Feasibility Assessment for a Major Office Employment Community Improvement Plan for the Region of Peel

June 2020

N. Barry Lyon Consultants Limited

nblc

N. Barry Lyon Consultants Ltd.

Feasibility Assessment for a Major Office Employment Community Improvement Plan for the Region of Peel

Table of Contents

Executive Summary

The Regional Municipality of Peel retained N. Barry Lyon Consultants Limited (NBLC) to prepare a feasibility assessment that assesses the potential effectiveness and appropriateness of a Regional Community Improvement Plan (CIP) with the objective of encouraging major office employment (MOE) investment across the Region.

Incentives offered by a municipality to encourage private development can be used to help attract investment that would not otherwise occur. A CIP is a mechanism that can leverage economic and market forces to direct change and establish new patterns of office development.

NBLC's report assesses market conditions in the Region for MOE growth, the opportunities and challenges related to major office development, and how financial incentives may or may not influence the location and form of such investment.

The following are the core findings from this work:

The GTA and Peel have strong economic fundamentals driving long-term economic expansion.

- The Region of Peel is seeking to increase the amount of MOE jobs within the Region to 2041 to support greater employment growth and diversity, reduce out-commuting patterns, encourage a greater utilization of employment land, and fulfill growth targets.
- For reasons to be discussed (primarily the dominance of Downtown Toronto), Peel has not been meeting MOE growth targets over the past ten years. To fulfill the growth targets, it is expected that MOE jobs will need to increase by 71% from current levels.
- Notwithstanding Peel's modest office growth, the overall market fundamentals driving office investment in the Greater Toronto Area (GTA) and the Region remain very positive and support continued long-term economic expansion.
- Over the short-term, the COVID-19 pandemic has placed significant stress (e.g. job loss, business instability, trade uncertainty) on the GTA office market, and the world economy more generally. We expect that office demand will flatten or decline during this period. However, as the economy sheds the impacts of the pandemic, we expect that the market fundamentals that have underpinned the GTA economy will support continued long-term growth in the sector.
- The impact of COVID-19 could have some lasting impacts on the nature of work and office space. Some predictions indicate that COVID-19 will reduce demand for office over the long-term as telecommuting and work from home continues to be more accepted. Greater demand for satellite offices in less congested communities could have long term benefits for office markets in Brampton and Mississauga too.

Over the past 50 years, there has been an ebb and flow in the office market between Downtown Toronto and suburban GTA office locations.

- Prior to the 1980s, most office investment in the GTA was occurring in Downtown Toronto, helping this area become the major Central Business District in Canada.
- Leading into the 1980s and continuing into the 2000s, the GTA suburban municipalities began to capture a much larger share of regional office investment. Reasons for this shift include the increasing popularity of the suburbs for workers, and their family, seeking affordable housing options, strong vehicular accessibility, less traffic congestion, combined with opportunities for developers to purchase large properties capable of accommodating significant surface parking.
- Clear office nodes began to develop in the GTA and include the Airport Corporate Centre (ACC) and Meadowvale in Mississauga. This concentrated office activity is a trend identified across developed countries, where businesses prefer to locate near other similar businesses to drive connections, innovation, efficiencies, infrastructure, and other similar benefits – often referred to as agglomeration economics. The concentration of investment in specific nodes continues today.

Downtown Toronto is absorbing a disproportionate amount of office development.

- Since 2008, new office space has increasingly been attracted to the City of Toronto. Between 2011 and 2016 specifically, Toronto accounted for 72% of all new office space added to the GTA market. Currently, 92% of all office space under construction across the GTA is concentrated in Downtown Toronto.
- Given Toronto's record low office vacancy rate, rising rents, and the magnitude of office space proposed (e.g. The Well, East Harbour, Downsview, Celestica, Union Station and rail corridor), it does not appear that this trend will end over the short to medium-term.
- While it is also important to appreciate a small number of market areas are absorbing a sizeable proportion of overall office demand, new office buildings are developing more efficiently than ever before. This is largely due to more efficient office layouts. Employee dense co-working office space is also becoming more prominent and it is expected that telecommuting and "work from home" will continue to become more accepted. Combined, these trends are resulting in an overall lower gross floor area (GFA) being required per worker to satisfy future employment growth – whether it be demand for new space in Downtown Toronto or concentrated in suburban office nodes.

There are many factors influencing current activity, location of investment, and trends.

- The site selection priorities of businesses that require office space will naturally vary, but the fundamental preferences of prospective tenants (employers/employees) and office developers tend to be similar and include:
    - Access to labour and talent;
    - Agglomeration effects;
    - Walkable access to retail, restaurants, open spaces and cultural activities;
    - Access to high order transit;
    - Access to highways;
    - Affordable parking solutions (particularly, in the absence of transit);
    - Operating costs (e.g. property taxes); and,
    - Development Costs (e.g. land value, development charges).
- Overall, office locations that fulfill the greatest number of tenant needs or preferred locational attributes will be in highest demand, achieve higher rents, and generally support viability of the largest scale projects.
- Assessing these factors collectively explains why Downtown Toronto has been so successful over the past decade. These factors are both financial and demand driven, with Downtown Toronto being able to satisfy virtually all demand side characteristics while also supporting the highest rents and lowest parking requirements (due to strong transit accessibility). The impact of these trends is that Downtown Toronto is leaving only a small amount of demand for new office space for other areas in the GTA.
- Overall, a significant shift in the office market from Downtown Toronto to some suburban locations is not expected over the near to medium term but may increase over time.

Growth in the suburban office market over the past ten years has been limited – but there are reasons to be optimistic in Peel.

- Recent office investment in suburban office market has largely been fueled by growth in the Vaughan Metropolitan Centre (VMC), as well as continued popularity of Mississauga's business parks – namely Meadowvale and the ACC.
- Mississauga's business parks have leveraged the factors that made them successful in previous decades, such as availability of large sites capable of accommodating surface parking, competitive costs, strong highway access, and the strong agglomeration economics. In one instance – the ACC – now offers higher order transit and a greater mix of uses, and in another, the promise of future LRT service – the Mississauga Gateway area. These areas remain strong markets for continued office investment.

Outside of Peels most popular business parks, major office investment interest has been mixed:

- Downtown Mississauga has not experienced significant office investment, which is primarily due to lack of high order transit, traffic congestion, and the requirement to provide underground parking (significantly increasing construction costs). Recognizing these trends and challenges, the City implemented a Community Improvement Plan (CIP) in 2017 for the downtown that offers financial incentives to encourage more office development. Future investment will also be supported by integration of future LRT.

- ▫ Caledon has experienced virtually no major office investment, but given Caledon's suburban/rural context, there is little potential for growth in this sector.
- ▫ Brampton has attracted some investment activity outside of the downtown, primarily driven by owner-occupied businesses selecting Brampton for its prestige employment areas / relative affordability of employment lands / reduced development complexity in such locations. However, the superior characteristics of competing suburban office locations, such as the VMC have presented a unique challenge as they have a greater number of in-demand features such as, superior highway access and exposure, better transit service levels and established office nodes that draws demand away for Brampton. To compete, regionally competitive rents are marketed but are below that necessary to finance office investment, particularly multi-tenant major office.
- ▫ Recognizing that new office investment is seeking environments that office a greater blend of uses, a masterplan was developed for the VMC that provides for wide range of commercial and residential uses. Leveraging the subway transit system and supported by a CIP, the area has been successful in attracting very strong office demand. The approach taken at the VMC has proven the importance of transit and thoughtful, mixed use master planning in attracting modern office investment.
- ▫ Brampton has the potential to position itself to attract modern office investment in the future. Riverwalk, GO service expansion, post-secondary, innovation district, health cluster initiatives along with the potential for, LRT and BRT are key initiatives that will significantly increase the appeal of the downtown and Central Area for major office investment
- ▫ Brampton is currently investigating the feasibility of implementing a new CIP tailored specifically to employment growth, as well as changes to the existing Central Area CIP that has largely been ineffective at encouraging office development.

- ▪ Overall, the success of the VMC should provide some optimism of what can be achieved in Peel through the right combination of transit investment, planning framework (mixed-use master plan with a focus on office, residential, and retail), appropriate financial incentives, and developers buying into the long-term vision of the area.

CIP incentives can be effective, but also have limitations.

- Financial incentives for office investment can improve the economics of developing in a location by lowering capital and/or operating costs, allowing lower market rents. CIP's can also help remove obstacles and accelerate development approvals. Incentives can include capital grants, grants to offset fees and charges (e.g. development charges), Tax Increment Grants (TIGS), waiving application and building permit fees, and many others.
- However, financial incentives cannot always directly influence all the demand side factors driving office development. Equally important are factors that sustain investment, such as the quality of the labour pool, access to transit, walkable urban amenities, which cannot be addressed through a CIP.
- Implementing incentives in Peel Region will not reverse the larger trends observed in the GTA market, such as Downtown Toronto's dominance. Similarly, other emerging office nodes like the VMC have been successful with the incentives offered to that geography, however, the primary factors driving investment in that area is the installment of a new TTC subway station, the mixed-use policy framework implemented, and buy-in from local developers and land owners.
- Competition for suburban office market demand will grow. The GO RER service expansion will have a dramatic effect on the supply of marketable lands for MOE. New station areas such as Downsview, Woodbine, St Clair, and Unionville are likely to attract new investment interest too. Peel Region will continue to compete regionally for this investment, and while incentives will assist with this objective, they will not solve the issue in isolation.
- Continued investments in transit, the public realm, floodproofing, partnerships with institutions and associated economic development initiatives in the Downtowns of both Brampton and Mississauga will eventually allow these areas to compete better in the 905 MOE office marketplace.
- Incentives alone may not result in the successful attraction of new office development. This is evident by the fact that despite funding, Mississauga's CIP has yet to experience any take up, and Brampton's CIP has resulted in only one built office project in over ten years.
- Incentives, therefore, are effective at helping to resolve near-term financial obstacles. They are less effective in addressing the long-term fundamentals that influence MOE markets.

Recommendations: Incentives are necessary, and the Region of Peel has a role to play.

