Final Report

Prepared by Hemson for the City of Toronto

2023 IMIT Program Review:

Findings & Recommendations

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Executive Summary

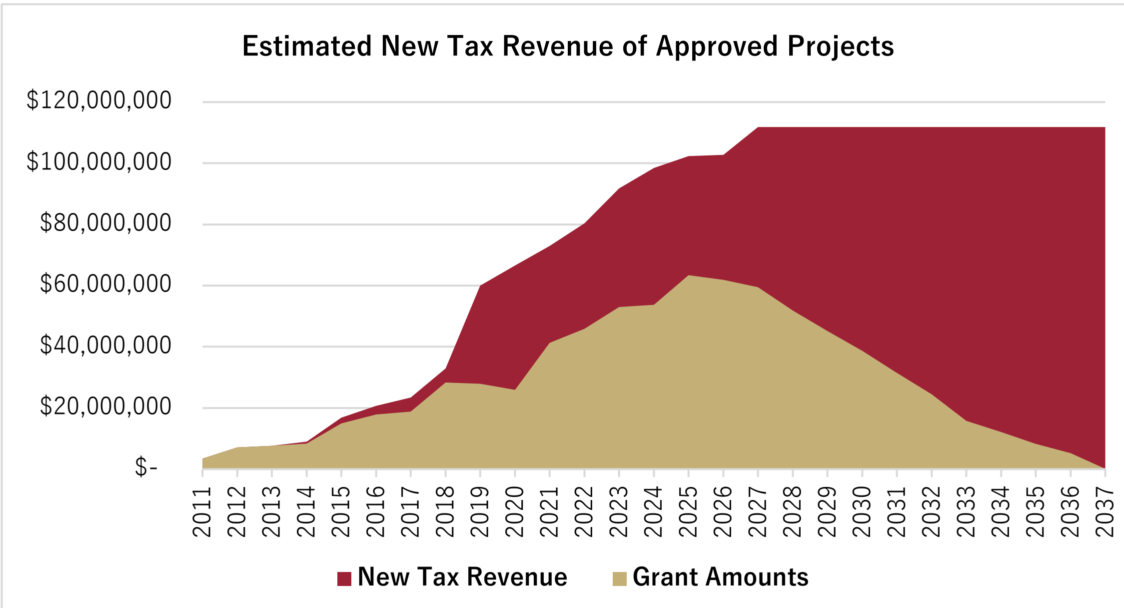
A. Introduction and Background

- This report fulfills the regular five-year review of the Imagination, Manufacturing, Information and Technology (IMIT) property tax incentive program. The last review was conducted in 2017.
- The program was established in 2008 to incent the development of non-residential uses in order to accommodate growth. Together with non-residential Development Charge exemptions, IMIT was a key economic development tool designed to help mitigate Toronto's high commercial and industrial tax rates and the city's high development costs.
- The program provides, on a declining annual basis, a tax increment equivalent grant (TIEG) equating to 60% of the cumulative municipal tax increment increase over a 10 year period. Specific sectors qualify for enhanced grants. The associated Brownfield Remediation Tax Assistance (BRTA) further provides additional support. In aggregate, a project qualifying for enhanced grants can receive grants totalling 77% of city taxes over 12 years.
- It is important to keep in mind that over the same period, the net contribution of property taxes (full taxes less grant amounts) from benefitting properties increase annually as the grants decrease.

B. Program Performance

- The program has supported over $5.9 billion of investment in over 18.7 million square feet of space. Of the 74 approved projects (four which have received BRTA grants only), over 50% are large office buildings located in the Downtown core. The balance is made up of a variety of uses including for example, manufacturing facilities and film studios, spread across the city. There are currently 14 active applications under review.

- Since 2008, approved projects have contributed approximately $493 million in taxes with a net contribution after grants of $224 million (less grant payments of approximately $269 million). To 2037, when grants to currently approved projects expire, they will have paid approximately $1.3 billion in taxes for a contribution net of grants of approximately $571 million. Thereafter the annual taxes will be approximately $110 million. The graph below illustrates the results over time.



C. Key Factors Need To Be Considered

- Since the last review, conditions influencing the IMIT program have shifted dramatically caused in large part by fallout from the COVID-19 pandemic.

- The city's financial situation has deteriorated and it is facing a long-term multi billion-dollar revenue shortfall. Inevitably, this places pressure on non-mandatory programs. At the same time, since IMIT grants require investments to be made in tax generating buildings that accommodate employment, the net cost to the city is less than most other grants.

- Office based employment practices have undergone a seismic change since 2020 triggered by the economic shutdown from the COVID-19 pandemic but more fundamentally is underpinned by increasingly powerful digital technology. Hybrid work arrangements are becoming the norm, leading to a significant and long-term reduction in demand for space. Because of this, there is no general need to support development of additional office space.

- In contrast, space to accommodate industrial employment is in very short supply and because the existing stock is aging, the quality is also declining. New construction is highly constrained because of a lack of vacant land. The situation is made more difficult by pressure for conversion to residential uses.

D. Stakeholder Consultation

- Extensive consultations were conducted with both internal and external stakeholders.

- Representatives from the City's Economic Development, Corporate Finance, Revenue Services, City Planning and Legal Divisions were involved. Key themes from these discussions included:
  - Supporting job growth beyond the Downtown area
  - Reconsidering the quantum and length of grants
  - Importance of how the development context has changed
  - Need to refocus and refinement of the eligibility criteria, particularly the "But For" test requirement.

- A cross section of external stakeholders representing groups from industry, real estate and developer associations, BIA associations and government organizations were consulted. Key themes that were emphasized included:
  - The significance of the benefits that the program provides.

- Other factors are making the program less effective in making projects viable hence the “But For” test is less valid.
- The limited uptake for industrial and life sciences projects due to issues that the program does not address.
- The program is not widely understood and the application process and requirements are considered onerous.

E. Key Program Recommendations

Based on the analysis together with the substantial input from city staff and stakeholders, the following key recommendations are made:

- **Reduce the amount and duration of grants.** Shortening the term to 6 years would significantly reduce future grant commitment while providing a still meaningful amount of support. However, the change would likely lead to a lower number of future projects.
- **Significantly narrow the eligibility of office buildings.** Limiting eligibility to those projects that address specific planning policy objectives would largely eliminate the category of IMIT grants that to date have accounted for over 84% of the value of approved applications.
- **Consider providing grants to projects that adapt and/or rejuvenate existing buildings.** Doing so would help address the need for more up-to-date industrial space and the emerging problem of underutilized office buildings for alternative uses such as life sciences. However, the suitability of using a tax related grant structure will need to be examined.
- **Eliminate enhanced grants.** This will further help reduce the program cost. It is however recommended that the brownfield remediation assistance program (BRTA) be continued.
- **Simplify the list of eligible sectors**. With the restriction of grants to office buildings and the elimination of enhanced grants, and the evolution of the economy there is less need to focus on attracting types of employment.

- **Remove the "But For" test requirement.** If, as is recommended, the scale of IMIT grants is narrowed, the weight they would represent in "But For" test analysis will diminish to the point that they no longer provide clear evidence of need.

- **Streamline Local Employment Related Requirements.** This requirement is seen as cumbersome and potentially off-putting for some applicants. While the objectives are important, it is recommended that other approaches be pursued.

- **Institute a sunset provision for qualifying developments.** The current open-ended timeframe for projects with approved applications represent potentially large financial obligations well into the future. A 5-year period in which to construct an approved project is recommended.

- **Rebrand and relaunch the program.** Despite the need to reduce the cost of the IMIT program, it will remain an important economic development tool for Toronto. However, given the scale and significance of the proposed changes, a new name to reflect the program is recommended. Along with a rebranding, additional effort should be made to encourage developers of new buildings and owners of existing buildings to explore the grant potential of the program.

F. Financial Impacts of Proposed Changes

Many of the factors and considerations affecting the IMIT program have changed since the 2017 review. The combination of market changes and the effect of the recommended program changes, should City Council choose to adopt them, is likely to result in a dramatic reduction in the amount of grants that may be approved in the future. They will not however affect the grants that have already been approved nor additional amounts relating to applications that are still outstanding.

1. Introduction

The *Planning Act* allows municipalities to designate community improvement project areas. These areas are designated through a Community Improvement Plan (CIP) by-law and are used to provide financial incentives to targeted geographies. The CIP area can be as small as a single property or as large as the entire municipality or some variation thereof. A Community Improvement Plan (CIP) is a tool that allows a municipality to grant financial incentives to owners, among other matters. A CIP can also be used in combination with brownfield remediation programs, heritage property relief, and property tax assistance under the requirements of the *Municipal Act*. The City of Toronto's Imagination, Manufacturing, Information and Technology (IMIT) Property Tax Incentive Program is enabled through a CIP by-law.

The IMIT program was established in 2008 in response to limited non-residential development in the city relative to surrounding markets. The current in force CIP By-law (1027-2018) cites both higher commercial taxes and the lack of available non-residential land as primary inhibitors to job growth in the city. The lack of land supply for non-residential development leads to increases in development costs, including land remediation for contaminated sites and the redevelopment of aging building stock.

The IMIT program is primarily administered by the City of Toronto's Economic Development and Culture Division staff, with involvement from the Revenue Services, City Planning and City Legal Divisions. Processing of an application often involves an informal pre-consultation process to assist the potential applicant, followed by the submission of an application prior to the issuance of a development's first above grade building permit.

Since the 2018 by-law, new factors inhibiting commercial development have been identified. Residential development and the creation of affordable housing has increasingly become prioritized by both the City and the Province in an effort to address the ongoing housing affordability crisis. This, along with continued pressures to convert employment areas as cited in the City's 2022 Employment Study, have increased the relative cost of developing new commercial and industrial space.

