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Market Sounding in support of the Port Lands Development Plan

Preliminary findings as of
February 24, 2012

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Interviewees

Completed (16)

- Cadillac Fairview (Wayne Barwise)
- Cityzen Development Corp. (Sam Crignano)
- Daniels Corp. (Mitchell Cohen)
- Euromart (Bruno Arnold)
- Fengate Capital Management Ltd. (George Theodoropoulos)
- Fiera Axium Infrastructure Inc. (Elio Gatto)
- Infrastructure Ontario (Rich Couldrey)
- Integrated Asset Management Corp. / Intermarket Group (Mark Kindrachuk)
- Macquarie Capital Markets Canada Ltd. (Joe Mattina)
- Mattamy Homes (Peter Gilgan)
- Minto (Andre Mihelic)
- National Bank Financial Group (Antony Lawrence)
- Orlando Corporation (Phil King)
- Oxford Properties (Michael Turner)
- Tridel (Bruno Giancola, Michael Mann, Salvatore Cavarretta)
- Westfield Group (Bill Hecht)

Interviewees

Scheduled (2)

- Borealis (Rick Byers)
- First Gulf / Great Gulf (David Gerofsky)

Interviews still to be scheduled with parties who have expressed interest (4)

- Brookfield Financial
- Gluskin Sheff
- Cherokee
- Hines

Contact made but limited / no response (10)

- Bilfinger Berger
- Concord Adex
- Eastdill Secured
- MI Developments
- Related Companies
- Chesswood / Birmingham Sports
- Delta Hotels
- IBM
- OMERS / Borealis
- Singapore Development Fund

Declined (3)

- Bovis Lend Lease
- Kingsett Capital
- CPPIB

Summary of Key Findings – Financing

- Without transit, no developer will commit to doing any medium to large scale development (whether residential, office, retail or mixed-use). More importantly, without a guarantee that transit access will be provided to the Port Lands, any master plan to guide the redevelopment of the lands will be viewed by the development community as unattainable.
- Provision of adequate servicing will also be a pre-requisite for development taking place. Some developers could potentially front-end such costs, however, the cost of doing so would be taken out of what they would be prepared to pay for the land.
- At 600+ acres, the site is physically too large for developers to comprehend. The master plan must be broken down into discrete, yet inter-related phases and sub-phases of "manageable" sizes (less than ±10 acres). Even with such manageable-sized parcels, development could still be many years (10+?) from taking place (after transit issues have been resolved and a concrete plan is put in place to ensure access).
- Given the enormity of the site and the significant costs associated with addressing its various development limitations (site remediation, title consolidation, servicing, flood proofing, etc.), no developer would be interested in acquiring the site for $1.
- Strong market appetite exists for residential and retail. For retail to work (excluding retail that will need to be built to support residential), development must be of a sufficient size and scale to create a critical mass.

Summary of Key Findings – Financing

- Overall development financing requirements must be quantified and understood, including phasing, timing and amount of capital needed to ready the lands for development (for servicing, remediation, title consolidation, flood prevention, etc.).
- Some developers could front-end / take on responsibility for certain infrastructure requirements, however, costs would be taken out of land purchase price (provided master plan is in place and firm commitments exist for transit provision, other infrastructure, etc.).
- Limited appetite for front-ending costs without guarantees / predictable returns.
- Question on any Alternative Financing and Procurement (AFP) / Public Private Partnership (P3) is who will guarantee the debt / insure against default.
- Equity returns of up to 20% or more expected.
- Tax Increment Financing is (TIFs) viewed as an interesting opportunity; question will be how the financial markets will react given they have never been used in Ontario (and who will guarantee debt).
- Potential financing sources could also include “betterment taxes” (applied, for example, to the area positively impacted by the flood proofing), Development Charges (DCs), Section 37, “cash-in-lieu”, special levies – revenues would need to be specifically allocated to help finance Port Land improvements
- Given significant limitations associated with the site, it was suggested that all levels of government look at the overall economic benefits of the lands and their future revitalization as a basis for initial public investment in infrastructure, transit, access, site remediation, etc. to kick start the development of the lands.