- Over the past decade, all of the Region's local municipalities have taken steps to stimulate more office development in urban areas by offering various financial incentives through the adoption of CIPs, which range from development charge relief, TIEGs, one-time development application and permit fee rebates, façade and capital improvement grants, and municipally funded parking programs; the latter of which is unique to Mississauga.
- Only two of these CIPs – namely, Brampton's Central Area CIP and the Downtown Mississauga CIP – align with encouraging

major office growth in the Region's growth centres and corridors, as well as aligning with significant transportation and transit infrastructure investments. However, these CIPs have had limited (or no success) at attracting office investment. The lack of success can largely be attributed to:

- The market weaknesses of new office development in Brampton's Central Area. Brampton's CIP is also a broad program with multiple revitalization objectives and is not necessarily tailored specifically to encouraging new office development. As noted throughout this report, Brampton is currently in the process of investigating a new CIP tailored specifically to new employment growth, which might also result in amendments to the existing Central Area CIP.
- In Mississauga, the CIP is relatively new and therefore too early to evaluate.

- Based on the market findings, we are of the general opinion that it is appropriate to further incent major office investment. However, a single blanket approach to the entire Region would not be an effective or appropriate solution. The market conditions and overall deficiencies and opportunities in each local municipality are unique, therefore requiring a nuanced approach for each context.
- Overall, Brampton and Mississauga have taken appropriate and proactive steps to address employment growth deficiencies that are specific to each local context (e.g. Mississauga targeting downtown specifically, Brampton targeting employment growth more broadly). These CIP programs (existing and proposed) are being administered by planning and more specifically, economic development staff, that are best suited to carry out a program of this nature.
- We therefore recommend that the Region leverage and bolster the local experience by offering funding on a matching basis to each local CIP targeting major office employment. This would not require a separate, Regional CIP, but rather relies on enabling polices (Subsection 7.2.2.26) in the current Region of Peel Official Plan that facilitate the Region's participation in implementing area municipal Community Improvement Plans."
- The key strengths of this approach are:
  - The Region leverages the built-in expertise at the local level, including economic development expertise.
  - Objectives and funding are aligned with each local municipality.
  - Funding dollars are focused and stacked, which amplifies the impact and effectiveness of public funding.
  - The approach offers greater clarity to the market and results in less administrative complexities associated with two separate programs.
  - Administration is much simpler, less time consuming, and less costly for the Region.
- To implement this approach, several steps will be necessary as highlighted in Chapter 9 of this report.

- While NBLC suggests further investigating the means through which Peel could participate in local municipal CIPs, it is important to appreciate that the success of the programs cannot be guaranteed, as their use is also a function of external influences on demand, varying business models of developers, and many others. It will also be imperative to continue monitoring the employment market and success of each CIP program to adjust as necessary, which might involve increasing or decreasing the incentives offered as market conditions change.
- As a next step, NBLC recommends engaging with local municipalities to discuss how to best integrate with existing programs and align interests with regional interests.

1.0 Introduction

The Regional Municipality Peel retained N. Barry Lyon Consultants Limited (NBLC) to prepare a feasibility assessment that assesses the potential effectiveness of a Community Improvement Plan (CIP) to incent major office development and encourage greater office employment growth across its local municipalities – Brampton, Caledon, and Mississauga.

This report builds on analyses and reports prepared in support of the on-going Growth Management Regional Official Plan Amendment and Municipal Comprehensive Review for Peel Region[1], particularly an Employment Strategy Discussion Paper by Cushman & Wakefield[2]. The Employment Strategy places emphasis on increasing the number of Major Office Employment (MOE) jobs in the region to 2041 – the current planning horizon. Within this report, strategies are identified that are intended to help Peel achieve greater MOE jobs to 2041, including the possibility of establishing a Peel Region CIP and introducing financial incentives to attract greater MOE.

Within the Peel Growth Management Strategy and Employment Strategy reports, Major Office is defined as "employment occurring in freestanding office buildings of 1,860 square metres (or 20,000 square feet) or more". This definition of major office is used to identify the Region's share of MOE jobs, particularly relative to total employment. This definition is also used throughout this report.

1.1 Current Situation

Looking at the Employment Strategy report[3], Major Office Employment (MOE) accounted for 107,300 office jobs across the region, or about 15% of all jobs, as of 2016. Currently, a much greater proportion (42%) of jobs are classified as Employment Land Employment (ELE). ELE jobs are typically comprised of light and heavy industrial-type jobs that are more land-intensive, plus some mature office-based businesses that have chosen to locate in a suburban business park context. The remainder of regional jobs are classified as population-related (26%), home-based (5%), no fixed place (12%), and agriculture (less than 1.0%).

Based on forecasts from the Peel Growth Management Strategy, the share of MOE jobs is to shift from 15% to 19% by 2041. To achieve this end, MOE jobs will need to account for about 29% of overall job growth from 2016 to 2041. This equates to about 76,500 new office jobs across the region, growing by 71% from current levels. Land intensive, ELE jobs will still make up the greatest share of regional jobs, but with more modest growth.

[1] Peel Region (2017-10-26). "Peel Growth Management Strategy Overview Report," prepared for Regional Council.
[2] Cushman & Wakefield (19 September 2017). "Employment Discussion Strategy Discussion Paper," prepared for Peel Region.
[3] ibid

The above shift to greater growth of MOE jobs will necessitate a change in investment activity and development patterns. However, this change is not expected to be the same across local municipalities, with Mississauga expected to account for the greatest growth (48%), followed by Brampton (28%), and Caledon (5%).

1.2 Project Purpose

The purpose of this study is to provide research into the use of CIPs and possible financial incentive programs targeting major office development, and to formulate some direction in terms of the appropriateness of a CIP for the Region, with a view to improve growth of MOE jobs.

This report therefore assesses the current market conditions in the Region for MOE, the opportunities and challenges related to MOE development, and how financial incentives may or may not influence the location and form of new commercial investment.

1.3 Limitations

It is important to appreciate that office markets are highly mobile and impacted by various macro-economic factors such as recessionary cycles, trade uncertainty or imbalances, interest rate changes, consumer confidence, other global economic forces, technological disruption, and shifting employment characteristics, amongst other factors. Ownership and business models of different developers and occupants will also vary and impact interest in a community. These influences on demand are difficult to predict, as is the level and timing of future major office development.

Similarly, there are many factors that influence the location of office investment and not all these factors can be addressed through financial incentives. A strong public realm, access to walkable urban amenities, high-order transit, a deep pool of tenants and talented labour, and many other factors will influence the desirability of one location over another (or one municipality over another) for new employment investment.

While it is critical to understand the balance between market forces and alignment with desired development outcomes, the effectiveness of a CIP and uptake of a suite of financial tools is not always easy to predict. This is especially true for employment markets relative to residential investment. Furthermore, this uncertainty presents a challenge in terms of allocating the appropriate funds for a CIP to implement various financial tools. For example, many municipalities that have a CIP for commercial investment receive little interest (e.g. downtown Brampton), whereas commercial investment is observed in other municipalities where no incentives are offered (e.g. Meadowvale, Mississauga).

2.0 Potential Use of a Community Improvement Plans

To begin, this section of the report explains the potential and appropriate use of CIPs, including the underlying regulatory context.

2.1 What is a Community Improvement Plan?

A CIP is a planning tool that is enabled under Section 28 of the *Planning Act*. Section 28 sets out legislation that allows a municipality to develop a comprehensive plan for community improvement within a predefined community improvement project area.

A community improvement project area is a predefined area that "in the opinion of the council is desirable for revitalization because of age, dilapidation, overcrowding, faulty arrangement, unsuitability of buildings or for any other environmental, social or community economic development reason" [S.28(1)]. A CIP can therefore apply to the entire municipality or a smaller strategic geography.

2.1.1 Community Improvement Plans and Upper-tier Municipalities

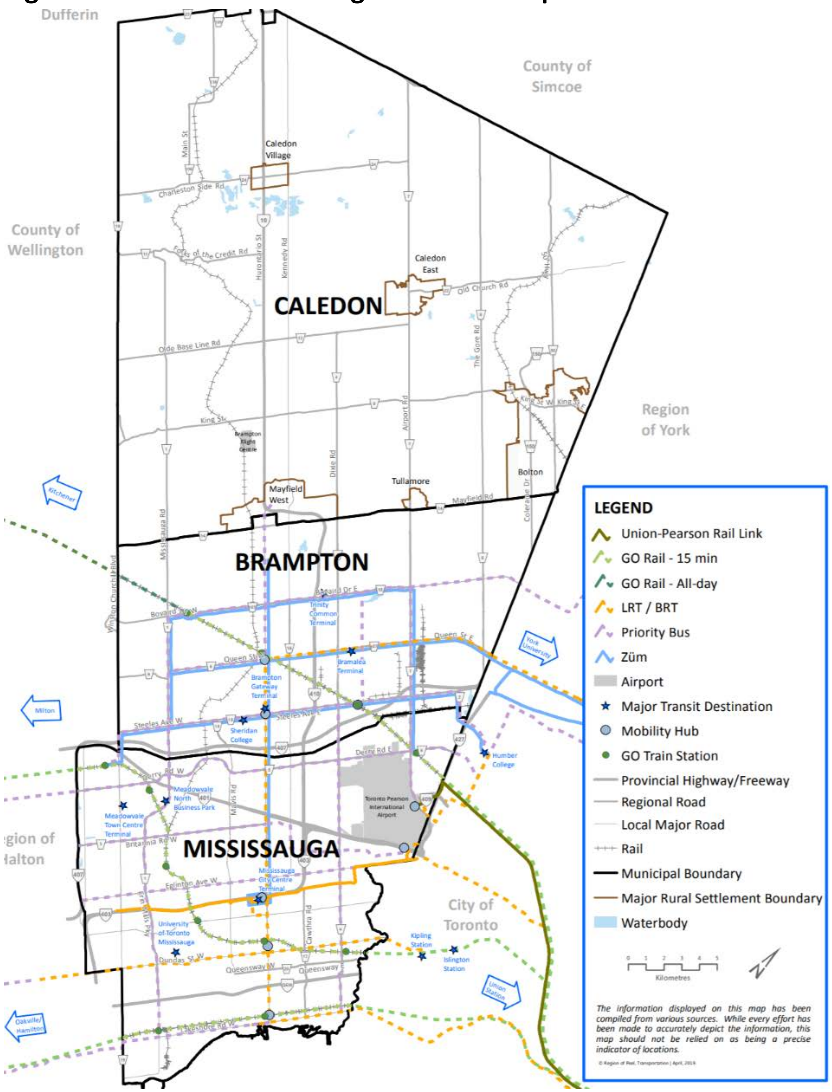
Upper-tier municipalities, including Peel, are permitted the authority to establish CIPs for prescribed matters through Section 28 of the *Planning Act*. As prescribed in Subsection 28.4.0.1, Ontario Regulation. 465/09, Regional Council has the legislative authority to develop a CIP, but limits the scope to matters dealing with:

1. Infrastructure that is within an upper-tier's jurisdiction.
2. Land and buildings within and adjacent to existing or planned transit corridors that have the potential to provide a focus for higher density mixed-use development and redevelopment.
3. Affordable housing. *[O. Reg. 550/06, s. 2.]*

In this Regulation, "infrastructure" means physical structures and associated facilities that form the foundation of development, including: communications systems; electric power systems, oil and gas pipelines, alternative energy systems and renewable energy systems; transportation corridors and facilities; waste management systems; and, water works, wastewater works, stormwater works and associated facilities. *[O. Reg. 550/06, s. 1.]*

Practically, this appears to indicate that the extent of a regional CIP project area is limited to regional transportation and/or transit corridors. This appears to be the case for all community improvements outside of infrastructure, as defined, and affordable housing. The location of existing and planned regional transit in Peel is illustrated in Figure 1, on the following page, as well as identification of regional roads.