A. Current IMIT Program Supports Economic Development Priorities and Official Plan Vision

The CIP By-law and IMIT program supports the City's economic development priorities for attracting diverse employment and fostering economic activity. As shown in Table 1, the objectives of the IMIT program align with the vision in the Official Plan (OP), which guides all land use planning decisions in the city. The program is an important tool used by the city to achieve land use planning objectives. As the City's economic development objectives evolve, IMIT reviews must consider how the program objectives align within the city's policy context.

Table 1: Summary of CIP Objectives

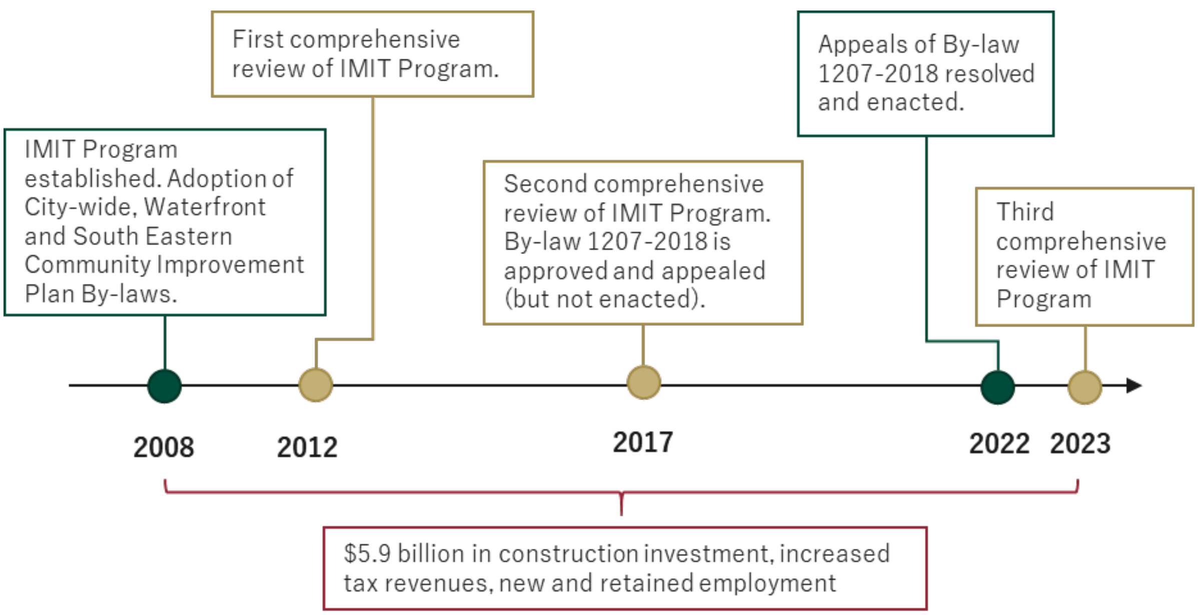
	CIP Objectives
1.	Support City in achieving Provincial Policy Statement, 2014
2.	Support Council objective to use tax incentives to stimulate development
3.	Support remediation of contaminated sites
4.	Support Official Plan vision in developing a vital downtown (OP, p1-2)
5.	Support Official Plan vision for diverse employment, adaptable to changing trends and capture new business opportunities (OP, p1-3)
6.	Encourage establishment of key clusters of economic activity (OP, sec. 4.6.6.b)
7.	Support Official Plan direction to protect Employment Land for Employment Uses
8.	Promote development of key sectors

	CIP Objectives
9.	Improve built form and physical character of underutilized spaces
10.	Require non-office development to achieve minimum requirements of Toronto Green Standard. Office development must meet Tier 2.

B. Key Objectives of the IMIT Program Review

In accordance with CIP By-law (1027-2018), the program must be reviewed every 5 years. As shown in Figure 1, the first comprehensive review was completed in 2012 which was followed by a subsequent review in 2017. The 2017 review resulted in several changes to the program and the consolidation of several separate CIP by-laws into one by-law. Following the approval, the by-law was appealed and was not enacted until the appeal was resolved in the fall of 2022. As a result, the current CIP By-law (1027-2018), has only been in force for a short period of time. Since 2008, the program has resulted in $5.9 billion in construction investment, increased tax revenues as well as new and retained employment.

Figure 1: IMIT Program Timeline



The IMIT Program Review is being undertaken during a difficult economic period for the City. Although the world has begun to return to a state or normalcy following the COVID-19 pandemic, the impacts are still being felt. Office vacancies are at an all time high due to changing work patterns and a "new normal" of hybrid office/work from home arrangements. Simultaneously, the City is also facing significant financial challenges with a $1.5 billion operating budget shortfall for 2024 and a $46.5 billion shortfall over the next 10-years. The Province has also introduced a host of legislative changes aimed at increasing housing supply resulting in revenue losses for the City by way of discounts and exemptions on development charges (an important revenue source used to fund growth-related capital infrastructure). The city is also experiencing a record low of industrial land vacancy (estimated at 1.4% in Q3 2023 sourced from Colliers Industrial Market Report), thus driving up the cost of buying land and expanding existing industrial uses.

The objective of this program review is threefold. First, to review the program performance to date and to identify the financial benefits and costs of approved applications. Second, to assess the current market conditions and the City's fiscal position in relation to the program. Finally, to provide recommendations on how the program can be improved and updated to match the current needs of the city. In addition, the following questions were considered as part of the 2023 IMIT Program Review:

1. Is the program still needed? If so, what changes, if any, should be made to make it more effective and cost efficient?
2. What are the results and impacts of the program? Is it achieving the objectives as identified in the current CIP?
3. What are the benefits and costs of the program? Do the benefits outweigh the costs?
4. Are incentives needed to support the targeted development, and how extensive should they be?

C. IMIT Review Study Process

The study was initiated in November 2022. Central to the study was an extensive consultation process involving:

- Ongoing meetings and discussions with representatives from the City's Economic Development & Culture, Finance, and City Planning divisions;
- Virtual meetings with program stakeholders including landowners or developers of approved IMIT projects, tenants of buildings receiving IMIT grants, other consultants involved in the process, and owners of pre-existing office buildings which have not received grants under the IMIT Program; and
- A public and stakeholder consultation event, held in May 2023.

The consultation process was supplemented with extensive financial and market analysis as well as research. This included:

- A comparison of employment growth trends in Toronto by sector;
- A review of vacancy rates in office space and industrial uses in Toronto and surrounding municipalities arising from the impacts of the COVID-19 pandemic and current market conditions;
- A comparison of commercial tax rates in Toronto and surrounding municipalities;
- Current policies in Toronto which support non-residential growth (e.g. development charges exemption);
- An overview of comparative property tax incentive programs in other North American municipalities.

D. Report Organization

The report is organized as follows:

- **Section 2** provides an overview of the IMIT Program including grant payment structure, program eligibility, and program administration. It also summarizes outcomes of the 2017 IMIT Program Review.
- **Section 3** summarizes the program's performance to date, with a snapshot of approved projects and submitted applications which are under review. A market outlook for office and industrial space is also provided.
- **Section 4** details findings resulting from the consultation processes undertaken over the course of the IMIT Program Review.
- **Section 5** concludes the report and provides a set of recommendations for amending the IMIT Program to better address the city's current context.

2. Overview of IMIT and Review of Comparable Programs

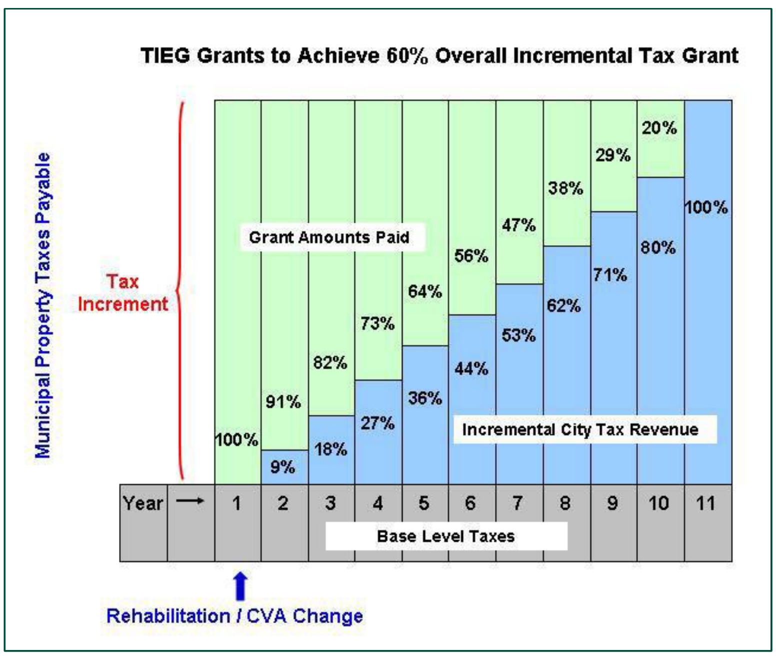
This section describes key elements of the IMIT Program as well as outcomes of the 2017 program review. Comparable programs from other jurisdictions are also discussed and have helped shape recommendations discussed in Section 5 of this report.

A. Key Elements of the Current Program

i. Grant Amount

IMIT is a grant-based program provided to defined non-residential sectors. The grant is comprised of an annual tax increment equivalent grant (TIEG) equivalent to 60% of the municipal tax increment for approved new developments over a 10-year period. The grant amount is gradually reduced over the term with a corresponding increase in the City's tax revenues. This grant can be used by property owners to offset some of the costs associated with the development or redevelopment of the building. Figure 2 below provides a schematic of how the TIEG is applied to a particular development.

Figure 2: TEIG Grant Structure



The IMIT Program also includes Brownfield Remediation Tax Assistance (BRTA), providing up to three years of property tax increment cancellation capped at the total cost of remediation. It is capped at the lesser of 100% of the total increment over the three years or the total cost of remediation. In combination, the TIEG and BRTA grants may be equal to up to 67% of the municipal tax increment increase over a period of up to 12 years or 77% of the municipal tax increment over a period of 12 years for sectors identified as eligible for an “enhanced grant”. To date, the City has approved 28 combined BRTA and TIEG applications under the IMIT program.