EXECUTIVE SUMMARY

Cushman & Wakefield Presentations
Port Lands Development / Economic and Financial Advisory

February 24, 2012

Prepared For:

Port Lands Acceleration Initiative
(“PLAI”)
Team Members

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Preliminary Market Perspectives

Office Market Perspectives

- Phasing Plan of the Port Lands Business Plan / Financial Feasibility Study completed by IBI and dated March 2009 shows approximately 3.1 million sf of office space and 3.5 million sf of employment space.
- C&W tracks the amount of “office leasing activity” that occurs in the marketplace. If the above 3.1 million sf of office space is built out at the average Class A leasing activity rate of Downtown East (35 to 40,000 sf per annum), then the above office space will require fully 78 to 88 years to build out! Downtown East is bounded by Queen, Esplanade, DVP and Spadina.
- If the Port Lands lease space at the rate of King West (bounded by Bloor, Lakeshore, Bathurst and Jameson), which has experienced average Class A leasing activity of 80,000 to 100,000sf per annum, a 31 to 39 year build out period would result. But King West has had relatively limited office land availability, which has constrained both new supply and demand.
- Conversely, if the Port Lands reach Downtown South’s activity levels (of say 300,000 to 350,000 sf average over the past 10 to 20 years), then this office space could very optimistically be built out within 9 to10 years. Downtown South is bounded by Front, Queens Quay, the DVP and Spadina. But the Port Lands do not have the location attributes of Downtown South, which has become an extension of the Financial Core.
- It is also important to recognize that the Port Lands will have to compete with other established and popular 905 office concentrations. In this light, the Port Lands will need to offer a competitive site selection proposition and/or a game changing catalyst.
- C&W is in the process of completing office market demand projections for the GTA and the Port Lands, based upon population, employment growth and market share analysis.

Residential Market Perspectives

- The former City of Toronto currently has approx. 41,100 units actively marketing, of which 84% are sold. This compares to an average of 32,000 over the past 10 years.
- Approx. 13,500 units were sold in 2011, compared to a 10 year average of 9,500.
- Current unit selling prices average at $576 psf, well up from $488 psf in 2009 and $358 psf in 2005
- Question: Can the City sustain this momentum?
- Phasing Plan of the Port Lands Business Plan / Financial Feasibility Study completed by IBI and dated March 2009 shows approximately 17,410 residential units.

- If this space is built out at the average Downtown East rate of 1,100 units per annum, then this residential development potential could conceivably be built-out within approximately 16 years.
- Question: Can the Port Lands achieve the Downtown East absorption rate? Or exceed it? By when?
- C&W is in the process of completing residential condominium market demand projections for the GTA and the Port Lands, based upon population

Employment / Industrial Market Perspectives

- There was almost no new industrial space built in the former City of Toronto in 2011. This compares to an average of 23,000 sf new industrial construction over the past 5 years and 31,000 sf over the past 10 years.
- Net absorption is the change in occupied space, which can be positive if space occupancy grows or negative if it declines (if tenants shrink or move elsewhere). 2011 net absorption was only 840 sf (the good news is that it was not negative). This compares to an average of negative 85,000 sf absorption over the past 5 years and negative 58,000 sf over the past 10 years.
- So while there was some (albeit limited) new construction, this was offset by increased vacancy within existing buildings, resulting in low or negative "net" absorption.
- Phasing Plan of the Port Lands Business Plan / Financial Feasibility Study completed by IBI and dated March 2009 shows approximately 3.5 million sf of industrial space.
- If this space is built out at the average Old City of Toronto absorption rate of 31,000 sf per annum, then this industrial development potential would be built-out within approximately 113 years!
- The planning of appropriately designed "flex" industrial space within the Port Lands and astute market sub-sector targeting (branding) will likely enhance the current absorption rate. For example, there is likely a need for flex industrial space providing goods and services to the Downtown.
- C&W is in the process of completing industrial market demand projections for the GTA and the Port Lands, based upon population, employment growth and market share analysis.

