

Executive Summary

On October 22, 2013 Waterfront Toronto issued a Request for Qualifications (“RFQ”) for a developer to design and deliver an Innovation Centre on the lands known as Blocks 1 and 2 in the Dockside District of East Bayfront, located on the south side of Queens Quay between Jarvis and Sherbourne streets. The Innovation Centre is intended to house innovations tenants directly align with the City of Toronto’s strengths in emerging economic clusters, including the information and communication technology sector, biotechnology, film and television production/post production and interactive digital media. Additional disciplines such as robotics and nanotechnology are also considered to fall into what Waterfront Toronto considers innovation uses for the Innovation Centre.

The RFQ was scoped in accordance with the Innovation Centre/Blocks 1 and 2 Development Strategy that was presented to the Board’s Investment and Real Estate and Intelligent Communities Committees in June 2013. The strategy focused on attracting a developer who is capable of delivering and leasing out a high-quality, purpose-built development that facilitates and showcases design, innovation and collaboration among tenants, including those in key opportunity areas such as digital media, advanced visualization, healthcare, and clean technology sectors. The RFQ was undertaken concurrent with an aggressive and targeted effort from Waterfront Toronto to attract interest from appropriate potential tenants, who would ultimately be introduced by Waterfront Toronto to the Preferred Proponent following the Request for Proposals (“RFP”) for the Innovation Centre.



Figure 1: Waterfront Innovation Centre (“WIC”) blocks in the East Bayfront (“EBF”)

RFQ Outcomes

Four teams provided compliant qualification submissions and were shortlisted in response to the RFQ:

- Canderel
- Dundee Kilmer
- Menkes
- Morguard

RFP Outcomes

The RFP was issued to Shortlisted Proponents on March 31, 2014. Dundee Kilmer subsequently withdrew from the RFP process.

During a series of Commercially Confidential Meetings (“CCM’s”), the proponents gave a clear message that they would not be able to put a firm price for the land (for either a Ground Lease, which is renting the land, or fee simple, which is owning the land outright) without having the benefit of securing tenants. With that feedback, we adjusted the process to include a pre-development period that allows the Preferred Proponent to work with Waterfront Toronto to secure tenants, begin design and develop pricing for an offer for the land. This pre-development period is guided by a Pre-Development Agreement (“PDA”) between the Preferred Proponent and Waterfront Toronto.

The Preferred Proponent would have 18 months to undertake leasing efforts and other work necessary to provide a firm financial offer to Waterfront Toronto, together with a complete proposal for the development. As such, Respondents were not required to submit a financial offer with their RFP submissions. Waterfront Toronto would then have six (6) months to undertake due diligence and necessary appraisals to ensure that the project that is ultimately proposed provides a market value offer for the City and Waterfront Toronto. If the proposed deal is not acceptable to the City and Waterfront Toronto by the end of the pre-development period, Waterfront Toronto, the City, and the Preferred Proponent would not be obligated to enter transaction agreements.

The RFP closed on September 23, 2014. The three remaining Shortlisted Proponents submitted in response to the RFP:

- Canderel
- Menkes
- Morguard

Waterfront Toronto undertook evaluations and interviews in October 2014, with a final Steering Committee meeting on October 28, 2014. The Steering Committee supported the following recommendations of the evaluation committees:

- Identify Menkes as the Preferred Respondent;
- Enter a PDA with Menkes (target December 31, 2014);
- In the PDA period, address the following issues with Menkes:
 - Innovation and collaboration programming opportunities;
 - Early design review; and
 - Waterfront Toronto involvement in broker procurement.

As reported to the Board's Investment and Real Estate Committee ("IREC") in November 2014, Waterfront Toronto would enter into a PDA with Menkes in December 2014 for the Innovation Centre Lands. As previously reported, a 24-month pre-development period was agreed to in order to allow Menkes to work with Waterfront Toronto to secure tenants, begin design and develop pricing for an offer for the land. Menkes delivered a Submission Proposal on August 31, 2016 as per the PDA. Since that time, Waterfront Toronto has been completing its due diligence on the proposal, negotiating the major terms of the deal and, with City of Toronto Staff, preparing materials for Council approval in March 2017.

This report summarizes Menkes proposal and key terms for transaction documents, as well as Waterfront Toronto's review of their proposal. The transaction documents are to include a Ground Lease with the City of Toronto and a Development Agreement with Waterfront Toronto, in accordance with prior direction from the City of Toronto. In addition, Waterfront Toronto will enter into an Undertaking Agreement with The City to ensure that the obligations of the developer under the Development Agreement are secured by Waterfront Toronto.