With the exception of Transformative Projects and projects with an estimated construction value of $150 million or greater, the IMIT grant amount may not exceed $30 million. The BRTA portion is not capped.

Central to most CIP incentive programs is the “but for” test, being the assumption that in the absence of the incentive, development would not have occurred to the same extent. Hence, the grants are notionally being paid from tax revenue that the City would otherwise not receive.

Once eligibility for the program has been determined, the property owner and the City enter into a Financial Incentive Agreement (FIA) committing both parties to the terms and conditions of the program.

Using the date when the FIA is signed, the base current value assessment (CVA) municipal tax level is established to reflect the unimproved value of the property. Once the development is complete and the property has been reassessed the new CVA municipal tax level is established. The municipal tax increment, or the difference between the base tax level and the post-development tax level, establishes the annual grant amounts over the 10-year period. The grant amounts are fixed using the tax rate in-force at the time of the agreement. No grant payments are made until the first full calendar year after the new property has been reassessed by MPAC.

It is also of note that the City of Toronto exempts most non-residential development from Development Charges. Industrial development is entirely exempt while other forms of non-residential development only pay Development Charges on the ground (first) floor of a project. This exemption, when coupled with the IMIT program, helps support strategic growth and development in the city.

ii. General and Enhanced Grants for Eligible Sectors and Qualifying Requirements

As shown in Table 2, IMIT program eligibility is based on specific employment sectors and land uses. TIEGs are available for buildings that are wholly occupied by an eligible sector or use, or the gross floor area (GFA) they occupy in buildings with multiple tenants. The general grants and enhanced grants apply to different sectors which are defined by the current CIP By-law. Note for enhanced grants, development must be located within an Urban Growth Centre identified on Map 2 of the Official Plan, excluding lands within the Downtown and Central Waterfront.

Table 2: General vs. Enhanced Grants

General Grants	Enhanced Grants
▪ Call Centres ▪ Computer Systems Design and Services ▪ Information Services and Data Processing ▪ Office Building (outside of the Financial District, as shown in Map 2 of the Community Improvement Plan) ▪ Scientific Research and Development ▪ Software Development ▪ Tourism Attractions ▪ Transformative Project	▪ Biomedical Operations ▪ Convergence Centres ▪ Creative Industries ▪ Film Studio Complex ▪ Food and Beverage Wholesaling ▪ Incubators ▪ Manufacturing

IMIT program applications are subject to a number of additional conditions, including the following:

- For all eligible sectors, the development must have a minimum construction value of $3 million and add at least 500 square metres of new eligible gross floor area.
- For office buildings, grants are available for developments with 5,000 square metres or for office uses within a mixed-use building with a minimum contiguous GFA of 5,000 square meters.
- Grants are available for GFA associated with office space, of any size threshold, which has been replaced in accordance with the City's Official Plan policies.
- Office buildings located within the Financial District do not qualify for the IMIT program.
- Buildings, facilities, structures or other devices for the production of renewable energy and the production of cogeneration energy will be eligible for grants provided they are associated with an eligible use.
- If the construction value of a development exceeds $150 million, the application will require City Council approval.
- Office developments must conform to the Tier 2 requirements of the Toronto Green Standard (or an equivalent standard accepted by the Chief Planner). All other developments must meet the Tier 1 requirement.
- The applicant or user of the property must agree to collaborate with the City to promote local employment, including development of a local employment plan identifying opportunities for local hiring and how the applicant or user will utilize available employment programs in the city.

iii. Transformative Projects

Transformative projects are a unique category of the IMIT program that meet a significant size and project cost threshold. Such a project will be high profile and often a potential candidate for a location in other competing markets. There have been few transformative project applications, and to date, only one project (CIBC Square) has received approval. Due to their scale, such projects have significant potential to generate economic spin-offs within the city's economy.

In order to qualify for the IMIT program, a Transformative Project must demonstrate the following attributes by way a business plan:

- a minimum investment of $1.5 billion;
- a minimum of 200,000 square metres net new space that will be constructed and occupied within 7 years (or in the case of a multi-phase project, such alternative time period as Council may deem appropriate);
- create a minimum of 3,000 net new jobs to the City of Toronto;
- be of superior architectural design that includes unique and exceptional attributes;
- have the ability to act as an anchor within its district and to stimulate collateral new investment;
- demonstrate a clear need for financial incentives in order for the development to be financially viable, verified by a qualified third-party satisfactory to the Chief Financial Officer of the City, in consultation with the applicant;
- must be linked to regional transit;
- provide significant amenities that are accessible to the public and will transform the nature of the area; and
- meet all the criteria for a standard IMIT application;

B. Changes to the IMIT Program Since 2017

The 2017 review resulted in significant changes to the previous 2008 and 2012 CIP By-laws. Following the review of the IMIT program in 2017, several recommendations were made to change the program. As shown in Table 3, notable recommendations included consolidating the separate CIP by-laws into one single by-law, strengthening eligibility for the program's requirements and conditions as well as administrative changes. Many of these changes were implemented as part of the adoption of CIP By-law 1207-18.

Table 3: Summary of 2017 IMIT Program Review Recommendations

Recommendation	Description
Simplify the Program	Consolidate three CIP By-laws into a single By-law and simplify definitions.
Restrict Office Eligibility in the Financial District	Eliminate office eligibility in the expanded Financial District boundaries.
Maintain and Simplify Office Eligibility Outside of the Core	Maintain office eligibility outside the expanded Financial District and create one office definition.
Maintain or Enhance Grants for Other Sectors and Uses	Maintain grants for non-office sectors and consider enhanced grants for manufacturing, wholesaling, creative industries, film studios, convergence centres, and incubators
Strengthen Eligibility Criteria for Transformative Projects	Maintain eligibility criteria for these projects across the city. Grants to remain discretionary and subject to Council approval.
Enhance the Brownfield Remediation Tax Assistance Program	Along with environmental testing costs, costs incurred for remediation within 12 months prior to the submission of an application for the BRTA program should be eligible for assistance.

Recommendation	Description
Allow for IMIT Grants within Tax Increment Financing (TIF) Zones	Should the City move forward with the TIF strategy, IMIT grants should continue to be offered to eligible development projects in these areas.
Refine the Administrative Processes for Commercial and Industrial Condominiums	Previous CIP by-laws place restrictions on commercial and industrial condominium eligibility due to administratively onerous grant processing requirements. Recommend applicants engage with a third party "facilitator" for grant eligibility.
Offer Financial Incentives for the Replacement of Office Space in New Mixed Use Developments	Planning objectives to support the replacement and retention of office space in new mixed use development should be supported by IMIT grants for eligible office projects.
Strengthen the Program's Requirements and Conditions	The program should be strengthened with a review of its minimum construction investment requirements, local employment requirements, and Toronto Green Standard requirements.
Consider Development Charges Exemption Wording	Should the City choose to maintain full development charges exemptions for projects receiving IMIT grants, it is recommended that this wording be included within the CIP by-law rather than the development charges by-law.
Consider a Cap on Grant Approvals	Consider introducing a cap on total committed grant amounts to allow for improved financial planning and control over the impacts of the program
Take Measures to Improve Future Grant Estimates	For larger office projects, the City should consider requiring IMIT applicants to obtain a property tax forecast from a qualified expert in order to assist in annual budgeting processes related to the overall program.

Recommendation	Description
Consider a Program Administration Fee	Introduction of a program administration fee to help fund the significant staff time devoted to program administration. Recommended to be scaled according to GFA of the project.
Focus on Ongoing Marketing and Promotion	Recommended that the City place greater focus on marketing, promotion, and outreach to the manufacturing industry, creative industries, and among representatives of other non-office eligible sectors.

C. TIEG Grants in Other Jurisdictions

Tax increment-based grants (TIEGs) are commonly employed by municipalities across North American in order to help achieve land use planning objectives. Through TIEGs and other similar tax-based rebates, municipalities are able to incent growth in certain sectors and geographies, or both.

In Southern Ontario and the Greater Toronto Area, TIEGs are often used as revitalization tools through CIPs to incent growth in commercial districts such as downtown. Such is the case in Hamilton, where both residential and commercial development in the city's targeted growth areas are eligible to receive TIEGs. Similarly in Vaughan, office developments in the Vaughan Metropolitan Centre are granted a tax-based grant through an area-specific CIP.

A typical TIEG program will contain eligibility criteria, which may include a minimum number of jobs created or retained, a minimum development size, in addition to more fundamental requirements such as the location and use of the development.

The IMIT development grant is somewhat unique in comparison to nearby TIEG programs. The IMIT grant is primarily focused on targeting growth in certain sectors, while comparator programs tend to centre around incenting growth in specific geographies. Furthermore, the IMIT program's exclusion of most Financial District developments from eligibility is opposite to what most TIEG programs promote, which is the growth and revitalization of its commercial centres.

In this sense, the IMIT grant is closer aligned with certain property tax incentive and abatement programs in major cities in the United States. For example, the City of Chicago provides a property tax incentive for new industrial and commercial developments and redevelopments through the discounting of assessments (and therefore property taxes) over a 12-year period following the project's completion. In Boston, tax increment financing agreements provide businesses creating a substantial amount of new jobs relief from their incremental property taxes for up to 20 years.

Pittsburgh, New York, and several other major employment hubs in the United States provide these types of programs, which are also often paired with state-led employment and development programs which further incent new employment space – something that is not available in the Ontario context. Of note, many of the TIEG-related programs in both the Ontario and United States contexts include some discretionary component, through either a council vote or an evaluation of the need for the incentive on a case-by-case basis.