Retail Market Perspectives

- Canadians have access to about 14 square feet of shopping centre space per capita. There is approximately 17 sf of shopping centre space per capita in the GTA. This compares to 23 square feet per capita in the United States. We recognize that the GTA will not likely grow to US retail space per capital levels, but note that currently high retail sales psf levels and low retail vacancy rates provide (in combination with overall population and employment growth) opportunity for new retail space construction.

- There are significant barriers to retail development in the GTA. Retail land is scarce and prices have risen by over 20% in the last 12 months. Retail lease rates have not increased accordingly.
- Population and employment growth has and will continue to spur new retail supply:
    - Yorkdale Shopping Centre is seeing its second expansion in five years;
    - Developers have announced plans for at least three new outlet malls in the GTA, specifically designed to attract high-end US retailers; and
    - A new 600,000 square foot shopping centre is under construction at the former stock yards in Etobicoke.
- Almost every new condominium development in downtown Toronto includes ground-floor retail, although significant portions of those spaces face long-term vacancy due to the layout and/or neighborhood.
- We are close to completion of a forecast of incremental (additional) retail demand within the Port Lands, serving needs of the residential and employment population that will reside within the Port Lands and the broader trade area.

Area Competitive Analysis

Subsectors within Professional and Business Services, Public Administration, Information, Finance, Insurance and Real Estate, Educational Services and Health Care and Social Assistance are recommended as targeted employment sectors in developing the Port Lands. The following are a summary of the key findings of this analysis.

- Toronto is a diversified economy and any reuse of the Port Lands site should focus on industry segments where a dominant or fortified market position can be established.
- We completed an analysis of employment (by sector and sub-sector) in the Toronto Census Metropolitan Area (and corresponding peer U.S. locations), in order to identify opportunities for competitive growth..
- Wages were surveyed for prevalent occupations within each Industry sector using Economic Research Institute data. This data reflects Toronto's competitive positioning for higher-skill occupations typically associated with the targeted industry sectors.
- Economic sectors which show the most promise and should be targeted for additional development in the City of Toronto include:

- **Professional and Business Services**
  - Scientific Research &Development
  - Architectural/Engineering
  - Management and Scientific Consulting
  - Other Professional, Scientific and Technical
- **Public Administration**
  - Federal
  - International
  - Aboriginal
- **Information / Arts, Entertainment and Recreation Services**
  - Telecommunications
  - Software publishing
  - Motion Picture and Sound Recording
- **Finance, Insurance and Real Estate – "Back office" supportive activities related to**
  - Insurance
  - Non-depository credit intermediation
- **Educational Services**
  - Universities
  - Community Colleges
- **Health Care and Social Assistance**
  - Hospitals
  - Outpatient care
  - Child day care
  - Nursing and Residential Care
  - Individual / Family social services

Global Port Lands Development Case Studies

Scope Of Work

We completed a review of port lands development across the globe. For each case example, we provided:

- a description of the development,
- applicability to the Port Lands,
- mix and scale of uses,
- transit access issues / solutions,
- accelerators,
- phasing,
- success drivers,
- challenges / obstacles, and
- solutions / lessons learned

The port lands developments reviewed include:

- Mission Bay, San Francisco
- North False Creek, Vancouver
- Canary Wharf, London
- East River Science Park, New York City
- Tech City, Shoreditch, London
- Liverpool One, Liverpool
- Barangaroo, Sydney
- HafenCity, Hamburg
- Hammarby Sjöstad, Stockholm
- Hudson Yards, New York City
- Queens West, New York City
- Atlantic Station, Atlanta

Key Findings

The following is a summary of the Key Findings emanating from the above mentioned Scope of Work.

Real Estate Markets

- The Port Lands will have a development phase that will last through numerous real estate cycles; PLAI should contemplate a variety of development strategies that are flexible enough to respond to changing market conditions.
- PLAI plans for short-term and medium term development should not come at the expense of long term master planning.
- PLAI should seek out major institutional and commercial anchors that, in turn, will support population and alternative commercial, and entertainment uses. This being said, anchor tenants will need to be presented with a clear and compelling site selection business case, relative to other competing 416 and 905 locations.
- Similarly, PLAI should consider the creation of outward focused destination retail which can create a sense of place and brand identity, which in turn can attract private capital for development of a larger mixed-use district.
- To attract desired end users, PLAI should consider a targeted industry and locational investment fund .

