment of soil and groundwater to reduce

contaminant concentrations to facilitate sustainable re-use and disposal options will be reviewed and implemented where feasible. The estimated cost of remediation related to Building 1B is \$12,377,485.

There will be additional benefits accruing to the city as part of the entire redevelopment. These would include municipal roads, district site servicing, and the East Harbour flood protection landform to be constructed as a part of the enabling works for this development. A separate report to Council will consider whether Development Charge credit should be provided to the landowner to offset a portion of these infrastructure costs.

Per the Master Section 37 agreement, community benefits that will be delivered simultaneously with the commercial development at East Harbour -- unless otherwise renegotiated and agreed to by the parties -- include:

- \$10.5 million in public art;
- \$1.0 million in public realm landscaping on top of the flood protection landform;
- Delivery of 1,400 m<sup>2</sup> of incubator employment space;
- Delivery of 2,800 m<sup>2</sup> of cultural community space;
- \$5.0 million contribution to offsite affordable rental housing; and
- \$5.0 million contribution to community services and facilities serving the worker populations and adjacent neighbourhood

In addition, City Council adopted the following for the inclusion of 2.35 million square feet of residential development at East Harbour at its meeting on April 6 and 7, 2022:

1. City Council approve the following terms and approach to be incorporated into the drafting of Implementing Agreements between the City, the Province of Ontario and Cadillac Fairview:

a. A minimum of 5 percent of the total permitted residential gross floor area at East Harbour, and no less than 215 affordable rental housing units, shall be constructed and financed by Cadillac Fairview for a 99-year period, based upon the City Council approved Inclusionary Zoning definition of affordable rent;

b. To the satisfaction of the City, Cadillac Fairview shall design, construct, finish and convey ownership of two 62 pupil childcare facilities to the City of Toronto, in accordance with the City of Toronto's Childcare Development Guidelines;

c. To the satisfaction of the City, Cadillac Fairview shall design, construct, finish and convey ownership of a Community Recreation Centre of approximately 6,500 square metres south of Future Street "E" to the City of Toronto;

d. The Province of Ontario and Cadillac Fairview will be responsible for funding two-thirds of the cost for the Phase One Broadview Eastern Flood Protection project, with the remaining one-third to be funded by the City;

- e. The City and Cadillac Fairview (through its financial contribution) will each be responsible for funding fifty per cent of costs associated with the road portion of the Broadview Avenue Extension from Eastern Avenue to the Metrolinx rail embankment;
- f. Cadillac Fairview will contribute \$2.5 million to offsite capital upgrades to the Queen Saulter, Jones, and/or Riverdale branches of the Toronto Public Library;
- g. Cadillac Fairview will contribute \$2.0 million to the delivery of public art in the vicinity of East Harbour;
- h. The Province of Ontario and Cadillac Fairview will ensure the appropriate legal mechanisms are in place so that the community benefits secured as part of the existing Master Section 37 Agreement, dated October 5, 2018, will be honoured by the owner of East Harbour and incorporated into future agreements as required to confirm the obligation; and
- i. No development charge credits will be provided to Cadillac Fairview for any of the community benefits and enabling infrastructure described in Parts 1.a. through 1.g. above.

The list above is not meant to be final or all-inclusive as negotiations continue with the developer. The estimated completion and occupancy date is 2028.

Hemson Consulting Ltd. concluded that Building 1B warrants receiving an IMIT incentive in view of the need to reduce the financial risk associated with non-residential development in a post-pandemic market. However, Hemson also notes that the applicant has not met the “but for” test, as the incentive does not have a significant enough impact on development viability to a degree that would influence project outcomes. Accordingly, and in conjunction with other factors addressed throughout the report, staff recommend refusal of 21 Don Roadway – Building 1B.

**21 Don Roadway- CF EHL (21 Don Roadway) Holdings Inc. (Cadillac Fairview) Applicable IMIT By-law 1324-2012 (South of Eastern Community Improvement Plan)-Buildings 1A and 2A**

Two additional IMIT applications were submitted for 21 Don Roadway on August 11, 2020.

Building 1A is a 1.2 million square feet, 43 storey office building with an expected construction cost of \$844,842,214. Initial discussions regarding IMIT eligibility for this development commenced in 2020. This building is expected to support approximately 5,500 jobs. The development is targeting high-skilled knowledge workers. Based on estimated timelines for municipal approvals, the earliest possible construction start date for the project would be May 2024 with an anticipated base building occupancy date of October 2028.

The IMIT application for Building 1A has a BRTA component as the site has contaminants of concern in both the soil and groundwater. A risk assessment-based risk management and remediation approach will be carried out at the property, leading to the filing of a Record of Site Condition for the overall East Harbour property. The estimated remediation expense for this component of the property is \$6,574,346.

The third-party consultant, Hemson Consulting, concluded that it would be premature and imprudent for the City to commit to providing IMIT grants for this development at this time.

Building 2A is a 1.3 million square feet, 48 storey office building with an expected construction estimate of \$936,933,972. Initial discussions regarding IMIT eligibility for this development commenced in 2020. This building is expected to support approximately 6,000 jobs. The development is targeting high-skilled knowledge workers. Based on estimated timelines for municipal approvals, the earliest possible construction start date for the project would be May 2024 with an anticipated base building occupancy date of October 2028, although current approval timelines suggest this is an unrealistic estimate of a construction start date.

The IMIT application for Building 2A has a Brownfield Remediation Tax Assistance component as the site has contaminants of concern in both the soil and groundwater. A risk assessment-based risk management and remediation approach will be carried out at the property, leading to the filing of a Record of Site Condition for the overall East Harbour property. The estimated remediation expense for this component of the property is \$15,907,280.

The third-party consultant, Hemson Consulting, concluded that it would be premature and imprudent for the City to commit to providing IMIT grants for this development at this time.