Figure 1 – Location of Existing or Planned Rapid Transit Network



Source: Peel Region. Long Range Transportation Plan 2019-Final Report.

It is important to appreciate that grants and loans between upper- and lower-tier municipalities can be arranged without use of a Regional CIP. Subsection 28.7.2 of the *Planning Act* states that:

> "…the council of an upper-tier municipality may make grants or loans to the council of a lower-tier municipality and the council of a lower-tier municipality may make grants or loans to the council of the upper-tier municipality, for the purpose of carrying out a community improvement plan that has come into effect, on such terms as to security and otherwise as the council considers appropriate, but only if the official plan of the municipality making the grant or loan contains provisions relating to the making of such grants or loans." [2006, c. 23, s. 14 (8)].

This means Peel could make grants or loans to area municipalities, if and where, CIPs already exist. This requires broad-based policies within the regional and local official plan to allow for such agreements and financial stimulus, rather than adoption of a CIP by-law, guidelines for financial tools, and allocation of funds for each. In other words, where local CIPs exists, the Region would not require a regional CIP to incent investment through financial stimulus. Section 7.7.2.26 of The Region of Peel Official Plan, Office Consolidation December 2018, includes such policies, stating that it is the policy of Regional Council to:

> "Adopt community improvement strategies/programs to guide and facilitate the Region's participation in implementing area municipal Community Improvement Plans."

Discussed later in this report, all lower-tier municipalities in Peel have CIPs and financial programs set-up to support MOE growth.

2.2 What is the benefit of a Community Improvement Plan?

A CIP is unique amongst other plans and planning tools in that it offers a range of powers that can enhance a municipality's ability to encourage private investment that is consistent with broader community objectives. It also reinforces municipal tools such as powers of expropriation, land assembly and preparation of land for revitalization. This means that a municipality can stimulate investment and revitalization through their own activities and in partnership with the private sector.

CIP's typically offer financial tools. These financial incentives are intended to mitigate development risks and improve the financial viability of projects that are desirable from a community building perspective.

A 'toolbox' of potential non-financial and financial tools and incentives is adopted as part of a CIP and brought into effect by implementation guidelines, application processes, and allocation of funds.

The tools provided in a CIP can stimulate a host of other enduring benefits, such as job creation – in this case MOE jobs – tax revenue, and/or an overall improvement to quality of life for its residents. For example, the Region's goal to attain better usage of employment lands within the Region more generally, and specifically to encourage the development of MOE to contribute to growth targets and a healthy mix of jobs for Peel residents within the municipal boundary.

2.3 Other Considerations – Development Charges and Bill 108

It is important to appreciate that CIPs – whether through a regional CIP or broad-based provisions in a regional official plan – are not the only means to provide support for major office development. Development charge (DC) deferrals, reductions or exemptions can be used to incent office development through a new or amended Development Charge Bylaw or other policy.

In 2019, the Province also introduced legislation that could change the DC treatment of office development, and impact project outcomes. DCs typically have been set and paid at building permit stage for office buildings. Bill 108, tabled by the Provincial government on May 2nd, 2019, changed both the administration of DCs and the timing of payment for office development. While municipalities are working to implement these changes, the legislation would allow developers to lock in DC rates on the day upon which a site plan or zoning application is made. Furthermore, non-residential developments, including offices, would not have to pay DCs until the earlier of occupancy permit or first occupancy of the development, and continue to pay, in equal annual installments, for the ensuing five years. In conducting this analysis, NBLC has taken into consideration these changes and impacts on office investment, along with current economic and market conditions. However, it is noted that the impact of these changes is modest.

2.4 When should a Community Improvement Plan be used?

It is, however, important to appreciate that any incentives offered by a municipality to encourage private development should be used to help attract investment that would not otherwise occur. Offering tools that improve the feasibility of development when market conditions already support the achievement of desired outcomes would be an inefficient use of public resources.

The key steps in assessing the appropriate use of a CIP include:

- identifying preferred type of development – in this case, major office development of at least 20,000 square feet (sf);
- evaluating market forces at play and areas of weakness;
- testing the impact and feasibility of potential incentives; and,
- selecting financial incentives that offer the best return on public dollars.

Ultimately, a CIP can work with economic and market forces to direct change and establish new patterns of office development. As such, the assessment of such conditions are provided early-on in this report to help "set the stage", and evaluate if the strategic use of financial incentives could address market failures that are currently disincentivizing the preferred development patterns.

3.0 Current Economic and Employment Conditions

Ultimately, prevailing economic and employment conditions will have a bearing on the overall environment for investment, as well as the duration and possible need to incent private development. Prior to discussing market forces, this section provides an overview of current economic and employment conditions and provides a long-term outlook for economic expansion.

3.1 Economic Conditions in the GTA

While the Provincial economy has slowed compared to previous years, it is important to appreciate the underpinnings of the Greater Toronto Area (GTA) are strong and support long-term economic expansion. These expectations are based on population growth and employment forecasts, and a diverse and growing services-producing economy.

Based on Statistics Canada Labour Force surveys, the Toronto CMA unemployment rate had been declining over the past several years and approximately 5.6% as of December 2019. The CMA also added upwards of 131,300 net new jobs in 2019. This job growth was up 3.6%, as compared to average yearly growth of 2.0% over the last five years.[4]

Job growth has been relatively strong and diverse, which has helped attract a high level of immigration to the GTA. This includes highly skilled economic migrants, which is expected to continue over the next 20 years. This is indicated by immigration forecasts, with the GTA typically attracting 30% to 40% of new immigrants to Canada.

While regional job growth has been healthy over the long term, it has not been balanced amongst a full range of sectors, as well as geographically. Overall, there have been an increasing number and proportion of jobs in Finance, Insurance and Real Estate (FIRE) and tech-based sectors, with major employers in these sectors generally gravitating to Downtown Toronto. While these economic conditions support the need for development of new office space, most demand and investment has been concentrated in Downtown Toronto.

Notwithstanding the positive long-term trajectory, it is understood that growth in the economy has slowed in recent years. Some of this slow down can be explained by a fall-off in mining, and oil and gas attraction, but also the result in an overall decline in consumer confidence, increasing interest rates, and consumer debt.

Currently, there is also significant uncertainty with respect to the current Covid-19 epidemic, economic impacts on the economy, and the amount of time to return to a new economic normal. The full impact of Covid-19 relative to macro economic conditions are expanded on in the key findings of this chapter.

[4] Statistics Canada. Table 14-10-0294-01 Labour force characteristics by census metropolitan area, three-month moving average, seasonally adjusted and unadjusted, last 5 months

While major events, economic fluctuations, and recessionary cycles are difficult to predict, it is important to appreciate that demand for office space will almost certainly change over time. Over the long-term, overarching economic fundamentals are expected to remain and point to long-term economic resiliency, economic growth, and job creation.

3.2 Economic Conditions in Peel

Within the GTA, Peel has a particularly vibrant, growing and increasingly diversified economy.

The region's main advantage is its location within the GTA and Southern Ontario. Peel is located centrally within one of the most active economic hubs in Canada, with an attractive transportation network (i.e. highways, and some of the largest intermodal hubs in North America), which provides access to the US boarder and international markets. Peel is also centrally located within the GTA, which is attractive to a full range of business establishments – from international to local companies – seeking office space that is within a large labour shed.

Peel is currently home to approximately 177,222 business establishments (up from 175,534 in 2018).[5]

Much like the rest of the GTA, there are increasingly more business establishments in the services-producing economy, including businesses engaged in knowledge-based industries. This marks a long-term shift away from more traditional goods-producing industries. The shift towards the service sector has occurred across much of Peel, but particularly in Mississauga, which tends to offer the most attractive environment for office-type employment.

Statistics Canada Labour force indictors also suggest improving conditions. Over the last five years, total employment in Peel has improved, as well as unemployment rates. In 2019, the total labour force totaled 937,600 persons (up 3.9 % from the year prior). The number of residents who were working also increased (up 4.1%), with the unemployment rate achieving the lowest level since the last economic recession.[6]

[5] Statistics Canada, Business Patterns data, December 2019.
[6] Peel Region. Peel's Labour Market Performance, 2019.

3.3 Key Observations

While employment conditions in 2020 will inherently be challenged as a result of mass unemployment due to Covid-19 pandemic, it is expected that FIRE, manufacturing, innovation and technology, warehousing and distribution sectors, as well as support services, for example, are more likely to recover in a shorter period of time relative to other industries. This is particularly expected relative to a prolonged recovery period for business engaged in hospitality, travel, and retail-trades. This more optimistic outlook for some services-based sectors is assumed given the previously discussed strong economic foundation and attractive locational attributes of both the GTA and Peel.

However, one significant external factor impacting the overall trajectory of economic growth will be the regions trade ties to the US, and uncertainty with respect to their economic recovery. This factor alone could impact the timing of a return to a new economic 'normal' across all sectors.

As a result of the above conditions (e.g. job loss, business instability, trade uncertainty), shorter-term demand for office space across the region may stall, resulting in higher vacancies, and reduced office investment interest for an uncertain period. Other factors, yet to fully play-out, may also impact demand. This could include the possibility of a greater number of employers / employees adopting work-from-home policies, reducing future need for new office. Conversely, it is also possible that other trends could support greater office investment over the longer term, such as need or appetite to increase distancing between employees – slowing densification trends – and / or the a desire by some businesses to consider suburban office market locations (e.g. satellite offices) that are in less congested locations and closer to an employees place of residence. Overall, it is too early to determine the impacts of the current pandemic on the regional or local office market.