Infrastructure

- PLAI has a large flood remediation cost hurdle . Utilizing creative construction techniques like plinths or parking structures to elevate buildings above flood plain may allow development to go forward without fully constructing the costly flood remediation infrastructure.
- Further, judicious use of strategically placed infrastructure can be sufficient to support phased development.
- With a significant potential Port Lands infrastructure cost, municipal credit enhancements may be key to successful (and creative) infrastructure financing. This being said, we would refer the reader to the Scotia Capital report summary, which addresses this topic in the context of the financial environment in Canada, Ontario and Toronto.

Environmental

- The Port Lands is impaired – PLAI should perform adequate environmental due diligence and have sufficient environmental risk-transfer mechanisms in place.

Presentation Summary: Port Lands Infrastructure Financing Options

Scotiabank has been engaged as a sub-advisor to Cushman & Wakefield to assist in the development of a funding plan for the public infrastructure expenditures required for the accelerated development of the Port Lands (the "Project"). The following provides a brief summary of the presentation to be made to stakeholders on February 29th, 2012.

In developing the funding plan, consideration will be given to, among other items:

- Funding models employed in other jurisdictions for projects of similar scope and complexity;
- Public funding/borrowing opportunities and constraints of the City of Toronto (the "City") and other levels of government; and
- The ability to leverage future revenues to fund the upfront costs through mechanisms such as the Tax Increment Finance ("TIF") and Payment-in-lieu-of-Taxes ("PILOT") funding models.

Broadly, three funding models have been identified which will be considered in developing the funding plan:

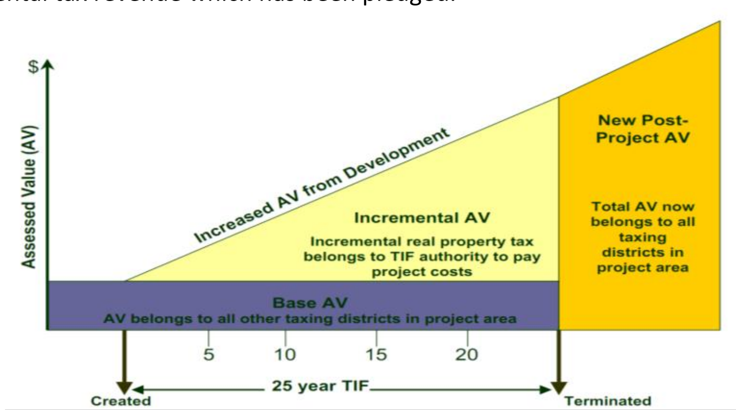
1. **Public Sector Funding (on the balance sheet of the City, the Province or Federal Government)**
2. **Public/Private Bond Issuance Supported by Future Government Revenue (TIF, PILOT, etc)**
3. **Community Revitalization Levy**

1. Public Sector Funding (on the balance sheet of the City, the Province or Federal Government)

In many instances, municipal and provincial governments elect to, or are required to, fund infrastructure costs related to major revitalization projects from general operating funds or through non-project specific public bond issuances. This approach offers certain important benefits including: access to the lowest cost of capital leveraging the credit strength of the City; minimize risk premiums / additional structuring costs related to financing approaches such as TIF of PILOT financing; and maintenance of control over tax revenue and expenditures. However, on-balance sheet funding for the Port Lands may be limited in light of funding constraints at the City as a result of multiple competing priorities requiring major capital funding.

2. Public/Private Bond Issuance Supported by Future Tax Revenue (TIF, PILOT, etc)

TIFs are a public finance technique used by local government jurisdictions to fund infrastructure initiatives and stimulate economic development in designated geographic areas. TIFs work by leveraging future tax revenue increases to finance current infrastructure projects through the dedication of the incremental tax revenue between the assessed value of designated areas ("TIF zones"). Typically a public authority will issue a bond to partially fund upfront infrastructure costs and the source of repayment of principal and interest of the bonds will be the incremental tax revenue which has been pledged.