A comparison the various municipal TIEGs was completed as part of the IMIT review and is summarized in Appendix A.

3. IMIT Program Performance and Market Analysis

Growth in Toronto’s non-residential investment and development since 2008, particularly office development, has been extraordinary. Multiple factors, including the City’s significant investment in infrastructure, transit, and planning policies, have led to this. Among these, the IMIT program’s development and brownfield remediation tax grants continues to be significant and act as the City’s primary incentive for the development of new employment space. IMIT program grants have been well used in aiding commercial and industrial development since the first grant payment in 2011, and grant activity has been on an upward trend. The current estimated grant schedule for the 10- and 12-year grants now extends to 2037.

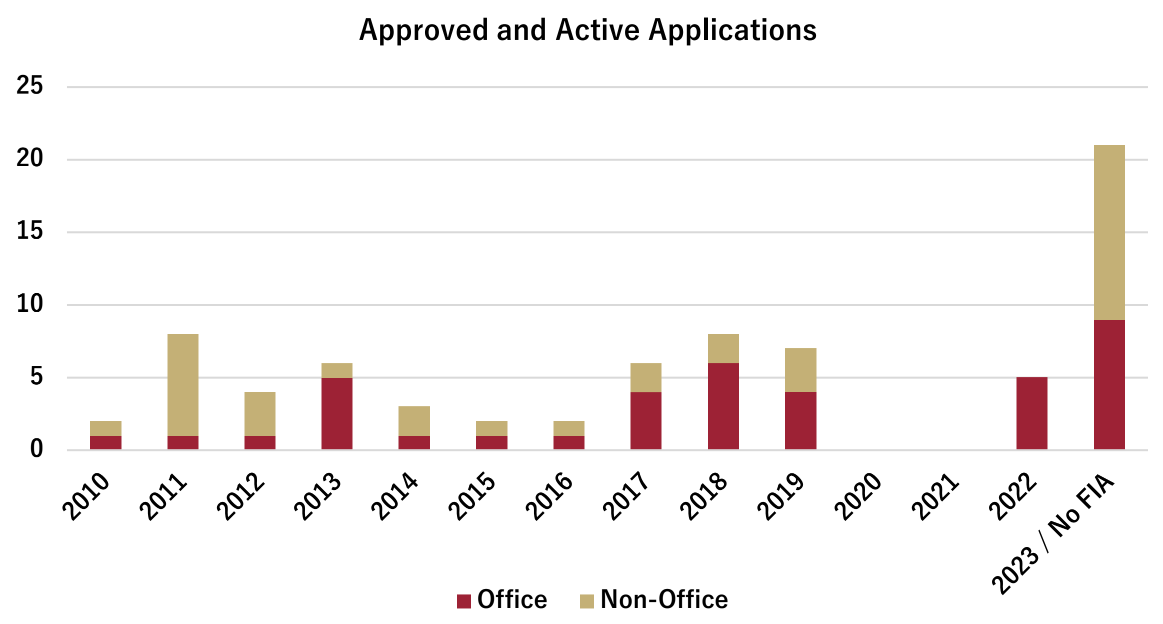
While a significant amount of employment growth has been linked to the introduction of the IMIT program, it is difficult to isolate the impact of the grants in relation to other market factors. These factors include the macroeconomic cycles, the COVID-19 pandemic, the rise of Downtown office work and tech-related sectors concentrating growth in Toronto’s downtown, and other City initiatives to plan for employment uses and geographies. These factors, which we have excluded from the direct assessment of the program’s performance, are included in later sections, including Section B Market Outlook for Office and Industrial Space as discussed further below.

A. IMIT Program Performance

i. 74 Projects Have Been Approved, with 14 Active Applications Under Review

In total, 74 projects have been approved under the IMIT program for development grants across a range of sectors (four of which have only received BRTA grants). These projects include developments which have been constructed and are occupied, developments currently under construction, as well as developments approved under the IMIT program which have not begun development yet, or have not signed a Financial Incentives Agreement.

Figure 3: Projects Approved Under IMIT Program



Activity under the IMIT program has increased significantly since the previous program review in 2017. As shown in Figure 3, since 2018, 33 projects were approved for the grant, representing 45% of the total projects to be awarded development grants since the first grant was provided in 2010. This trend is likely understated given the lack of grants approved in 2020 and 2021 due to the COVID-19 pandemic.

ii. Grants are Given Primarily to the Office Sector

While the IMIT program represents a cross-section of the city's most important employment sectors, historically the program has been dominated by the office sector and related uses, including information services, convergence centres and incubators.

Table 4: Approved Projects by Primary Eligible Sector

Sector	IMIT Project
Office*	42
Manufacturing	11
Food and Beverage Wholesaling	3
Warehousing	2
Convergence Centres	3
Incubator	3
Information Services and Data Processing	1
Film Studio Complex	3
Creative Industries	2
Tourism Attractions	2
Biomedical Operations	2
Total	**74**

**Includes Transformative projects*

As shown in Table 4, over 55% of IMIT approved projects are related to office uses. This number increases further when including categories such as incubators, convergence, and information services – all of which in practice are generally office-based, though are usually not located in major office areas. It is estimated that the majority of new employment space created for these projects are similar in nature to typical office uses. As of 2023, only one transformative project had been approved for an IMIT grant.

Overall, the approved projects relate to most of the sectors targeted through the IMIT program with the office sector comprising the majority of approved applications. This trend is expected particularly considering the general demand for new office space in the Financial District and Downtown in the period prior to its exclusion in the latest approved CIP By-law. Of the eligible sectors which qualify for enhanced grants, creative industries and bio-medical sectors are generally underrepresented representing a total of three out of 74 approved projects.

iii. IMIT Grants Represent $5.9 Billion in Projects Through 2037

In total, construction investment associated with completed projects receiving the IMIT development grant have surpassed $4.0 billion, with an additional $1.9 billion of investment scheduled for incomplete projects.

This total investment has resulted in 14.7 million square feet of grant-eligible employment space constructed, with an additional 2.9 million square feet of floor area yet to be constructed.

As shown in Table 5, separating out office uses finds that over three-quarters of both eligible floor space and investment associated with IMIT approved projects are attributed to the office sector.

Table 5: Total Investment and Gross Floor Area of IMIT Projects

	Completed	Incomplete	Total
Total Investment	$4.0 billion	$1.9 billion	$5.9 billion
Total Eligible Square Footage	14.7 million sf	3.9 million sf	18.7 million sf
Office Investment[1]	$3.2 billion	$1.1 billion	$4.3 billion
Office Square Footage[1]	11.4 million sf	2.7 million sf	14.0 million sf

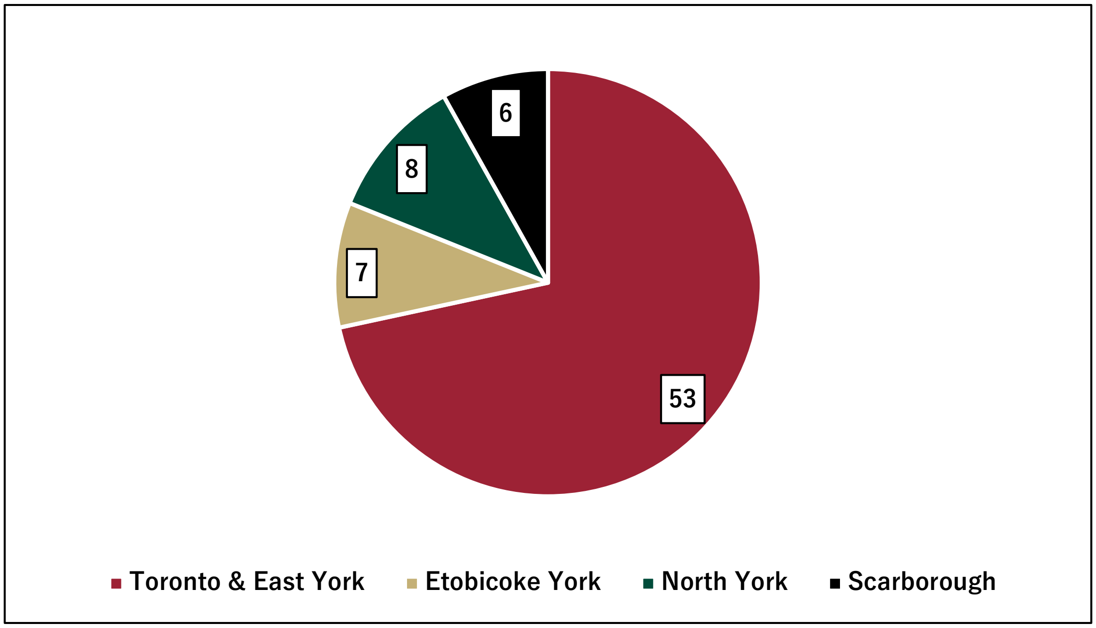
[1] Includes Transformative projects

iv. IMIT Grants Overwhelmingly Concentrated in Downtown Toronto

By geography, approved IMIT projects are highly concentrated within the Downtown area of Toronto. This is expected, correlating with overall job growth in the city. As shown in Figure 4, approximately 70% of IMIT projects are located in Toronto-East York, accounting for roughly 90% of the total grant payments, over 80% of the generated investment, and nearly 85% of eligible new floor space.

Of note, the distribution of IMIT projects across the city has remained somewhat stable over time. The 2017 review found that 8 of 33 approved projects were located in Etobicoke York, North York or Scarborough – effectively the same share as it is today. However, areas other than Toronto & East York have in recent years seen new office developments participate in the program.