It is important to appreciate that much like the rest of the GTA, the long-term economic underpinning in Peel are positive. This means that their will be continued interest in office investment when economic conditions and trends are clearer, which will support improved long-term office investment and employment growth in the region.

4.0 Key Drivers of Office Demand

The following section introduces the forces at play in the regional office market that will impact the level and typical location of major office development over the long term, beginning by identifying the range of factors that influence the economic decision making of investors.

4.1 Economics of Office Development

For every commercial real estate class, there are distinct and separate economic models of development. Even different types of office investors are likely to have unique market considerations and priorities as well as different profit expectations.

Office markets are comprised of both multi-tenant developers seeking to build and rent space, as well as purpose-built projects where a business constructs and occupies the building.

- Owner-occupied buildings are typically constructed to fulfill the operation side of the business, and therefore rental rates are not considered when deciding where to build. These businesses make a capital investment to support their business and are more concerned with capital and operating costs when deciding where to locate (e.g. land value, parking, development charges, property taxes, etc.), as well as locating in an area with a deep pool of accessible labour or where their existing employees live.
- By comparison, multi-tenant office developers look at such an investment as a form of annuity that will generate income over an extended period. These developers seek to build a building and rent the space to tenants over the long-term. These office developers are therefore seeking locations that will attract the highest possible rents and occupancy rates. These locations typically are high profile, offering the greatest exposure and access to the widest range of possible tenants and clients to help increase overall absorption levels. In these situations, the income of the building must be high enough to justify the initial capital investment, cover all operating costs, and provide a return.

4.2 Location Selection Preferences

The site selection priorities of businesses that require office space will naturally vary, but the fundamental preferences of prospective tenants (employers/employees) and office developers tend to be similar. The following subsections provide a more detailed description of the key drivers of demand for office space.

4.2.1 Access to Labour and Talent

Locating in the most central locations of the GTA is a top priority and natural choice for many business establishments. In part, this is a result of the opportunity to draw talent from a labour force of upwards of 3.7 million persons, as well as talent coming out of some of the country's top universities.[7]

Within Peel, Mississauga benefits in this regard being closest to Toronto (with University of Toronto, Ryerson, York, and George Brown College), and also being home to University of Toronto's – Mississauga Campus in Erindale and Sheridan College's new Hazel McCallion Campus in Downtown Mississauga. Brampton also has post-secondary institutions and hopes to welcome a new university campus into the downtown.

Above: Sheridan College – Hazel McCallion Campus.

4.2.2 Agglomeration Effects

Many businesses also gain efficiencies by locating near each other, providing greater opportunities for networking and cross-fertilization of ideas. As a result, office investors will generally seek out locations that have an established or growing office node. An example of this is a strong cluster of business establishments in Airport Corporate Centre and the Meadowvale Business Park in Mississauga, as well as the growing Bram West employment area in Brampton.

4.2.3 Lifestyle Preferences and Walkable Communities

Millennials and the next generation of employees are also increasingly showing preference to working and living in the same community, and specifically in the City of Toronto. As a result of

[7] Statistics Canada. Table 14-10-0295-01 Labour force characteristics by Montréal, Toronto and Vancouver census metropolitan areas, seasonally adjusted and unadjusted, last 5 months.

the above, plus a greater concentration of living opportunities within walkable communities, office tenants are increasingly gravitating towards spaces in the densest urban centres that are part of established or emerging mixed-use communities. While likely relocating for multiple factors, evidence of this shift includes Microsoft's announcement to move its Canadian headquarters to CIBC Square in Downtown Toronto from the Meadowvale Business Park in Mississauga, as well as the increasing popularity and vibrancy of Toronto's Liberty Village and Junction Triangle. Microsoft provided the following quote when asked about the core reason for relocation:

"By relocating our (Microsoft) headquarters to downtown Toronto, we'll be able to better serve our customers and attract top talent"
Mississauga.com/news

Above: Rendering of New Office Addition to First Capital Liberty Village Mixed Use (Office/Retail Project)

Above: Rendering of the Hines new Office buildings in the Junction. Below: Junction Breweries and Cafes & the MOCA Art Gallery / Office

4.2.4 Access to Transit

Office spaces that are walkable to higher-order transit are also increasingly popular amongst employers for the same reasons discussed above. This is because multi-modal access widens the possible labour shed from which an employer can attract talent. From an employee perspective, they can work in such a location and still maintain a more balanced live / work lifestyle by reducing overall commute times.

Those locations which offer the fastest, most reliable, frequent service (e.g. subway), and multi-modal connections that are nearest to Downtown Toronto and Union Station will be in highest demand and have the highest possible rent.

Office spaces in non-Downtown Toronto locations that are nearest to higher-order transit are likely to grow in demand over time, particularly as traffic congestion worsens. Improved services and sites nearest to existing or planned higher order transit will expand what is considered a reasonable commuting distance, improve reliability / offer an alternative to automobile dependency, and increase in attractiveness as a place of employment for many persons living outside of Toronto.

Illustrating the above trend, there has been significant uplift in new office development within the Vaughan Metropolitan Centre (VMC), adding approximately 460,000 square feet of new space between 2012 and 2016 in anticipation of the opening of a new TTC subway station. Since the opening of the subway, an additional 305,000 square feet has been delivered, in addition to a new 600,000 square foot office building (SmartCentres Phase 2) proposed adjacent to the subway station.[8]

In Mississauga, signs of such activity are occurring but are generally limited to new office completions (e.g. The Hub at Spectrum Square) that are adjacent to stations along the Mississauga Transitway, which opened in late-2017. In this instance, transit would only be one factor impacting employment growth. Given the Transitway provides east-west connectivity only, it may have limited impact on real estate investment aside from being successfully used in marketing materials to prospective tenants. Demand from tenants is likely to be more impacted by proximity to Lester B. Pearson International Airport (the Airport), major interchanges on Highway 401, 403, 410 and 400, and being within the already popular Airport Corporate Centre (ACC).

PwC Tower in the VMC (TTC Subway Adjacent) and the future SmartCentres Phase 2 (TTC Subway Adjacent).

5015 Spectrum Way (Adjacent to Spectrum BRT Stop and Highway Proximate)

[8] Costar, custom property data prepared for N. Barry Lyon Consultants Limited (26 February 2020).

This is not to say that location with multi-modal connectivity (e.g. Downtown Mississauga, with highways, future LRT and the Transitway) will not be impacted by transit over the longer-term. Typically, demand from end-user tenants will not emerge until service is operational, and greater value is placed on transit over access by automobile.

Transit can also have a sizeable impact on the financial performance of a project by lessening parking requirements, but only if the developer believes that the transit will reduce automobile usage by employees/tenants. This will not always be the case, especially for local higher-order lines where many residents might still choose to drive. This is another factor that explains why so much office development is occurring within walking distance of Toronto's Union Station, the central point of the GTA's regional commuter system.

It is also important to keep in mind that there are many municipalities across the GTA that are investing in transit and/or will benefit from improved GO transit service levels, and these areas will compete against each other to attract a share of suburban office demand.

4.2.5 Access to Highways

Notwithstanding any of the above, highways are still the most popular and expansive regional transportation option in the GTA, outside of Toronto. This is particularly true for the '905' suburban office market – inclusive of Halton, Peel, York, and Durham Regions. Being proximate to highways allows employers to draw employees from the widest possible labour shed. Many businesses may also rely on regional travel (e.g. visiting clients or customers) and require highway access.

Given the expansive highway network across the GTA, however, the search area for an office tenant that is considering the '905' suburban office market can be very wide. As a result, all possible locations within the '905' suburban office markets will compete against each other for a share of office growth, especially where investors place a higher value on access to highways (and parking) over the above discussed influences on demand – namely, centrality, mixed use amenity-rich environments and access to higher-order transit.

In Peel, Mississauga tends to be most attractive when considering access to highways. This is because Mississauga is in the west-central portion of the GTA and has the best access to the most prime 400-series highways.

This continued preference is repeatedly demonstrated in Peel and Mississauga where nearly all new office development in the 1990s and over the last decade has occurred in the city's ACC, Mississauga Gateway Centre (along the north-end of Hurontario corridor), and Meadowvale Business Park with the best possible access to Highways 401, 403, (tolled) 407 and 427.

Brampton also benefits from strong highway access, with immediate access to Highways 410 and 427, as well as Highway 407, but is about 15 minutes to Highways 401 and 403 outside of peak-travel, and slightly further to the Airport. Areas planned for office in Brampton that benefit most in this regard are Bram West Office and Business Corridors, Bramalea Road South Gateway, and some portions of Brampton's Central Area.

4.2.6 Exposure and Visibility

Office and/or signage visibility to the traveling public is also an important consideration for many businesses who use their real estate as part of their marketing and branding strategy. This has and will be particularly positive for available development sites in Peel, near any of the above referenced major highways, particularly those sites nearest to multiple highway interchanges and exits.

4.2.7 Surface Parking and Large Vacant Lots

Combined with access to highway, many prospective tenants still value access to affordable parking. Access to surface parking or other affordable parking solutions (e.g. standalone structured or integrated podium parking) can be important for businesses that rely on customer convenience, have employees who regularly travel off-site for work, and/or entertain client meetings. It is also particularly important where high-order transit (LRT, BRT or subway) is not within a reasonable walking distance for some if not all employees (generally 500 to 800 meters or 10 minutes).

While this competitive advantage is likely to disappear over time as greenfield land is depleted and land values increase, parking is still an important consideration when selecting an office location in a suburban context, including in Mississauga, but especially Brampton and Caledon.