The proposed transaction follows a three-year competitive process and subsequent negotiations in which Waterfront Toronto sought to attract private sector investment in order to achieve the City's and Waterfront Toronto's objectives for waterfront revitalization and for City-owned lands in EBF. The WIC is a significant opportunity to implement the objectives of economic development and employment generation in the waterfront.

The Following report is made up of the following sections:

1. Background
2. Menkes Proposal
3. 99-Year Ground Lease
4. Menkes Financial Offer's
5. Waterfront Toronto Due Diligence
6. Waterfront Toronto Obligations
7. Waterfront Toronto Undertaking to the City
8. Next Steps

1. Background

East Bayfront Precinct Plan, Business Plan, and Employment Strategy

Waterfront Toronto's EBF Precinct Plan (the "Precinct Plan") was endorsed by Council in December 2005. The Precinct Plan established a vision for a mixed-use community with up to 12,000 residents and 8,000 employees.

In July 2006, Toronto City Council approved the EBF Business and Implementation Plan, which included an EBF Employment Strategy (the "Employment Strategy"). The Employment Strategy established the objective of the EBF as a centre for knowledge-based employment and a driver for economic development. It identified a number of conditions for success from other global precedents at the intersection of real estate development, urban design, technology and social policy. These conditions included the presence of research and development-based industries and educational institutions, including those that support knowledge-based and creative-sector employment. The provision of a range of innovative employment and educational uses was identified as a critical part of an overall strategy for building EBF as an intelligent community.

Waterfront Toronto has since invested in civil infrastructure to support new development and entered into deals for mixed-use community development, including the Bayside project with Hines, the Parkside transaction with Great Gulf Homes, and George Brown College's health sciences and innovation campus.

The WIC is intended to leverage Waterfront Toronto's new community development and investment in municipal and digital (ultra-high speed broadband) infrastructure, parks and public spaces, and amenities to provide an attractive and competitive location for targeted sectors and their employees.

Toronto's Information and Communications Technology Cluster

Toronto is Canada's largest technology hub and the third largest in North America. The 15,000-plus technology related business establishments located in the Toronto Census Metropolitan Area ("CMA") employs approximately 168,000 people. The Toronto CMA is home to 35% of Canada's top 250 technology businesses making it Canada's centre for technology research and development, and Toronto consistently ranks as a top start-up hub. Also of note: 43% of Canada's technology sector Research and Development investment is made by Toronto technology research facilities. Toronto's technology industry generates \$5.2 billion annually to the local economy including the ever growing digital media cluster which has become a \$1 billion industry. Building on Toronto's position in the technology industry, the WIC will bring a critical mass of technology firms to anchor EBF in the waterfront technology corridor.

Waterfront Toronto's Competitive Proposal Call Process

Building on the recommendations of the 2006 Employment Strategy, and on subsequent research and market soundings, Waterfront Toronto undertook an open and competitive RFQ/RFP process for the lands. The process was guided by a Steering Committee, Waterfront Toronto's internal Procurement department, and Fairness Advisor, Justice Coulter Osborne.

The process aimed to select a partner capable of delivering a project that would meet a number of objectives, including:

- Attracting private-sector investment to the waterfront;
- Establishing an anchor of employment uses as part of a mixed-use community;
- Leveraging Waterfront Toronto's investment in infrastructure and public realm, including ultra-high speed broadband infrastructure;
- Attracting knowledge-based jobs and jobs in other innovative sectors;
- Achieving excellence in design and sustainability; and
- Providing financial returns to the City and Waterfront Toronto.

During the process, it was determined that a minimum of 60% of the space in the Innovation Centre should be for innovation uses in order to achieve the desired employment and economic development goals. Waterfront Toronto determined that, in contrast to primarily residential development projects and given the specific tenant targets established by Waterfront Toronto, it would be difficult to secure a firm financial offer without proponents having the opportunity to test the tenant market. Therefore, Waterfront Toronto introduced a pre-development stage to work with a preferred proponent, who would have the opportunity to undertake pre-leasing discussions and present a more detailed proposal, including a financial offer, for the consideration of Waterfront Toronto's Board and Toronto City Council. Waterfront Toronto and City Council are under no obligation to accept the offer from the Preferred Proponent. Also included in the Pre-Development Agreement is the provision for either party to exit from the deal anytime ahead of closing, with no penalty.