Figure 4: Project Breakdown by Geography

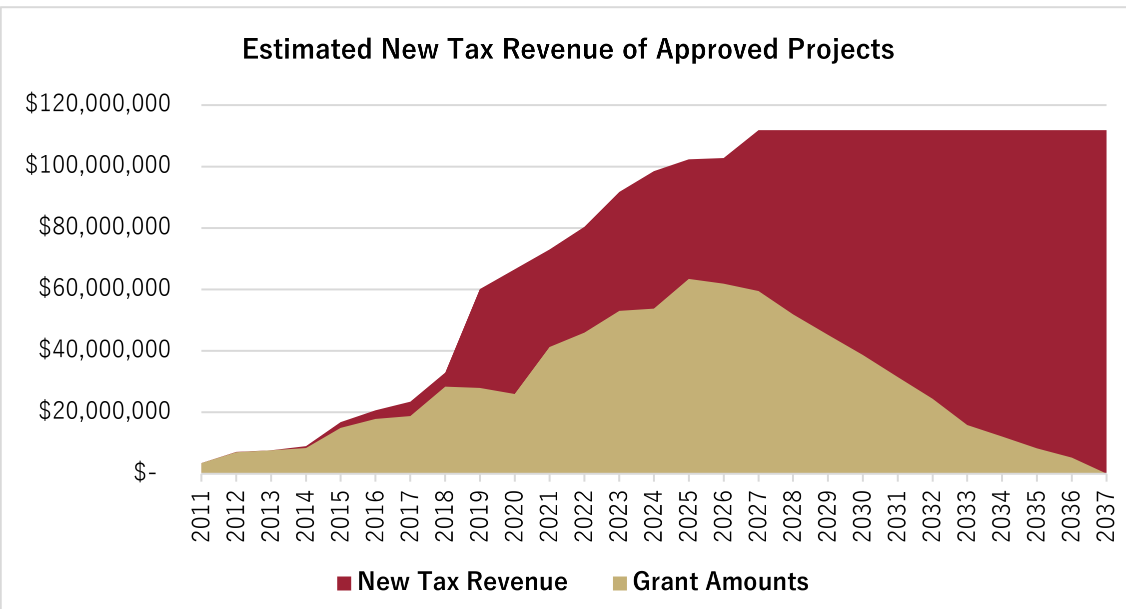


v. Projects Provide a Significant Increment to the Cities Non-Residential Tax Base

The financial benefits to the City derived from these projects are similarly substantial. Since 2008, IMIT developments have contributed approximately $493 million in new tax revenue while receiving grant payments, resulting in $224 million of new net tax revenues (less grant payments of approximately $269 million). As shown in Figure 5, through 2037, estimated new tax revenue over grant payment periods are projected to be $1.3 billion for a net benefit of $571 million.

After the project's 10 or 12-year grant period, the city will receive 100% of future tax revenues. Projects currently approved to date and with an estimated grant schedule are expected to generate a total increment to the non-residential tax base of approximately $110 million per year. As shown in Figure 5, this total increment will not be received in full to the City until the end of the grant schedule of current projects (2037). It is also important to recognize that new non-residential space that benefits from IMIT will create marginal cost increases for City programs and services. However, the economic benefits of construction jobs, investment, employment created post-construction and net new non-residential tax revenue (which helps to subsidize many of the programs and services city residents receive) outweigh the additional marginal cost increases.

Figure 5: Estimated Net New Tax Revenues of Approved Projects (2011-2037)



These estimates exclude budgetary tax increases, reassessments, and for incomplete projects, are based on the forecasted grant schedule. The financial analysis of the program described above is based on the assumption that all the approved projects will qualify for the full grant amounts over the period during which they are eligible. In practice, this is not always the case as changes may and do occur from year to year which result in reductions to the grant amounts. While in the past this has not been an important consideration, with the current high level of vacancies in the office market and the expectation that this situation will persist, the factor is now significant enough to be taken into account in the projection of future grant amounts and the resultant net taxes, particularly given that approximately 84% of the value of the grants are related to office buildings.

Currently, the Toronto office vacancy rate is over 12% and has been rising steadily as new demand slows, lease renewals often involve reduced amounts of space and new buildings have come on the market. This situation is likely to persist for a number of years and will affect the office buildings that are receiving IMIT grants. While it is difficult to predict how large the effect of vacancies and other factors that are considered in determining annual grant amounts will be, it is not unreasonable to anticipate that over the period to 2037, the actual amount of grants will be approximately $40 million less than if these buildings were fully occupied, representing about 10% long-term vacancy in office space.

B. Market Outlook for Office and Industrial Space

Since the previous review was undertaken in 2017, conditions affecting the supply and demand for space to accommodate employment have undergone a period of dramatic changes. However, not all types of space have been affected in the same way. This section discusses these changes in terms of the different types of space, employment sectors, and locations. It starts with a short review of how conditions have evolved since the IMIT program was initiated in 2008. Secondly, since decisions regarding the IMIT program will be forward looking, the market outlook for the medium and long term is also discussed.

i. Office Employment Patterns Have Shifted Drastically Since 2008

Since conditions affecting office sector employment have evolved so much since the IMIT program was first established it is helpful to be reminded of how the key demand factors have shifted.

ii. The rise of the '905' office market

Historically, most of Toronto's office employment was concentrated in the city's downtown area. However, as the Toronto CMA grew during the 1980's and 1990's and an increasing share of the labour force lived beyond easy reach of the city centre focussed public transit system, companies began to locate significant parts of their organizations in the surrounding regions. Partially to suit suburban based employees, as well to take advantages of lower real estate costs and property taxes, a substantial amount of office space was constructed in business parks in Mississauga, Oakville, Richmond Hill and Markham. Occupants for the new space were drawn from a wide range of sub-sectors notably finance, insurance and telecommunications.

In Toronto, the office market stagnated from 1990 to the mid 2000's after a major recession led to the collapse of several of Toronto's office developers. This period was signified by the partially-built elevator shaft at the centre of the site of the Bay-Adelaide project. Construction was halted in 1990 and did not resume until 2006. It was in this context that the City initiated the IMIT program.

iii. 'Millennials' drove Toronto's office market recovery

As the post-baby boom generations entered the labour force and as the office sector continued to grow, many organizations, especially in the tech sector whose employees tended to be younger and who favoured an 'urban lifestyle', began to add space in central Toronto. Buildings close to Union Station and which provide easy access both to the TTC subway and the GO system were favoured since they suited both suburban commuter employees and those living within walking distance of the many new condominium apartment buildings.

By 2020, growing demand had outstripped the supply of office space resulting in a historic low vacancy rate of 2.9%. New projects were in the pipeline and when finished, were expected to provide sufficient space to return the market to a more normal supply and demand balance.

iv. The COVID-19 pandemic was the catalyst of a paradigm change in work practices

When the COVID-19 pandemic forced most office workers to work from home it was not clear how practical it would be to run organizations remotely. As it turned out, the forced change was considerably more successful than many had anticipated. It is generally evident that most employees prefer working from home at least part of the time – the so-called hybrid model. At the same time, many organizations are striving to bring employees back to the office as they are concerned that productivity, innovation and firm culture is declining.

This push and pull is likely to continue for some years until a new norm settles in. At present, it seems unlikely that office work practices will revert to the pre-pandemic norm. In no small measure this is because the quality and convenience of digital communication will continue to improve further reducing the physical need to go to the office. Organizations and building owners are becoming very aware of this and in response are adding amenities in order to make offices more appealing.

The Toronto office market appears to be recovering more slowly than many other major cities. The reason for this is not clear but may be related to the very long average time of the daily commute which is removed when working from home.

v. A mixed outlook for Toronto's office sector

Within the commercial real estate industry, there is a widespread view that it is likely to take many years for Toronto's office market to adjust to new work practices. Currently the availability rate[1] of office space is over 18% and given the additional space currently under construction and the declining demand as tenants adjust their needs to reflect new work arrangements, this rate is likely to increase further. It is expected that older buildings will be the most affected. In response, some of these buildings are likely to be extensively renovated with up-to-date mechanical systems and improved amenities. A smaller number will be converted to other uses, notably residential[2] while the remainder will compete for tenants seeking low-cost space.

Overall, the quality of Toronto's inventory office space will likely improve. Because of the need for buildings to be improved in order to compete, the result will be a healthier work environment, improved digital capabilities and better amenities. This in turn will enhance Toronto's appeal as a location for office users both in the GTA region and more broadly.

For the foreseeable future, the outlook for Toronto's office market is, at best, mixed. Downward pressure on space-needs as a result of changes in work practices will take a number of years to have its full effect. The share of workers in office-oriented sectors working from home has increased and will continue. The space requirement for those working in a hybrid structure has yet to be fully understood but overall is very likely to result in a lower floor space per worker ratio than what prevailed pre-pandemic. Balanced

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[1] Availability rate is the sum of vacant space and space known to be coming vacant divided by the total supply. The rate includes a portion of new space under construction which is actively being marketed.

[2] Conversions are likely to be limited in number as few office buildings are amenable to conversion and because the cost of conversion is often close to the cost of new construction where there are fewer unknowns.

against these negative factors is a positive long-term employment growth outlook which will bring with it demand for space, all be it at a lower rate than in prior periods. As well, some of the existing supply is likely to be removed either through change of use or demolition. In light of this outlook, there is every reason to expect that for much of the current decade, office-based organizations seeking to expand or who are new to the city will have little difficulty obtaining the size and quality of space they require.

vi. Lack of Available Land for Industrial and Manufacturing Uses is a Major Issue

In sharp contrast to the negative conditions affecting offices, the market for industrial type space has a shortage. From a supply point of view, the fundamental problem is that there is very little remaining vacant industrial land left in the city and that, unlike other uses, it is difficult to create new capacity through intensification or use conversion. Current market statistics data indicates the available rate in the city has declined to 1.4% (Colliers, Toronto Industrial Market Report Q3 2023). Indeed, one of the reasons for the shortage is that a considerable amount of Toronto’s industrial land has been converted to other uses and the pressure to convert even more continues. In most instances, the impetus behind a conversion is that the existing industrial space is obsolete.