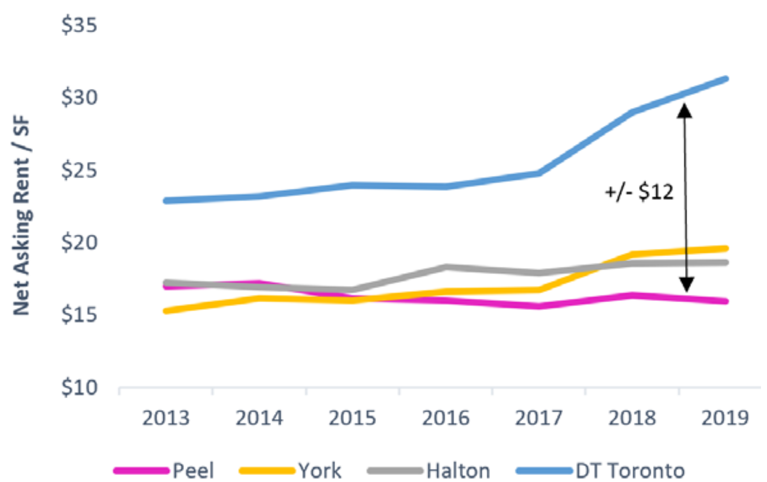
Overall, this dynamic supports the continued demand for new office space in business parks / the edge of traditional industrial areas in the '905' suburban office market , as opposed to more urbanized mixed-use areas across the GTA that require underground parking as a matter of urban design principles and policy (e.g. more efficient use of land along transit corridors and near stops and stations).

More challenging office investment areas include some growth centres in the '905' that are planned for higher-density mixed-use (office and residential) development with underground parking required [e.g. Downtown Mississauga, Brampton's Central Area (including Downtown Brampton), and Markham Centre] but do not yet have operational multi-modal transit service and rents to overcome the cost of constructing underground.

4.2.8 Regionally Competitive Pricing

While office located nearest to highways tends to lack an amenity rich and other favorable market attributes, they tend to offer regionally competitive pricing. Prospective tenants considering a '905' suburban office location may naturally expect to trade off an amenity rich environment and walkability, a previously discussed, amongst other positive attributes, for reduced monthly rent. Discussed further in the next section of this report, the pressure to have regionally competitive rents to attract tenant interest can make it challenging to overcome the costs associated with office development in a more urban infill context.

Figure 2 – Net Asking Rent Across Existing Inventory by Region



Source: N. Barry Lyon Consultants Limited; Costar.

4.2.9 Operating Costs

Following the same logic as above, being able to offer the lowest possible effective gross rent may also be a paramount consideration. It is important to understand that tenants within an office building are often subject to a triple net lease arrangement where an effective gross rent is paid to a landlord. The effective gross rent will include the amount that goes to the cash flow of the landlord, often referred to as the net rent. The remaining portion of the effective gross rent covers most other operating costs associated with the building, such as taxes, maintenance, and insurance (TMI). Since maintenance and insurance of new buildings will generally be comparable across jurisdictions, the applicable property tax rate can either be an advantage or disadvantage in terms of attracting tenants and overall office growth in less prime office locations. A good example of this is Mississauga having a commercial property tax advantage over Toronto, while equally benefiting from airport proximity. This advantage partly explains the significant difference between development activity in Mississauga's ACC versus Toronto Airport business district, as gross effective rents can theoretically be lower in Mississauga, which offers a significant competitive advantage when attracting new tenants. For owner occupied buildings, a lower tax rate will be a direct savings to the project.

While Brampton has the lowest commercial rate of municipalities surveyed, Caledon and Mississauga have the highest rates outside of Toronto. For demonstration purposes, assuming a 75,000-sf new office building, an investor in Brampton may expect that such a building could have a $6.8 to $16.7 million tax advantage over a forty-year lifespan holding tax rates constant. York Region municipalities have a tax advantage over Mississauga, Toronto, and Caledon.

A comparison of office tax rates applicable to new office development for a select number of central GTA suburban municipalities is provided in Table 1.

Table 1

Property Tax Impact of a Hypothetical 75,000 sf New Office Building					
	2019 Tax Rate [1]	40 Year Tax Total (2% Inflation)	40 Year Property Tax (with 2% Inflation) Savings/Loss Relative to Brampton	Mississauga	Caledon
Brampton[3]	1.076296%	$15,017,405	-	($12,089,314)	($11,012,851)
Mississauga	1.942736%	$27,106,720	$12,089,314	-	$1,076,463
Caledon	1.865586%	$26,030,257	$11,012,851	($1,076,463)	-
Toronto[4]	2.276751%	$31,767,184	$16,749,778	$4,660,464	$5,736,927
Vaughan	1.616502%	$22,554,823	$7,537,418	($4,551,897)	($3,475,434)
Richmond Hill	1.606535%	$22,415,755	$7,398,350	($4,690,965)	($3,614,502)
Markham	1.570027%	$21,906,364	$6,888,959	($5,200,356)	($4,123,893)

Notes:
1) Includes municipal general, hospital, education and Region property tax rates (as applicable). Commercial/New Office Construction with
No Excess / Vacant Land rate as applicable.
2) Assumes 75,000 sf new commercial office building, average net asking rent of $20 psf per year, and a cap rate of 6.5% or hypothetical assessment value of $23.1 million.
3) As applicable, assumes new office construction (full - no excess land)
4) Commercial general tax rate, which includes municipal, education and City building rate.
Sources: N. Barry Lyon Consultants Limited; Municipal websites.

4.2.10 Development Charges

Development Charges (DCs) represent one of the most significant issues in high density development, including office. These fees alone can often render the most modest projects unfeasible, especially in weaker market areas. The relaxation or elimination of these charges, whether through the use of a CIP or DC By-law, where intensification of office development is being encouraged, can potentially have a significant impact on the viability of the project providing all other market factors (i.e. locational preference / market attributes) are positive.

Table 2 includes a comparison of the lowest possible one-time total DC rates by local municipality applicable to new office, again, assuming a 75,000-sf building and inclusive of local, upper-tier, education, special charges and exemptions, but before area specific charges or CIP incentives.

Table 2

Comparison of Non-Residential Development Charge Rates for Hypothetical New 75,000 sf Office, As of February 2020					
	Total DC Rate / SM	Hypothetical Total DCs	Min. Savings/Loss Relative to		
			Brampton	Mississauga	Caledon
Brampton	$237.51	$0	-	($3,321,433)	($2,758,290)
Mississauga[1]	$357.52	$3,321,433	$3,321,433	-	$563,143
Caledon	$296.90	$2,758,290	$2,758,290	($563,143)	-
Toronto[2]	$402.88	$534,691	$534,691	($2,786,743)	($2,223,599)
Vaughan[3]	$415.09	$3,856,311	$3,856,311	$534,877	$1,098,021
Richmond Hill[4]	$323.09	$3,001,603	$3,001,603	($319,830)	$243,313
Markham[6]	$377.15	$3,503,837	$3,503,837	$182,403	$745,547

Notes:
1) Includes Storm Water Management Development Charge as per ha rate for Mississauga under "Other". The total rate adjusted to included SWM, assuming 0.4 ha site for office. 2) Includes Toronto Green Standard Program - TIER 2, 3 and 4 CAP - prior to potential rebate - under "other" and calculates hypothetical total based on ground floor area only. 3) Excludes area specific rate - VMC rate is an additional $5.39 to $8.04 per sm GFA for sanitary improvements and $781,197 per ha for SWM Pond Retrofit works; 4) Excludes area specific charges; 5) Excludes area specific rate for Markham Centre of between $8,712 to $1,635,025 depending on the precinct. 6) Before any additional area specific changes.

Of note, Toronto offers one of the most substantial DC reductions by applying the total charge to only the ground floor portion of a new office building. Outside of Toronto, Peel municipalities have the most competitive rates.

However, as of June 14th, 2019, Brampton Council adopted a new DC bylaw that exempts charges for office construction above 50,000-sf, but only if such space is not used for population-related uses. Using the hypothetical office building size, the City of Brampton currently has the greatest Development Charge advantage, whereas Mississauga would have comparable charges to Vaughan, Richmond Hill and Markham in York Region.

4.3 Key Observations

Overall, office locations that fulfill the greatest number of tenant needs or preferred locational attributes will be in highest demand, achieve higher rents, and generally support viability of the largest scale projects. This is particularly true for multi-tenant projects but also for owner-occupied buildings; however, the latter might also seek out lower cost options across the GTA. Conversely, those locations that fulfill fewer needs or tenant preferences may need to employ a marketing strategy that offers more utilitarian space, basic amenities, and regionally competitive rents.

While incentives might also be necessary to overcome market challenges, it is noted that many of the factors influencing commercial investment are not directly tied to financial considerations. This will be explored in more detail later in this report.

The following sections will evaluate the office market in the GTA and Peel Region with a view to understanding the opportunities and challenges observed in the Peel office market generally and within each local municipality in Peel.

5.0 Trends in the GTA Office Market

This section provides an overview of office investment trends in the GTA over the last decade to help illustrate how Peel fits into this context, including both historic and current activity and the geographic distribution of overall office demand to present day.

5.1 Historic Trends and Investment Activity

Prior to the 1980s, the majority of office development occurred in Toronto's Downtown as well as select locations along the subway system and other non-transit areas adjacent major highways. This largely included major office development in Toronto's Financial District, with the establishment of Commerce Court and the TD Centre, as well as along the North Yonge Corridor.

Some major office development was occurring in Mississauga at this time, but primarily concentrated Downtown Mississauga (around what was the new Square One Shopping Centre), plus Sheridan and Meadowvale business parks. Similar investment was also occurring, but to a lesser extent, in Markham and Vaughan.

Between the 1980s and the early-2000s, office development continued to occur in Toronto (Downtown and elsewhere), but significant office development also started to pick-up in the '905' suburban office market. This trend was generally due to relative ease of commuting by automobile, expansion of the GO commuter rail network, less expensive land and favourable commercial tax rates, the ability to acquire large properties with ample surface parking, and worker preferences for suburban business parks.

Notably, job opportunities in the '905' suburban office market were also located near rapidly growing and relatively affordable residential areas, offering grade-related housing options to family households at a time when congestion was less of a concern.

Utilizing a custom data run from Costar's commercial property database, the five largest suburban business parks (in terms of total office inventory) are largely in Peel and York Region. They are:

- Mississauga/Toronto: the Airport Corporate Centre (ACC) with 12.5 million sf;
- Toronto: the North Yonge Corridor with 9.5 million sf;
- Richmond Hill/Markham: Highway 7 and Highway 404 with 6.4 million sf;
- Mississauga: Meadowvale Business Park with 6.1 million sf; and,
- Toronto/Markham: Steeles Avenue and Highway 404 with 5.9 million sf.