Waterfront Toronto selected Menkes as the preferred proponent and entered into a Pre-Development Agreement with them in December 2014. At its meeting of April 16, 2015, the City's Economic Development Committee received an information report titled "East Bayfront Waterfront Innovation Centre." The report provided a summary of the objectives for the WIC and an overview of Waterfront Toronto's competitive process and selection of Menkes as the preferred proponent. The report indicated that upon receipt of a proposal from Menkes, Waterfront Toronto would undertake a due diligence review and present the results to the Waterfront Toronto Board for approval. Waterfront Toronto would subsequently provide the recommended transaction to City Council for review and approval.

Since being selected, Menkes has advanced their concept design, been actively pursuing viable innovation tenants in the market, undertaken transaction discussions with Waterfront Toronto and the City, and provided a complete Submission Proposal, including financial offers, which form the basis of the recommended transaction.

2. Menkes Development Proposal

Menkes has provided a comprehensive proposal for the WIC. Key elements of the project include:

- Commercial space in two buildings, connected by at least one bridge that spans Dockside Drive, designed to be three distinctive functional components named the Nexus, the Hive, and the Exchange:
 - The Nexus is an urban room that will bring the city into the building and will provide publicly accessible space with potential for programming to foster innovation and collaboration. It will provide spectacular views of the city and water and provide flexible open space with opportunities for seating, informal gathering, and more formal activities such as speaking engagements and events. There is potential for the Nexus to accommodate unique pop-up retail and shared resources (such as a presentation theatre and conference centre). This is a distinctive alternative to standard office lobby space that is designed only as a place to pass through;
 - The Hive is an approximately 27,000 sf of flexible and adaptive floorplate space that will feature advanced building systems and provide flexibility and opportunities for tenant-focused office space; and
 - The Exchange is an approximately 13,500 sf-floorplate, sculpted, semi-public building that is sufficiently flexible to allow tenants space to showcase creativity, products and technology. The space will also facilitate human interaction, supporting collaboration between tenants. This type of environment will encourage the cross-pollination of ideas and tenant-to-tenant, tenant-to-public, and public-to-public relationships. Depending on tenant interest, there is potential for The Exchange to be integrated with the Nexus, for additional integration of private and publicly-accessible space.
- Advanced sustainability objectives, including a minimum target of LEED® Gold (although aiming for Platinum) certification and Waterfront Toronto's Minimum Green Building Requirements;
- A design that accommodates contemporary shifts in workplace culture and tenant needs, by introducing building systems and a modular design that will facilitate efficient and cost-effective reconfigurations, ergonomic adjustments, and if necessary, simple, fast tenant churn;

- Design led by an award-winning architect, Sweeny & Co. The project has been considered by the Waterfront Design Review Panel for concept design. Menkes has made considerable revisions to the concept in response to Design Review Panel comments and anticipates that the building design will ultimately evolve to respond to tenant needs, in keeping with the spirit and intent of a tenant-focused innovation centre. The project will return for subsequent Waterfront Design Review Panel consideration once the design concept has been refined in accordance with the tenant considerations;
- A target of a minimum of 60% innovation tenants through a sophisticated, focused marketing campaign led by CBRE, global leaders in commercial real estate services and investment. CBRE's marketing campaign includes tenant education and outreach, with a focus on the WIC as a collaborative, tenant-focused environment within the EBF, an intelligent community and that meets the "live-work-play" lifestyle of forward-thinking companies that dominate the high-tech business world. Waterfront Toronto and Menkes have established a list of pre-approved innovation sectors as the target markets for tenants;
- Menkes has designed the WIC to accommodate up to 400,000 sf of gross floor area, in a structure that is approximately 47m in height. These heights and other design features necessitate approval for minor variances from the zoning provisions, which generally permit development up to 38m in height. The as-of-right zoning allows for a total Gross Floor Area ("GFA") of 100,000 sf for Block 1 and 250,000 sf for Block 2 for a total of 350,000 sf. The main variance requested was for a height increase from 38m to 47m to allow for two additional storeys, which ultimately equates to an additional 50,000 sf of GFA. To note, Menkes would be required to step-back the building above 38m in order to maintain a consistent building face along Queens Quay;
- Waterfront Toronto has consented to Menkes undertaking leasing discussions and preparing marketing materials on the basis of the current design concept, and to Menkes making an application to the City for minor variances in accordance with the proposed design. Menkes has applied for minor variances to the Committee of Adjustment; most notably being a height increase to allow for two additional storeys. The minor variance has been approved, however it was appealed by Daniels Corporation and settlement discussions are currently taking place.