Although the supply of industrial space in Toronto is generally declining both in quantity and quality, demand is not. Population growth brings with it additional need for goods and services that require space. While some of this requirement can be met from the surrounding region, for many companies a Toronto location is very important. This is especially true for those with employees that rely on the TTC to get to work.

The long-term demand and supply outlook for industrial space is likely to tighten even further. Some new space may be developed through the redevelopment and intensification of existing industrial properties; however, the economics of such projects is usually challenging. For these reasons, Toronto is at a disadvantage in its ability to retain existing users, especially those with expanding needs, and to compete for new growth.

In summary, for the two major sectors considered, the medium- and long-term outlook is very different even though the underlying employment trend for both is positive.

- The office sector is experiencing an unprecedented period of change. This change was triggered by the COVID-19 pandemic but is being driven on by digital technology that has significantly reduced the dependency on office space. Absorption of the overhang of excess space may take five years or more to occur until a new balance of space per employee is reached and is likely to also require both a sustained period of economic growth as well as stabilization of hybrid work models.
- Industrial space is in short supply in Toronto and because new supply is constrained by a lack of vacant land, the overall quality of the city's existing stock of space is declining. Conversion pressures are being exacerbated because other uses particularly residential are more valuable. Consequently, redevelopment and or intensification for industrial type uses rarely occurs.

The outlook for the two sectors is a key consideration for the policy recommendations set out in Section 5.

4. Stakeholder Consultation

An extensive consultation process was undertaken as part of the IMIT program review. Discussions were held with a cross-section of over 20 external stakeholders, representing industry groups, real estate and developer associations, BIA representatives, and government organizations.

Consultations with stakeholders were held primarily over Microsoft Teams video conferencing, consisting of both one-on-one and group calls. These calls were focused primarily around identifying the extent of the need for the IMIT program, the impact of the program on key sectors, the state of growth across industries and future demand for new employment space. Insights regarding the program's structure and delivery were also welcomed.

In addition, multiple inter-divisional meetings were held internally with City staff, including a key stakeholder session held in February 2023 attended by 17 City staff members representing the City's Economic Development, Corporate Finance, Revenue Services, City Planning and Legal Divisions.

Key themes resulting from the consultations are organized into internal and external stakeholder feedback. For the purposes of confidentiality, summaries of stakeholder comments are kept anonymous, and key identifying details have been omitted.

A. Internal Stakeholders

The following themes are compiled from meetings with City staff over the project timeline. This includes two key interdivisional meetings held in February 2023 and May 2023, as well as other individual meetings with staff.

i. Job Growth Beyond the Downtown Core

- Staff noted the uneven nature of job growth across geographies over the past 10 years. While historically the IMIT program has focused on providing new office employment in the city's core, more recent updates to the program have shifted priorities away from this. The continued difficulty the program sees in focusing key sector growth outside of the Toronto East York area suggests more emphasis on this aspect of the program may be warranted.

- In the greater context of the city's employment, equity and overall city-building objectives, stakeholders suggested that programs such as IMIT may want to further explore applying a more geographic lens to the program, including a greater focus on supporting employment nodes (including transit-oriented developments and urban growth centers) outside of the Downtown area.

- Staff showed support for the continued exclusion of office uses in the Financial District, as introduced in the 2018 CIP by-law.

ii. Program's Grant Quantum and Length Should be Reconsidered

- City staff across various divisions suggested that the program's grant quantum and length should be reconsidered, noting that the current financial commitment of the program was unsustainable moving forward, and that the non-residential development context was significantly different from when the program was first introduced. Reducing the administrative burden of the program was also identified for consideration.

- Stakeholders noted the significant cost of operating the IMIT program, in the form of foregone property tax revenue. To add, the long "tail" of the program, given its 10+ year grant cycle, was noted as a liability of the program.

- The lack of a direct linkage between these costs and the intended benefits of new employment space that would otherwise not exist was highlighted.

- Staff suggested exploring the possibility of reducing the grant quantum and/or the grant length in order to reduce the overall financial impact of the program. Staff also recommended eliminating office uses from the program with the exception of key geographies (e.g. urban growth centres outside of the Downtown area).

iii. Toronto's Development Context Has Changed Significantly Since IMIT's Introduction in 2008

- Several internal stakeholders identified the need to rethink the role and purpose of IMIT due to significant changes to the commercial development context since the program's inception.

- In particular, key drivers justifying the program, such as high commercial tax rates (compared to other municipalities GTA) are no longer as prevalent as they were in 2008 as the City has made significant progress in lowering its commercial tax rate. The City's investment in infrastructure and services over the past two decades also have shifted the relative attractiveness of the city as a destination for commercial development.

- Despite major changes in the development context since the 2008, staff across divisions have acknowledged the important policy role IMIT plays in attracting investment, both international and domestic.

iv. A Refocus and Refinement of IMIT Eligibility Criteria is Welcome

- A consideration for refocusing and refining the eligibility of the program was supported across the city divisions consulted. Suggestions were made that the criteria for the grant was too broad, and that the program should seek to better meet city-building objectives. Exploring other grant structures to target specific objectives, reviewing and/or reducing the list of eligible sectors, and reorganizing the general and enhanced grant categories were all put forward as potential areas of examination.

- In particular, the program's "but for" test received criticism in the stakeholder discussion, noting that the test was too vague, and was ineffective at determining projects which would benefit most from the grant.
- While the potential for exploring a set program budget, or program "cap" was discussed, it was ultimately not pursued due to the concern of a lack of flexibility given to program by such a change.
- Additional mechanisms to monitor and control the cost of the program were discussed. In particular, requiring a greater share of IMIT applications to require Council approval was considered as an option to limit the financial liability of the program.

B. External Stakeholders

i. Program Provides Significant Benefit and is Worth Continuing

- General feedback, particularly amongst those stakeholders associated with commercial and offices sectors, stated that the program has a significant benefit to landowners and tenants.
- Stakeholders noted that IMIT grants can help overcome development barriers in certain areas and catalyze new development. A removal of such a grant would have significant impacts on projects that are marginally viable.
- Retention of companies and jobs is perhaps as important as attracting new investment. The IMIT program provides an incentive for companies to grow and expand within the Toronto area, rather than relocate. This

case was made particular from stakeholders representing industrial and manufacturing sectors.

ii. However, Other Factors are Reducing the Impact of the Program

- While the feedback on the program's impact was generally positive, external stakeholders were also in consensus that the program is less significant in making projects viable than in the past. A number of stakeholders suggested that due to other factors effecting decisions, the "but for" test is no longer as relevant in determining whether a project should qualify for the grant.

- Industry stakeholders noted the myriad of constraining factors on new non-residential development that IMIT does not address. For example, firms are struggling to expand and/or relocate within the city given labour force issues including, but not limited to, the increasing cost of living in Toronto that is deterring workers.

- Another key impact is the decline in demand following COVID-19, and the long-term changes to office working trends. For many future office projects, the likelihood of sluggish demand and persistent high vacancy rates will prevent projects from proceeding, regardless of IMIT-related benefits.

iii. Limited Uptake by Industrial and Life Sciences Sectors

- While the IMIT grant is important, there have been limited industrial and life science projects which have taken advantage of the program due to broader issues such as development constraints including lack of land (i.e. in the case of industrial) and broader financial challenges in the life sciences sectors (i.e. significant start-up costs for small companies).

iv. The Program is Not Widely Understood and The Application Process and Requirements are Considered Onerous

- As the analysis has shown it is major developers and companies that have received the bulk of grants, and they are very well aware of the program. At the same time, it is the view of some that the application process is not as clear as it might be and that some of the grant conditions are overly complex.

- Smaller organizations that do not deal with the City on a regular basis tend not to be aware of the program and are considered less likely to pursue an application despite the potential benefit.

5. Conclusions and Recommendations

The IMIT grant program was originally introduced in 2008 for the purpose of incenting the development of new space to accommodate employment. The program provided a 10-year reduction in property taxes to mitigate Toronto's significantly higher commercial and industrial tax rates compared to other municipalities in the GTA.

Since 2008, much has changed. The tax rate differential between the City of Toronto and its nearest competitors in the GTA has narrowed considerably and a large amount of new space, predominately office, has been built. The COVID-19 pandemic coupled with improvements in digital technology has had a dramatic effect on work practices. This has resulted in a large and ongoing decline in the demand for office space. In contrast industrial type space is in short supply, and limited new development is occurring due to a shortage of vacant land within Toronto's municipal boundaries.

In part because of the lingering effect of the pandemic, the financial position of the City has deteriorated which is constraining its ability to fund the IMIT program in its current form, even though over time the property taxes from the new space will far exceed the grant amounts.

It is against this background and taking into consideration the analysis undertaken and input from stakeholders that the following conclusions and recommendations have been arrived at.

A. General Conclusions of IMIT Review

i. The IMIT grant program should continue together with the BRTA

- It is an effective economic development tool since it encourages investment in new space, which in turn, accommodates employment and generates additional property taxes.

- It is a widely used and well recognized type of grant that helps improve Toronto's competitive position in regional/international markets.
- The program is also an important tool to help support the protection and retention of valuable employment lands in Toronto.

ii. The scope of grants (amounts, duration, and eligible sectors) should be narrowed

- City's financial position has changed since 2008 when the program was first developed.
- The tax differential between the City and the surrounding Regions which IMIT was designed to address, has narrowed considerably, reducing the need to offer such large incentives in order to attract development and users from targeted sectors.
- There are many existing multi-year commitments relating to approved applications and potentially additional ones for applications that are pending.
- The 10-year duration of grants can be problematic since economic conditions can vary substantially over such a long period. This is further complicated because once approved, a grant cannot be revoked and its initiation does not expire.

iii. Consideration should be given to expanding eligibility to include major renovation and adaptive non-residential reuse projects

- Incenting major renovations and adaptive reuse of existing buildings would be helpful for sectors where land is not available (industrial, specifically).
- Expanded eligibility would help reduce residential conversion pressures.
- Across many employment sectors, there is a substantial need for additional higher quality space.

iv. But-for Test is problematic and not necessarily effective

- There are no clear objective "but-for" standards against which to assess applications.
- Investment decision-making criteria vary widely and include both financial and non-financial considerations.
- In the context of the financial elements influencing development in Toronto, the quantum of IMIT grants is not self-evidently large enough to make or break a project decision.
- In the absence of a "but-for" test, it is important to identify clear outcomes that each program grant is expected to achieve In addition, there may be a need for an approval process which provides Council with the option to decide if it wants to commit to a grant.