Except for Meadowvale, the majority of this existing inventory was developed in the mid-1980s and 1990s, when office investment in the '905' suburban office market was very popular. As discussed in the previous section, all of these established business parks and other office nodes would have been highly popular for: the best access to highways, visibility, and some agglomeration effects. A prime example of this is growth experienced in the Highway 7 and

Highway 404 with IBM locating here in the 1980s, or the ACC with national and regional headquarters locating in this area to be proximate to the Airport, as well as near rapidly growing traditional industrial employment areas in both Mississauga and Brampton.

The popularity of the '905' suburban office market continued into the 2000s. According to the previously mentioned Cushman & Wakefield Employment Strategy, from 2000 to 2008, the '905' suburban office market accounted for about 91% of all new office supply added to the GTA.[9] Over the same period, no office investment occurred in Downtown Toronto.

From the late-2000s onwards, office development rapidly shifted back to the City of Toronto. Toronto's South Core – immediately south of the Financial District and Union Station – started to capture significant office development, as well as other major development projects in Toronto's central area and/or transit supportive locations in more 'fringe' Downtown locations (i.e. Liberty Village, brick and beam King East/West, North Yonge Corridor, etc.). Toronto's share of office growth in the GTA has continued to grow since this time, with Toronto accounting for 72% of all new office space added to the GTA office market between 2011 and 2016[10]. Of this new inventory, over 85% was in Downtown Toronto. Currently, 92% of all office space currently under construction across the GTA is in downtown Toronto.[11]

5.2 Current Distribution of Office Demand and Growth

The predominance of the Downtown Toronto office market today, is a result of being able to 'tick' the greatest number of boxes for prospective tenant in terms of positive locational attributes (e.g. proximity to talent, greater networking opportunities, amenity rich environments, cultural, recreation, entertainment opportunities, walkable residential opportunities and access to higher order transit). This combination of positive attributes has generated significant market momentum, wherein, more and more investment interest is focused in only a few key locations in Downtown Toronto. The result is some of the largest office towers in the GTA (e.g. EY Tower, complete in 2017, at 960,000 sf/ 40-stories, and three other towers under construction of greater than 1.0 million sf).[12] There are many major proposals for new office development immediately adjacent Union Station and other locations in Downtown Toronto, including nearly 12 million sf of office space at East Harbour in Toronto's east end expected to accommodate upwards of 50,000 new jobs.[13]

Demonstrating the increasing popularity of Downtown Toronto, vacancy and availability rates are particularly low (at around 3.7%

---

[9] Cushman & Wakefield (19 September 2017). "Employment Discussion Strategy Discussion Paper," prepared for Peel Region.
[10] City of Toronto (2018). IMIT Office Incentive Program Review.
[11] CBRE Marketview, Toronto Office, Q4 2018.
[12] Costar, custom property data prepared for N. Barry Lyon Consultants Limited (26 February 2020).
[13] Rezoning Application for 21 Don Valley Parkway in Toronto.

and 6.5% respectively)[14]; with rates of around 5% and 10% generally considered healthy or balanced. These low availability and vacancy levels in Downtown Toronto suggest supply is not keeping up with demand, even with the significant amount of supply brought online over the past decade and the significant amount of space both under construction and proposed. As a result of these dynamics, investment and construction activity has greatly picked up in recent years.

As a result of the above supply / demand conditions, the landlords' position in Downtown Toronto only appears to be making gains. The result has been rapid price appreciation, with net asking rents for new projects increasing from around $45.00 to $60.00 per square foot (psf) over the past decade. Locating near Union Station also allows for significantly reduced parking requirements, further improving the investment consideration.

Over time, many barriers to investing in Downtown Toronto (e.g. complex development sites, higher commercial-tax rates and development costs) have also been increasingly offset by both higher commercial service levels, lifestyle amenities, and overall tenant attractiveness to Downtown Toronto, resulting in lower availability, and warranting higher rents. Many projects also benefitted to some extent from applying reduced DC rates, as well as tax increment grants from the City's Imagination, Manufacturing, Innovation, Technology (IMIT) program. The result has been an increasingly attractive location for investment, and a near impossible challenge for suburban municipalities to attract a greater share of the GTA office demand.

[14] Costar, Toronto Submarket Report, Q2 2020.

The comparatively small amount of office development that has been occurring in the '905' suburban office market over the past decade has also generally shown concentrated development patterns. As will be discussed in the following section, new office nodes centred on transit and a long-term mixed-use vision like the VMC and established nodes like the ACC and Meadowvale business parks in Mississauga have captured a disproportionate amount of this market.

5.3 Office Densification

It is also important to appreciate that while a small number of market areas are absorbing a sizeable proportion of overall office demand, new office buildings are developing more efficiently than ever before. This is largely due to more efficient office layouts. Employee dense co-working office space is also becoming more prominent and it is expected that telecommuting and "work from home" will continue to become more accepted. These trends are resulting in an overall lower gross floor area (GFA) being required per worker to satisfy future employment growth. In other words, there is decreasing demand for physical office space per employee, despite growing overall employment levels. This trend is most pronounced in Downtown Toronto but also plays a role in projecting future employment growth in the suburbs.

5.4 Key Observations

Over the past decade, office development has become increasingly concentrated within Downtown Toronto and a select few suburban nodes. As discussed in this section, the reasons for this shift are both financial and demand driven, with Downtown Toronto being able to satisfy virtually all demand side characteristics while also supporting the highest rents and lowest parking requirements. At the same time, office investment is happening more efficiently than ever before, requiring less GFA per worker and reducing the overall amount of physical space necessary to satisfy job growth. The impact of these trends is that Downtown Toronto is leaving only a small amount of demand for new office space for other areas in the GTA.

Over time, many tenants could be priced out Downtown Toronto and fringe Downtown Toronto locations. For context, net asking rents for new space in these locations can be as high as $55.00 to $60.00 psf. The result may be greater tenant demand, particularly from small to medium sized business, looking once again to the '905' suburban office market for less expensive space, but also could include non-downtown locations within Toronto. Many regional head quarters may also increasingly consider many established, as well as emerging suburban office locations, as has been the case in the VMC (e.g. KPMG, Deloitte, PwC), in part, to be more proximate to affordable grade-related housing for the benefit of employees as well as employees that live outside of a reasonable commute to downtown Toronto.

Overall, a significant shift in the office market from Downtown Toronto to some suburban locations is not expected over the near to medium term but may increase over time. To better understand the ‘905’ suburban office market, and Peel’s context within this market, the following chapter explores the opportunities and challenges associated with suburban commercial investment.

6.0 Conditions in the Suburban Office Market

The following section summarizes key performance indicators in the Peel office market (e.g. total inventory, vacancy and availability, achievable rents, development activity), as well as the typical location and characteristics of recent investment. This summary is provided with a view to better understand if current conditions support a greater shift in major office investment to Peel over the current planning horizon. It also provides the base to understand how incentives may or may not be an effective or appropriate solution.

Data provided throughout this section relies on custom data extracted for use by NBLC from CoStar and other sources.

6.1 The Peel Office Market

Currently, key performance indicators across the Peel office market appear to be improving, shifting from a tenant-driven market to more balanced conditions. However, conditions do not yet appear to be indicative of a landlord's market, which would signal a lower risk investment environment, greater development opportunities, and increased investment activity.

6.1.1 Current Inventory

Currently, the greatest supply of '905' suburban office inventory – inclusive of all major office in Halton, Peel, York and Durham regions – is in Peel, accounting for 43.1% of existing supply. In total, Peel's major office inventory is about 34.4 million sf. The majority of this inventory is located in Mississauga (85%), followed by Brampton (14%), and Caledon (1%).

6.1.2 Vacancy and Availability

Vacancy and availability rates are one of the most significant indicators of future demand. Across Peel, vacancy and availability levels are currently 7.3% and 10.1% respectively. This vacancy and availability level is similar across the entirety of the '905' suburban office market (6.2% and 8.2%, respectively), but well above the total GTA average of 4.5% and 6.6%, which has been driven downward by particularly low availability and vacancy in Downtown Toronto.

However, availability and vacancy rates are declining across all Peel local municipalities and are increasingly in a 'healthy' or balanced territory. Such vacancy and availability rates have dropped from around 15.0% to less than 10.0%, on average, over the last decade. This suggests increasingly fewer choices for prospective tenants and possible appetite for new, modern office space in Peel.

The City of Brampton has particularly low vacancy and availability levels (0.9% and 1.8%, respectively), however, there is also a very small proportion of multi-tenant office space. Most major office projects in Brampton are in the form of single tenant / owner-occupied, or condominium (also owner-occupied) office projects. When an owner-occupied project is constructed, it can be fully occupied by the owner/business, thus resulting in a fully occupied building. While such low vacancy and availability may suggest some demand for new multi-tenant office projects, it is likely limited, as indicated by the slow absorption of space at such projects over the last decade. In fact, the only multi-tenant office space to be added to Brampton recently is referred to as the Kallo project, complete in 2014, in the Fletcher's Creek South Courthouse area. This project is a 7-storey and 78,000 sf office building, anchored by TD Financial. Despite finishing construction seven years ago, the project had 13,700 sf of space remaining to be leased as of Q4 2019, indicating an overall absorption rate of about 7,600 sf annually. This would not be considered a healthy absorption and explains the general lack of multi-tenant office buildings in the Brampton market. Furthermore, the current asking rent at this project had been around $21.00 psf net at the last time of survey. This level of absorption and rent points to a challenge in attracting investment over the shorter-term in what is increasingly an urban infill location. In this instance, it is important to appreciate that the viability of this project may have been aided by: the developer purchasing the property in 1998 – prior to the announcement of the new LRT – as well as the developer occupying 5,600 sf of space within the building to accommodate their head office. Furthermore, the feasibility of this project relied on the assembly of multiple lots to provide some surface parking rather than providing all underground parking.

7685 Hurontario St. – TD Bank Bldg.

6.1.3 Achievable Rents

Today, rents across Peel remain far less than in more central areas of the GTA – namely in Downtown Toronto and other fringe Downtown Toronto locations. While overall land pricing will be significantly less in suburban submarkets (reducing barriers to assembly of land), new supply typically has net asking rents around $18.00 to $25.00 psf. In part, this pricing is because new suburban space competes against older space that is much more affordable.

Demand for new office space and competitive market rates, in part, is the result of most (60%) of the office space in Peel being categorized as Class B or lower. This is true across all three local municipalities. Class B space generally offers tenants more utilitarian space without special attractions and have ordinary design. They have average to good maintenance, management, and tenants, and less modern features. This quality of space is largely indicative of the age of properties having been built in the late-1980s and 1990s. Class C spaces can be similarly described but demand is primarily driven by low rents.