Key consideration in structuring a TIF or PILOT financing include:

- **Applicability to the Canadian context** – In the US, public entities issue TIF/PILOT bonds for motivations that are less applicable to the Canadian market. In the US, as revenue bonds, TIF bonds are not included as a general obligation of the Issuer.
- **Legislative Framework** – Ontario has enabling legislation for TIF bonds however; no TIFs have been approved to date by the Province.
- **Recourse to the City** – Bond investors will not typically take revenue ramp up risk and therefore TIF/PILOT bonds may require some level of recourse to the City.
- **Capacity Constraints** - The amount of financing that can be raised under a TIF/PILOT structure is directly related to the timing, certainty and magnitude of the future tax revenues.
- **Definition of the TIF district** – The larger the catchment area, the larger the potential TIF revenue and consequently the larger the size of the potential bond issuance.
- **Flexibility of the Offering** – In a long-term multi-staged development, it is important to maintain flexibility for multiple issuances under the same documents and financing structure.

3. Community Revitalization Levy

Alberta has employed a TIF-like model called a Community Revitalization Levy (“CRL”) as a means to fund the infrastructure costs associated with certain major revitalization programs. A CRL provides a means to segregate property tax revenues in a defined area for a defined period of time into a fund that will be used to pay for the new infrastructure required.

A CRL is similar to Tax Increment Financing in that it functions as follows:

- A geographical district and applicable time period is defined;
- For the applicable period, which is a maximum of 20 years, the incremental tax revenue above the baseline tax revenue is paid into a vehicle that is established to fund the required infrastructure improvements;
- The CRL is levied and collected by the City of Calgary through the property tax system and these funds are then allocated to the entity that is set up to develop the district; and
- At the end of the CRL period, all of the property tax revenues in the District will flow into the City’s and the Province’s general revenues.

Key differences between the CRL model and a TIF are as follows:

- Under a CRL model, the City (Calgary) develops a stand-alone funding plan using the segregated tax revenue to fund the infrastructure costs directly or as security to borrow funds;
- The City (Calgary) provides a full backstop for payment of any loans that are supported by the CRL revenues;
- The CRL model is primarily a capital budgeting exercise rather than a limited recourse debt securitization model such as TIF or PILOT financing.

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Memorandum

To	Ken Dion, Don Haley, Adele Freeman	Page	1
CC	Paul Murray		
Subject	Work completed to date on realigned river mouth alternatives for Port Lands		
From	Marc Rose		
Date	February 27, 2012	Project Number	60228858

TRCA, with assistance from AECOM and Baird, is in the process of re-examining the following three alternatives from the Don Mouth Naturalization and Port Lands Flood Protection Project (DMNP): 2, 4W, and 4WS. The two other alternatives that were considered during the comparative evaluation, which are 3 and 4S, were not re-examined as there was significant concern from key stakeholders related to the primary discharge to the Ship Channel and associated impacts on shipping activities.

Since the beginning of 2012, the following work has been undertaken for Alternatives 2, 4W, and 4WS:

1. Realignment of the alternatives to:
   - accelerate development of the Keating Precinct
   - mitigate impacts on Port operations/private lands
   - provide for larger development blocks
   - Conform with the Terms of Reference regarding naturalization, flood protection, and city building.

2. Preparation of updated plan view figures and corresponding cross-sections to show the realigned alternatives , including several sub-options for Alternative 4WS that (a) terminate the river mouth at Polson Quay, (b) shift the spillway to the west edge of the Don Roadway, and (c) include a flood protection landform as a temporary or permanent option in place of filling adjacent lands.

3. One-dimensional hydraulic modelling of the three realigned alternatives to determine whether they can convey the Regulatory Flood.

4. Two-dimensional hydraulic modelling of the realigned 4WS, including terminating the river mouth at Polson Quay and shifting the spillway to the edge of the Don Roadway, to determine whether it can convey the Regulatory Flood with these modifications.

5. Two-dimensional hydraulic modelling of existing conditions within the Lower Don Lands to determine fill requirements and off site impacts associated with the development of lands that could potentially precede a complete build-out of the river mouth.