B. Program Recommendations

i. Reduce the Amount and Duration of Grants

While providing support to help achieve employment objectives continues to be important, the City's financial challenges are such that the scale of the IMIT grants needs to be reduced. The degree to which grants should be modified does not have a clear-cut answer. It is also important to keep in mind that over the period during which the grant is being provided, increasing amounts of property taxes from the benefitting properties are being paid and the new space is accommodating jobs.

Currently, the general grant amounts to a total of 60% of the municipal portion of the tax increment over a 10-year period, scaling down annually from 100% in the first year. For jurisdictions that have tax increment program, this is a common approach. Based on the City's current commercial and industrial tax rate, over the 10-year period the grant would amount to around 8% of the assessed value of the property. However, in relation to current values the percentage is significantly lower as assessed values are on a 2016 base year.

For properties that are eligible for the enhanced grant and/or the BRTA, the total over a 12-year period can be up to 77%.

There is no technical method that can be used to establish a lower alternative grant amount and term. However, three factors warrant being taken into account:

1. the financial situation of the city,
2. the timeframe for the development and occupancy of new projects,
3. the importance of demonstrating the commitment that the city places on welcoming new growth in form of a grant.

If the City's financial position were the sole factor to be considered, a case could be made for eliminating the grant entirely. However, from the perspective of project viability, the first few years are critical as they cover the high-risk period from project completion to, ideally, full occupancy.

The third factor is more difficult to assess as it is not directly related to either the financial position of the City or to the specific costs and revenues of projects. Instead, it should be considered in relation to how Toronto's overall merits from an economic development perspective will be regarded in comparison to other communities. This can be a particularly important issue when location decisions involve multiple cities. In such situations, having a consequential tax grant program is often seen as a prerequisite.

Balancing the factors discussed above, it is recommended that a reduction in the program grant term from a basic 10 years to 6 years be considered. Secondly, it is also recommended that the amount of the General Grant be scaled down annually from 100% in the first year to 20% in year six. Over the 6 years, the grant would amount to 60% of the total taxes. It is also recommended that the enhanced grant be eliminated but that the BRTA be continued in its current form.

ii. Continue to Apply to New Construction and Expand Program to Projects that Adapt and/or Rejuvenate Existing Buildings

In order to qualify for a grant, developments must have a minimum construction value of $3 million and add a minimum of 500 square metres (approximately 5,400 square feet) of net new space. It is recommended this practice continue; however, consideration should be given to indexing the $3 million threshold to current day dollars using the non-residential construction price index sourced from Statistics Canada. For example, it would be reasonable to increase the $3 million threshold (as identified in the 2018 CIP By-law) to $4.4 million (assuming an index of roughly 45%).

While increasing the supply of brand new industrial space in Toronto is a preferred outcome of the IMIT program, as a practical matter, the potential is very small because of the extremely limited supply of suitable land. The quality of the existing stock of buildings is deteriorating because of aging and obsolescence relative to current design specifications. This in turn leaves many properties containing older buildings vulnerable to change-of-use pressures.

To help mitigate this trend it is recommended that eligibility for IMIT grants be expanded to include projects involving existing industrial-form buildings of at least 1,000 square metres (10,800 square feet) that undergo substantial renovation to provide up-to-date services and address obsolescence. In the event the renovation was not significant enough to raise the assessment value of the property, no grant would provided. The City could explore other types of grants should there be a desire to help facilitate renovations not tied to assessment growth.

This approach could also be applied to the adaptive-reuse of office buildings for non-residential purposes such as life-sciences.

iii. Significantly Narrow Eligibility of Office Buildings

The office sector has been by far the largest beneficiary of the IMIT program. During the years the program has been operating, the supply of new high quality office space has increased substantially, particularly in the Downtown Core. This new space accommodates thousands of new jobs. Today, however, because of the sudden but growingly accepted shift to hybrid working arrangements that was triggered by the COVID-19 pandemic, the demand for office space has dramatically declined.

As the full effect of this paradigm shift has yet to seen, apart from special situations, very little additional office space is likely to be constructed for the foreseeable future. For this reason, there is no compelling reason for the City to continue offering incentives to build additional office space. This is particularly valid since, when reassessed, the values of many existing office buildings are likely to decline. This could lead to a reduction in the City's total non-residential current value assessment during a period of financial challenges.

Notwithstanding the general recommendation set out above, there are a limited number of situations where the City might consider it worthwhile to provide an incentive grant, outside of the Financial District, for new office space:

- Space built specifically to accommodate either the headquarters or a large division of an organization and where Toronto is demonstrably competing with other locations.
- Space that is within or located adjacent to an associated industrial building.
- Space being built to satisfy the City's office replacement policy.
- Space that supports city planning objective in key geographies (e.g. office development around transit stations, neighbourhood improvement areas, MTSAs outside of downtown, UGCs outside of downtown).

It is important to recognize that, unlike in previous years, the take-up in the program is likely to be very limited in the coming years as the office market continues to adjust to the new market conditions.

iv. Eliminate Enhanced Grants

The program review identified that the grant structure and the associated administrative requirements are complex but do not achieve noticeably better results than would be the case with a more simplified approach. Accordingly, is recommended that the two tier "General" and "Enhanced" structure be eliminated and replaced with a single grant category.

Combining the two categories will eliminate the administrative necessity of monitoring differentiating grant eligibility requirements.

This approach would not affect the Brownfield Remediation Grant as it is a stand-alone program.

v. Simplify the List of Eligible Sectors

In keeping with a reorientation of the IMIT program to provide a more, built-form focus, it is recommended that the current sector-based eligibility can be significantly narrowed. Given the likely large long-term supply of office space and the strongly recommended continuation of grant eligibility for industrial space, this change would not be detrimental to the supply of space for eligible sectors but would reduce the program's administrative requirements.

Organizations in the current list of eligible sectors mostly require office space of which there is likely to be an adequate supply for a long period. Nevertheless, should a particular need arise, the program could continue to provide grants for new projects in specific locations where supported by planning policy.

Most organizations in the other current eligible sectors require industrial type space which it is recommended should continue to be eligible to receive grants.

A few sectors that are also important to the economic future of the city but which do not have space requirements that directly fit into either the office or industrial space categories should remain as specifically eligible sectors.

They are:

- Biomedical Operations,
- Convergence Centres,
- Creative Industries,
- Scientific Research and Development,
- Tourism Attractions,
- Transformative Projects

vi. Remove the "But For" Test Requirements

It is recommended that the "But For" test be eliminated. In view of the potential reduction in the scale of future grants, it would be difficult to apply test measures with a reasonable level of certainty. This recommendation is in keeping with feedback received from staff and stakeholders.

Narrowing of IMIT Program grant amount supports this change. However, Council should still have the ability to approve/deny an application based on the other criteria and/or the financial position of the City.

In the absence of the test, it is recommended that additional planning, financial and economic development based criteria be established to assess applications and to support recommendations.

vii. Streamline Local Employment Related Requirements

The IMIT program requirement that IMIT grant recipients collaborate with the City to promote local employment should be reconsidered within the context of the changing program.

This is not to suggest that the promotion of equitable employment opportunities in the city is not important but that rather that the IMIT program is not an efficient or effective vehicle. The requirement brings with it significant administrative responsibilities for the City and requirements that grant recipients, especially smaller organizations are often ill-equipped to meet.

It is worth noting that the support of growth in the supply and improvement in the quality of industrial space is in itself advantageous for employment equity as many of the jobs that will be accommodated are of the type that the local employment initiatives are aimed at increasing.

viii. Institute a Sunset Provision for Qualifying Developments

It is recommended that IMIT grants be conditional upon the applicant proceeding with the benefitting project within a timeframe that is reasonable given the nature of the project. It is suggested the time limit should be no longer than 5 years from approval for the IMIT application to commencement of construction. Applicants would be permitted to renew the application which would be assessed based on the conditions of the program at the time of the renewed application.

Currently, once a development has been approved for an IMIT grant there is no limit on how much time can elapse before the benefitting project is constructed. This may extend for many years during which the conditions the grant was designed to address may no longer apply.

ix. Rebrand and Relaunch the Program

With the suggested reorientation away from office development towards what are more likely to be additional smaller projects, it is recommended that more effort be put into promoting and explaining the IMIT program to property owners and users especially those involving industrial type space.

Should it be decided to expand the program eligibility to include major renovation projects, appropriate information will be required setting out, among other things, the application requirements, and how a grant would be determined.

The program name - Imagination, Manufacturing, Information and Technology (IMIT) was cited by several stakeholders as being confusing. It is recommended that given the significance of the changes to the program that may be made, it would be beneficial to rename the program to reflect its future emphasis. This would also provide an opportunity to attract new interest in the program and, more importantly, what grants are designed to help achieve.

C. Financial Impacts of Proposed Changes

The following provides a high-level summary of the financial impacts related to the proposed changes for the IMIT program as well as other financial considerations.

- Grants related to current approved applications will account for $460 million up to 2037. However, with the level of office vacancy anticipated over this period, this amount may be reduced by (in the order of) $40 million. Consequently, the net benefit may increase from $571 million.
- It is important to note applications which are currently under review and may be approved for grants are not accounted for in the analysis throughout this report, including the assessment in the point above.