The average net rent across Peel is currently $16.98 psf for Class B space. While there appears to be demand for modern quality office space by virtue of low vacancy (8.4% for a limited supply of Class A space), the achievable rents for such space are not significantly greater than Class B space, with average asking rates of $19.84 psf.

The fact that average net asking rent for Class A and B properties is very similar, indicates rents are near threshold pricing, or rather, there is limited ability to increase rents due to market demand.

Over the last five years, some gains have been made in terms of annual price appreciation in the suburban office market, going up about 1.0% per annum, averaging around $17.81 psf net as of Q4 2014. However, this rental rate growth is generally less than inflation, as well as increases in the costs of construction across the GTA.

From a built-form perspective, this presents a challenge shifting from more suburban forms of office development to supporting major office development that requires inclusion of underground or structured parking and infill development. A prime example of this in Peel are challenging infill developments and the requirement for underground parking in Downtown Mississauga. There has been no standalone office building developed in Downtown Mississauga for over 28 years. Current market forces are skewed almost exclusively towards residential development. Downtown Mississauga only recently saw the addition of the Parkside Village office in 2015 after 20-years of no activity. However, in this particular instance, it is important to appreciate that while the 90,000 sf Parkside Village project is spread across 7-storeys and includes underground parking, it is integrated into a multi-tower residential project that would have allowed for some underground construction efficiencies.

Current net asking rates at the Parkside Village project are $18.00 psf, plus $60 per month for parking. NBLC would expect to see revenues of at least in the high-$20.00 psf net range to offset the cost of constructing higher-density office with underground parking. It is also noted that despite charging for parking, the payback period of constructing a typical parking space (>$50,000) can be over 60 years, which would not come close to covering the capital cost of constructing the space once applicable discounting and inflation are considered.

It is important to appreciate that this low pricing is also despite benefiting from an established residential population, parks, City Hall, Square One Shopping Centre, Sheridan College and The Living Arts Centre. It is possible that the residential portion of this project is under-writing overall feasibility. Overall, market viability and development feasibility of major office in Downtown Mississauga (with perhaps the best possible mix of uses in the '905') remains weak if also requiring underground parking.

The market and economic viability of such projects is tested and discussed in greater detail later in this report through use of a pro-forma models.

Above: Office Phase of Parkside Village, 4080 Confederation Parkway

6.1.4 Investment Activity

Within the '905' suburban office market, Peel is continuing to capture a large share of new office investment.

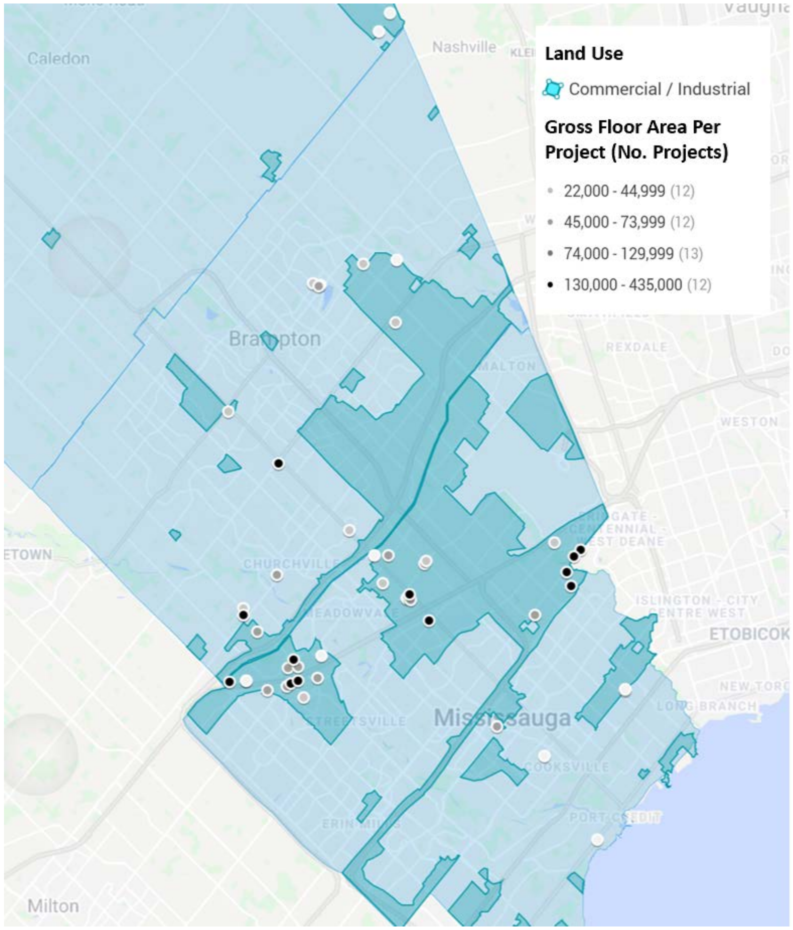
Peel has attracted an average of 332,000 sf of new office development per year, over the last decade. This equates to 64% of new GFA added to the '905' suburban office market between 2013 and 2015, and 26% between 2016 and 2020 YTD. Except for York Region, new development activity has dropped off over the last five-years across the '905' suburban office market; of note, this drop-off has been less pronounced in York Region as a result of positive activity at a select few office projects in the VMC, Weston/Hwy 7 Area and Markham Centre areas.

In Peel, most new office investment is occurring in Mississauga, averaging approximately 240,000 sf per year since 2010. Whereas office investment activity has been more limited in Brampton and Caledon over the same time frame, averaging just over 87,000 sf and just over 5,000 sf per year respectively.

Most new multi-tenant office development is occurring in Mississauga (72% of new GFA, or 26 of 39 projects), whereas new office investment in Brampton is largely owner-occupied (single-tenant or condominium targeting population-related uses), as previously indicated.

New major office projects built in the region over the last decade average about 62,000 sf and 104,000 sf each in Brampton and Mississauga, respectively. There are very few examples of projects across Peel that have underground parking and are greater than 70,000 sf.

Figure 3 – Distribution of all New Office in Peel Region by Project Size, 2010 to Q1 2020



Source: N. Barry Lyon Consultants Limited; Costar.

6.1.5 Future Supply

To better understand the trajectory of major office employment growth in Peel, NBLC obtained all office development applications in Peel Region as of March 2020. Currently, there is 2.2 million sf of office space proposed across Peel. The majority of the proposed office space continues to be located in Mississauga (75%), with no new office projects proposed in Caledon.

Proposed office projects can largely be characterized as stand-alone office buildings, on large lots, with surface parking. This suggests the continuation of MOE growth within a business park context for the foreseeable future. The average scale of these projects appears to be about 4 to 5-storeys and 110,000 sf, or more specifically 120,000 sf in Mississauga and 93,000 sf in Brampton.

With large contiguous floor plates, these spaces would be highly divisible and suitable to a wide range of tenants, de-risking investment activity overall. These types of projects are expected of a tenant-driven / balanced office market.

While prospective office developers appear to be placing increasing value on the amenity and location advantages associated with Downtown Mississauga, it would appear that developers likely cannot make their pro-formas work. Evidence of this came last year when an application for incentives was made under the City's Downtown CIP program. This project, however, does not appear to be advancing as current financial assistance does not appear to be sufficient to close the current financial gap between construction costs and operating revenues.

There are, however, some longer-term signs of investment interest in major office outside of more traditional business parks. This is indicated by the inclusion of office as part of mixed-use condominium project in Brampton (e.g. a three tower, mixed-use residential project with a large office component at 253 Queen St. E), as well as suggestions that Oxford Properties is considering introduction of major office as part of their Square One intensification project, as well as RioCan considering the same as part of their redevelopment of their Shoppers World site (currently proposing the addition of three-office towers of 11 storeys).

6.2 Distribution of Suburban Office Investment

It is important to appreciate that the distribution of new suburban office space is not even across Peel, as well as the rest of the '905' suburban office market. Rather, major office development is concentrated in specific suburban business parks and is generally restricted to only a few higher-density mixed-use office nodes. This trend is akin to peak office investment activity / locational market preferences between the early-1980s and early-2000s.

Looking at office investment in the '905' suburban office market over the last decade, nearly half of all development (45%) has occurred in just a few select office parks. New office inventory is almost evenly split between York Region (24%) – namely, the VMC and Markham Centre – versus Peel's most popular business parks (21%) –Mississauga's Gateway Centre, Meadowvale Business Park, and the ACC. Together, these five nodes have added 1.7 million sf of office space over the last decade.

These areas are gaining in popularity for many of the same reasons as more established nodes (e.g. regionally competitive rents, highway access), and in some instances, the option of existing or future higher-order transit and some level of amenities – albeit typically in a horizontal, mixed-use context (e.g. Phase 1 of the VMC, The Hub in the ACC).

In particular, the VMC is transitioning away from a suburban office park context to an emerging (and increasingly more attractive) complete community. However, new construction in these areas benefits from subway, reduced parking standards, and financial incentives.

Outside of the VMC, in almost all instances, new suburban office investment has been characterized by standalone buildings, on larger lots, with ample opportunities for surface parking over the short-term and possibility of office infill over the longer term. However, this would eventually necessitate construction of either structured or underground parking.

Figure 4 –Major Office Investment and the Top Five Suburban Office Nodes by Development Activity, 2010- 2020

Source: N. Barry Lyon Consultants Limited; Costar.

6.3 Potential "Game Changers"

Notwithstanding the importance of current key performance indicators in attracting investment, a summary of possible 'game changers' or intervening factors that influence demand are provided below.

6.3.1 Office Densification

As discussed in the previous section, it is important to appreciate that office buildings are developing more efficiently than ever before. In fact, feasibility of "work from home" is already being tested with persons adapting to circumstances of Covid-19. It is also important to appreciate that the existing supply can be reconfigured more efficiently as well. Between more efficient use of new and older supply and a greater proportion of persons working from home, there will naturally be decreasing physical demand for new office space across the GTA, including Peel, while still supporting achievement of all office-type employment growth.

6.3.2 Improved Transit and Impacts on Real Estate Markets

The introduction of higher order transit and potential impacts on real estate markets is perhaps most important to understand in terms of attracting greater major office investment in Peel, going-forward.