3. Ground Lease

At the time of RFQ/RFP, City direction was for these lands to involve a 99-year term ground lease, based on a long standing City policy of maintaining City land in public ownership. As revitalization lead in the East Bayfront, and in accordance with the 2006 Memorandum of Understanding ("2006 MOU") between the City, Waterfront Toronto, and Toronto Economic Development Corporation (now Toronto Port Lands Company), Waterfront Toronto has been tasked with attracting private sector investment and competing in the real estate marketplace, notwithstanding public ownership of the majority of the lands. The City's standard ground lease includes a payment schedule for the term of the lease. Waterfront Toronto as recipient of the revenues from the lease is recommending that Menkes provide an up-front payment to Waterfront Toronto rather than a stream of payments over time.

Menkes, in addition to the ground lease offer, will also submit a fee-simple offer for City Council to consider. Menkes financial offers for both a ground lease and fee-simple transfer are summarized in the following section of this report. For clarity, and in keeping with City direction, the transaction will be structured as a ground lease.

4. Menkes Financial Offers

A confidential attachment will be provided – see Item 6.

5. Waterfront Toronto Due Diligence

A confidential attachment will be provided – see Item 6

6. Waterfront Toronto Obligations

In undertaking a rezoning, subdivision approval, and delivering infrastructure and public realm improvements in Dockside, Waterfront Toronto has provided the up-front investment necessary to make Blocks 1 and 2 ready for development as contemplated in the Precinct Plan. Waterfront Toronto has also satisfied the parkland dedication requirements for the precinct.

Waterfront Toronto is responsible for meeting conditions and securing approval for removing the holding provision in the zoning for the site to allow development to proceed. Waterfront Toronto is in a position to request City Council to approve the lifting of the “H” when the transaction is ready to proceed. The Bill will go to Council following execution of the Section 37 Agreement that will secure the H-lifting conditions including public art, sustainability, and studies and information required under the Minutes of Settlement with the Redpath Sugar facility. Menkes will provide a contribution to Waterfront Toronto equivalent to 1% of its hard costs of construction, which Waterfront Toronto will apply towards implementation of the East Bayfront Public Art Master Plan, which was approved by City Council.

Waterfront Toronto has primary responsibility and oversight for environmental matters and process requirements consistent with the 2006 Memorandum of Understanding with the City on revitalization of the waterfront. Waterfront Toronto has completed environmental risk assessments, obtained Certificates of Property Use and filed Records of Site Condition for each of the blocks. The following are the RSC and CPU numbers:

Block 1 (125 QQE)
RSC # 221631
CPU # 7000-9XSN8Y

Block 2 (155 QQE)
RSC # 221632
CPU # 7861-9W7HEQ

Menkes will be responsible for acting in accordance with the provisions of Certificates of Property Use (“CPU”) and with all applicable environmental obligations. Waterfront Toronto will undertake to the City of Toronto ensuring that Menkes follows the environmental approvals as set out in the CPU.

Waterfront Toronto will make reasonable efforts to support Menkes in its marketing efforts and to endorse Menkes’ appropriate applications for municipal approvals.

7. Waterfront Toronto’s Undertaking to the City of Toronto

Waterfront Toronto is undertaking to oversee the implementation and completion of environmental oversight as outlined by the MOECC. In addition, Waterfront Toronto is committed to reinvesting all revenues derived from disposition of the land into the future waterfront revitalization efforts.

8. Next Steps

Over the following four months, Waterfront Toronto is hoping to achieve the following:

- a) IREC and Board support to proceed in finalizing a deal with Menkes based on the key terms described above;
- b) City Council endorsement of the Innovation Centre concept plan, subject to municipal development approvals, including minor variances and Site Plan Approval, as well as Waterfront Toronto Design Review Panel support;
- c) City Council authorize the City, as owner of the lands, to enter into a ground lease with Menkes for the disposition of Blocks 1 and 2 (or at their option, sell the lands fee-simple);
- d) Finalize the Ground Lease and Development Agreement; and
- e) Enter into an Undertaking Agreement with the City concerning environmental responsibilities.

Further discussion will take place during the closed session of the meeting.