- Given the medium to long-term outlook for market conditions and the recommendation to greatly restrict offices from receiving grants, the likelihood is that going forward, the total commitment for new grants would dramatically lower than in the past.

- Analysis of the grants approved to date indicates that office buildings (including CIBC Square, approved as a Transformative project) will account for close to 90% of the total.

- Given the proposed reduction in the scale of grants and the limitations in eligibility, it is reasonable to anticipate that future grants under the program are unlikely to exceed 10% of the grants approved to date and from pending applications. This amount could change if a Transformative project were to be approved by Council since it would inevitably involve a very large grant, but also have a transformative investment and job impacts for the future.

- The potential scale of grants for industrial type buildings is limited since the number of projects is limited because of vacant land. Even taking account of potential building additions, adaptive reuse projects and major renovations of existing buildings, the grant exposure is much lower than for a typical office building.

Appendix A

Jurisdictional Scan of TIEG Programs

Municipality	Hamilton	Brampton	Vaughan	Niagara (Region)
Program Name(s)	Revitalizing Hamilton – Tax Increment Grant Program	Citywide CIP (217-2022)	Community Improvement Plan (CIP) for the Vaughan Metropolitan Centre (VMC) and other Intensification Areas	Tax Increment Based Grant; Brownfield Tax Increment Grant; Brownfield Tax Assistance
Year Introduced	2022	2022	2016/2017	2012
Eligible Areas	Areas under associated CIP, including various commercial districts and Downtown Hamilton	Citywide	Vaughan Metropolitan Centre	Designated employment lands within Fort Erie, Niagara falls, Port Colbourne, Thorold and Welland
Eligible Uses	Residential and commercial, with some exceptions	Office uses in the following sectors: Advanced Manufacturing; Food and Beverage; Health and Life Sciences; Innovation and Technology	Large office developments	Non-residential uses, which are approved based on an evaluation scoring matrix
Incentive Structure	62.5% (average) TIEG over 4 years for standard projects, 100% for enhanced projects	50% (average) tax increment grant over 10 years, starting at 100% in the first year	• Development Charge Grant/Reduction • Development Charge Deferral • Tax Increment Equivalent Grant (TIEG) • Cash-In-Lieu of Parkland Exemption/Reduction • Podium Parking Incentives (VMC Only) • Expedited Development Approvals	• Maximum score of 20 earns a 100% TIEG for 5 to 10 years based on location • Minimum score of 8 earns a 40% TIEG based on location
Other Details	• Enhanced projects achieve environmental sustainability standards and/or is approved for financial assistance under CMHC for creating rental housing • All grants subject to Council approval	• Minimum development size of 25,000 square feet, and cannot be a condominium • Development must not contain any personal service facilities (e.g. medical/dental clinics) • All grants subject to Council approval	Note: CIP webpage is no longer active.	• Scoring matrix is based on environmental design and economic performance; annual rebate is based on the total project score out of 20 • Brownfield grants allow for a tax freeze up to 3 years following construction and a 100% TIEG for up to 10 years

Municipality	Windsor	Richmond Hill	Oshawa	Burlington	Whitby
Program Name(s)	Business Retention and Expansion Grant Program	Office Development and Village Revitalization Community Improvement Plan	Community Improvement Plan for Brownfield Sites	Burlington Brownfield Focus Community Improvement Plan; Brownfield Tax Assistance Program (TAP); Brownfield Tax Increment Program (TIG)	Downtown Whitby Community Improvement Plan - Tax Increment Equivalent Grant
Year Introduced	2011	Unknown	Unknown	Unknown	2018
Eligible Areas	Citywide	• Oak Ridges Local Centre • Regional Mixed Use Corridor • Yonge and Bernard Avenue Key Development Area (KDA) • Newkirk Employment Area • Downtown Local Centre • Yonge and 16th Ave. KDA • Richmond Hill Centre • Beaver Creek Employment Area	• Harbour Road • Simcoe Street South • Urban Growth Centre • Wentworth Street West	All designated employment areas within the Urban Boundary of the City of Burlington	"Four Corners" – Intersection of Brock Street and Dundas Street Extends to: • CP Railway in the North • Highway 401 in the South • Garden Street in the East • Cochrane Street in the West
Eligible Uses	Professional services; Renewable and Alternate Energy; Creative Industries; Health and Life Sciences; Corporate Offices; Manufacturing; Tourism; Warehousing/Logistics	Office Developments	• Residential • Non-Residential • Commercial • Mixed-Use	Development/Redevelopment of Brownfield Sites	Non-Residential Developments and Re-development (Commercial and Office); Mixed-Use Development

Municipality	Windsor	Richmond Hill	Oshawa	Burlington	Whitby
Incentive Structure	100% TIEG for up to 10 years.	45% (average) tax increment grant over 10 years, starting at 90% in the first year	50% (average) tax increment grant over 9 years, starting at 90% in the first year	TAP: Property tax cancellation until: a) when the total tax assistance provided equals the total eligible costs; or, b) after three (3) years, whichever comes first	
Other Details	• Applicants may also be eligible to offset 100% of development charges through a separate program • Manufacturing projects must create or retain 50 jobs. Other projects must create more than 20 jobs or retain minimum of 35 jobs. • Projects must demonstrate the necessity of the grant for project viability • All grants subject to Council approval	• Minimum new office space of 1,600 square metres • For mixed-use developments, the grant only applies to tax increment applicable to the office portion of development	• Residential developments limited to apartments, flats, block townhouses, mixed-use building • All grants under the Increased Assessment Grant Program must be approved by City Council	• Applies only to properties requiring environmental remediation and/or risk assessment/management. • All grants must be approved by the City • If an application for both TAP and TIG are made, annual grant under TIG begins when benefits of TAP end	• Minimum 232 square metes of new development or expansion • New development includes reconstruction of a building demolished/lost more than 3 years ago • Limited to municipal investment that does not exceed $41,865 for all qualifying non-residential developments • All grants must be approved by Council

Municipality	New York, NY	Boston, MA	Chicago, IL	Pittsburgh, PA
Program Name(s)	Commercial Revitalization Program (CRP)	Commonwealth of Massachusetts: Infrastructure Investment Incentive Project (I-Cubed)	A number of business assistance and financial incentive programs are offered: • Property Tax Incentives • Class 6b • Class 7a, 7b	Allegheny County Local Economical Revitalization Tax Assistance (LERTA) Program
Year Introduced	Unknown	2005	Unknown	2015
Eligible Areas	Title 4 Abatement Zone: • Murray Street and Frankfort in the north • South Street on the east • Battery Place in the south • West Street on the west	State-wide Private Real Estate ($5 to $50 million)	County-wide	County-wide
Eligible Uses	• Office Space • Retail Stores • Private Elementary/Secondary Schools	• New state tax revenues generated from the private economic development project will cover the costs of the public infrastructure improvements needed to support the project. • The investment in public infrastructure is financed through bonds issued by Mass Development with the debt service on the bonds payable from contract assistance payments secured by a general obligation pledge of the Commonwealth. • A cost and risk sharing agreement is arranged between the Commonwealth, the Municipality, and the private developer.	• Class 6b: developments for industrial use • Class 7a, 7b: developments for commercial use	LERTA exemptions can be provided within deteriorated areas for new construction or improvements to commercial, industrial, and other business property

Municipality	New York, NY	Boston, MA	Chicago, IL	Pittsburgh, PA
Incentive Structure	**Lease term min. 3 years, < 5 years:** • Abatement period: 3 years • Year 1: Property Tax liability or $2.5 per sq. ft. whichever is less • Year 2: 2/3 initial abatement • Year 3: 1/3 initial abatement **Lease Term 5+ years:** • Abatement period: 5 years • Year 1: Property Tax liability or $2.5 per sq. ft. whichever is less • Year 2: Property Tax liability or $2.5 per sq. ft. whichever is less • Year 3: Property Tax liability or $2.5 per sq. ft. whichever is less • Year 4: 2/3 initial abatement • Year 5: 1/3 initial abatement	• Current authorization permits up to $600 million of tax-exempt bonds to be issued under the I-Cubed program for certified economic development projects across the Commonwealth with a maximum of 10 projects per municipality. • The projected annual new state tax revenues must be at least 1.5 times greater than the projected annual debt service on the related bonds.	• Class 6b: Qualified properties will be assessed at 10% for 10 years, 15% for the 11th year, and 20% for the 12th year. Incentive may be renewed in year 10 for an additional 10 years. • Class 7a: projects less than $2 million. Qualified properties will be assessed at 10% for 10 years, 15% for the 11th year, and 20% for the 12th year. Incentive may be not be renewed • Class 7b: projects more than $2 million. Qualified properties will be assessed at 10% for 10 years, 15% for the 11th year, and 20% for the 12th year. Incentive may be not be renewed	5-year Exemption: • Year 1: 100% of the County's real estate based on the valuation attributable to the construction, reconstruction or improvement(s) • Each Succeeding Year: Exemption declines by 20% • Developments located in County strategic investment areas, create significant economic impact, or feature significant elements of sustainable design are eligible for greater participation.
Other Details	• CRP provides tax incentives through a property tax abatement and a Commercial Rent Tax Special Reduction for non-residential or mixed-use buildings built before 1975 • Improvement to common areas required in order to qualify; minimum cost of improvements varies by type of lease (new, expansion, renewal) and number of employees (< or > 125 employees)	• Priority is given to projects in economically distressed municipalities that meet both the unemployment rate and median income level criteria.	• Administrated by Cook County • All property tax incentive applications must have support and consent of the municipality in order to be considered.	• Administrated by Allegheny County • Applicants must submit a LERTA Project Review Form to ACED to evaluate: economic/fiscal impact, demonstration of need for LERTA, value added, private investment leverage, development type, development location, and other criteria