6. High-level comparison of the three realigned alternatives based on their ability to achieve the project objectives of naturalization, flood protection, and sediment management.

Future work will include exploring options for phasing of the flood protection features beyond what was presented in the April 2011EA report. These options will consider how to advance development within the Lower Don Lands and other areas of the Port Lands prior to the full build-out of the new valley system. The cost and financing of each of the options will be considered, as will the compatibility with servicing, provision of transit, and other city building objectives.

Toward the Business and Implementation Plan

February 29, 2012

Implementation Challenges

The Port Lands is a particularly challenging site to develop, because it:

- currently lies within a flood zone
- is a brownfield site, needing extensive environmental remediation
- is located in an area with poor ground conditions for building
- lacks development-enabling infrastructure; existing roads and services are old and/or inadequate to support more intense development
- is poorly tied into the City’s road, transit, and wastewater collection networks

Key Cost Drivers

A higher-than-average investment in infrastructure will be required to develop the Port Lands because of:

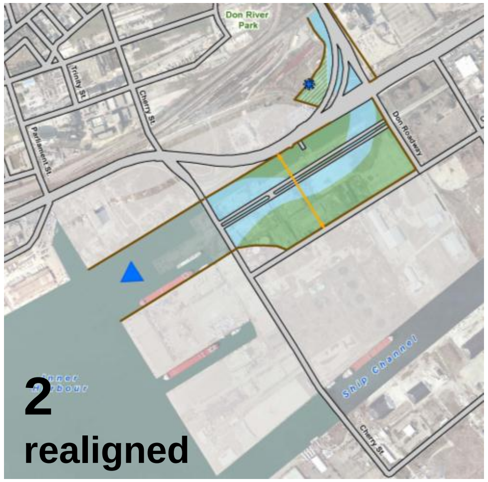
- poor ground conditions
  - high water table
  - settlement problems associated with location over a former marsh
  - site was created with poor quality fill material
  - significant depth to bedrock
- requirement to raise grades throughout this low-lying area, next to the lake, in order to:
  - facilitate storm water handling and to avoid ponding
  - implement required flood protection measures

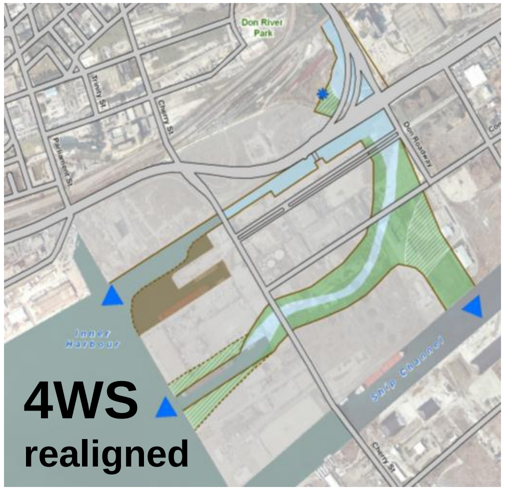
Key Cost Drivers

- industrial past and brownfield status
  - treatment and disposal of impacted soils
  - soil and groundwater remediation
  - requirement for environmental capping layer
  - relocation/undergrounding of hydro transmission line
- need to accommodate continued port uses
  - costly lift bridges required over the ship channel
  - dockwall stabilization and repairs
- lack of proximity to higher order transit
  - convenient connection to subway/downtown to unlock land value

Next Steps

- complete analysis of flood protection scenarios
  - EA scenario 2 (realigned)
  - EA scenario 4W (realigned)
  - EA scenario 4WS (realigned)





Next Steps

- examine potential acceleration initiatives
  - Keating Channel East Precinct (480 Lakeshore Blvd.)
  - Film Studio District
  - Hearn area
  - other lands south of the Ship Channel
  - South of Eastern Ave. Employment District

Next Steps

- investigate potential transformational uses
  - Research Park
  - sustainability demonstration project
  - major educational institution
  - major cultural facility
  - off-grid/private utility
- develop transit strategy
  - identify short-term transit options that can evolve
  - explore opportunities for private sector transit provision