It is generally understood that new rapid transit can have significant impacts to real estate markets. However, the level of impact is a function of a host of interrelated factors, such as local economic conditions, a supportive planning framework, environmental issues, the existing pattern and type of land uses, the supply of properties, and the frequency, cost, and reliability of the service provided. Land use and planning issues will naturally vary along new transit corridors or Major Transit Station Areas (MTSAs), and as such, each will experience varying levels of office investment interest, pressure for land use change, and timing of redevelopment at different urban densities.

It is also important to appreciate that greater office investment will likely only occur in any significant way once new transit service has committed funding, and more so, when service is operational.

Demand for office space will also be greatest where there is multi-modal higher order transit, two-way service, and consideration to last-mile connections, as well as also offering the best possible access to highways. This is because the possible commuter shed will be much larger to draw from and such areas will increasingly be considered destination-type stations.

Again, access to labour and attracting / retaining talent is one of the top-most important drivers of demand for office space, and this is unlikely to change given a growing service-based economy across the region.

To follow is a description of future high-order transit corridors in Peel that are at various stages of planning, funding, approval, and / or construction in Peel.

The Hurontario LRT

The future Hurontario LRT will be complete by 2023, which runs approximately 18-kilometres in a dedicated right-of-way, with 19-stations, from Port Credit to Brampton Gateway at Steeles. NBLC expects that demand for a range of office type uses along this corridor is likely to grow over the longer-term by presence of LRT. This is assuming there is a supply of suitable development sites.

Evidence of office investment is already occurring along this corridor with an increase in construction primarily in Mississauga's Gateway Centre. This area has recorded significant new supply of office inventory over the last two decades, growing by 2.8 million sf. Of this new inventory, nearly 500,000 sf is located within a cluster of four new buildings that occupied around 2015, flanking the future Hurontario LRT corridor.

Notwithstanding the above, the new LRT service primarily connects riders to employment and residential areas to the north only and may not be viewed as a market attribute to all future office employees. In fact, new LRT service may generally be used more as a marketing asset for attracting new tenants / pre-leasing activity and may not yet translate into higher-achievable rents or reduced parking. In fact, net rents along this corridor for new space remains in the low- to mid-$20 psf range and include free parking.

Access to affordable parking will likely continue to be equally or more important along this corridor. An exception may eventually be areas that are part of mobility hubs, with atleast two intersection high-order transit lines, , which along this LRT line include:

- Port Credit and Cooksville GO / LRT Stations;
- Brampton Gateway Terminal BRT / LRT Stations; and
- Downtown Mississauga.

Again, with transit-supportive development more likely to occur in a significant way once construction is complete or nearly complete.

Regional Express Rail

In total, sixty-four GO Rail stations currently serve thousands of customers daily throughout the GTA and Hamilton. Work is already underway to build a more connected transit network that supports more frequent, faster, uninterrupted (two-way, all-day, every 15-minute) regional transportation service. This type of two-way, all-day service will change the nature of service today, from commuter-service only, and encourage destination (employment, mixed-use) around some stations.

These service level enhancements, referred to as RER or GO Expansion, include the Kitchener Line and Lakeshore West Line. While most stations along these lines in Peel are / will receive improved train frequency, the RER (two-way, all-day, every 15-minute) service is expected to terminate at Bramalea Station over the shorter-term horizon. This means that along the Kitchener Line, Bramalea Station and all stations to the south have the greatest potential for positive impacts on real estate markets in addition to those station in Peel along the Lakeshore West Line.

While RER service is not currently funded to the Brampton GO Station, NBLC is aware that discussions are underway to resolve various design / ownership issues and it is possible RER service could eventually be extended to Downtown Brampton, improving conditions for major office investment over the longer term.

Queen Street / Hwy 7 Bus Rapid Transit

NBLC also appreciates the Province is working with the City of Brampton, Brampton Transit, Peel Region, and York Region to develop a framework for advancing rapid transit along the Queen Street-Highway 7 corridor. Existing Züm (Brampton) bus services on Queen Street would transform to a full rapid transit standard – in a truly dedicated right-of-way. Planning for BRT in dedicated lanes will improve reliability of service for riders, along with adding improved east-west connections across the GTA. Upon completion, the BRT would be connected to the Viva (York) BRT rapid way, which runs from the most western edge of Vaughan and will eventually terminate in Markham Stouffville in York Region.

However, the current projected timeframe for implementation is five to ten years away, and subject to funding and approvals. This improvement would add to intermodal connections in Downtown Brampton and potential demand for new office along this corridor over the much longer-term.

Airport Corporate Centre / Eglinton West LRT / Airport Link

Recently, the Greater Toronto Airports Authority (GTAA) announced that it plans to partner with Metrolinx to extend the Eglinton Crosstown West LRT. While currently in early design and planning phases, this link would connect Renforth Station along Mississauga existing Transitway, in Mississauga's ACC, to the Airport, as well as improve connectivity to Toronto residential and commercial market areas through the Eglinton West LRT extension. Overall, this may have the added impact of increasing demand, achievable densities, and stimulating development of significant surface parking areas in the ACC.

6.3.3 Other Public Sector Major Infrastructure and Capital Investment Project

Public Realm Improvements – The Central Area

Major infrastructure investment, such as introduction of improved transit, presents an opportunity to most efficiently introduce some public realm enhancements particularly where roads, utilities, etc. are being moved, improved, or replaced. This would include possible public realm improvements along the improved Hurontario LRT corridor and Brampton's Queen Street / Highway 7 BRT corridor, as well as around future RER stations.

Riverwalk

A key challenge for investment in Downtown Brampton has been the fact that it lies within the Etobicoke Creek floodplain. Provincial policies around hazard management have restricted the type, location and amount of development that can occur in this area.

The Riverwalk project is a major capital project initiated by the City that is intended to provide an innovated engineering solution to flood risk in the area. Not only should this unlock some urban growth potential, by virtue of increasing the range of uses and reducing development costs, it will also enhance access to the creek as a renewed amenity and market attribute for area residents and workers.

Through an on-going Environmental Assessment process, the TRCA and City of Brampton are working together to find possible solutions to protect Downtown Brampton from future flood events while improving potential for revitalization of the area. The result of this process is a preferred Alternative Solution. A preferred

Alternative Solution Design has been identified and is currently under review. Project components present opportunities to enhance the social environment in the downtown by improving the character, image and programable areas, as well as remove significant areas (19 hectares) for the existing Regulatory Flood Plan from Special Planning Area 3 (SPA 3), located north of Wellington Street.

While new development densities have yet to be identified, this regulatory change generally will increase opportunities for a full range of residential and commercial-office development in Downtown Brampton. Introduction of a greater range of uses and densities, overall, would enhance activity and vibrancy in Downtown Brampton and have the indirect impact of improving the overall marketability for greater office development.

Brampton Innovation District

While Provincial funding commitment to establish a Ryerson University campus in Downtown Brampton was cancelled in 2018, efforts continue to develop a full 'Innovation Ecosystem' that would support entrepreneurs seeking assistance in Brampton, at every stage of business development. This is being done by providing spaces designed to bring people together, enable brainstorming opportunities, help kickstart of new projects, etc. To date, advancement has included the establishment of: the Rogers (Ryerson) Cyberspace Catalyst; Brampton Entrepreneur Centre (Ideation and Co-working space); and, the Ryerson-Brampton Innovation Zone (Start-Up Incubator). Overall, the accommodation of these services in Downtown Brampton is viewed as a continued step towards eventual opening of a post-secondary campus in the area. These steps, in addition to Riverwalk, could have a transformative effect on the office market in Brampton.

6.3.4 Future Suburban Office Nodes

The noted market shift and improvement to transit may be positive for Peel's office market, but it is important to appreciate various existing and emerging suburban office nodes will compete against each other to attract a share of future growth.

While there is no new construction underway, there are also several 'alternative suburban office locations' that are intended to develop over the next decade, across the GTA. Some are in Peel, which will be positive for achievement of MOE targets, but many others are not and may present a threat to Region's ability to attract an increasing share of major office demand. This is particularly the case for areas planned for equal or greater planned transit improvements, as well as an attractive mixed-use context.

Examples of emerging / future office nodes in Peel are:

- The Downtown Mississauga / Oxford Properties, benefitting from BRT and future LRT transit accessibility; and,
- Inspiration Port Credit (Port Credit West Village Partners) and Inspiration Lakeview, both along the Lakeshore East GO rail line and in the latter instance at the southern terminus of the future Hurontario LRT.
- RioCan's redevelopment of Shoppers World, at the current terminus of the future Hurontario LRT.

From top to bottom: Rendering of Inspiration Port Credit, Square One Redevelopment, and Shoppers World Redevelopment

First Capital (Former Christie Site) Redevelopment

PSP Downsview Redevelopment Lands

Outside of Peel, competitive emerging office nodes include:

- Downsview/PSP Lands in North Toronto, benefitting from Line 2 Subway access and GO rail services along the Barrie Corridor.
- East Harbour /CF, Former Lever Site in Toronto East with a future Ontario Line subway station, Broadview and Queens Quay LRT, and GO rail service.
- The former Christie Site in Toronto West, along the Lakeshore East GO rail line.
- Don Mills and Eglinton in North Toronto, benefiting from future Eglinton LRT and Ontario Line subway service.

While all the areas listed above are suburban infill locations, many are notable as they are well-connected, central and large sites that are intended for a paradigm shift in terms of the land use mix and density, as well as introduction of multiple modes of higher-order transit in some instances. By virtue of also being subject to developer-led master planning process that will reset the underlying land use permissions, many potential investors and tenants may be attracted to these areas over the longer term given greater certainty with regards to the development potential and overall community vision at full-build out

6.4 Key Observations

Investment in new office development has been limited outside of the City of Toronto over recent years. Within this context, the suburban office market has struggled to accommodate new supply relative to trends from previous decades. Office developers are selecting Downtown Toronto because of many demand-side considerations as discussed in this report, which contribute to positive development economics.

Investment in the '905' suburban office market has largely been fueled by growth in the VMC and a select few other nodes, including Mississauga's business parks. The VMC is a new a mixed-use community centred on subway transit, whereas most of the growth in Peel has been typical lower density office uses with surface parking.

It is important to appreciate that while incentives can impact the decision-making process of office investment, other factors must also be present that are not directly tied to financial considerations. A walkable and attractive public realm, modern and desirable amenities, high-quality and connected transit, and many other features are all also necessary to attract a greater share of development. While Peel Region is currently planning for many of these features, so too are many of the competing office suburban office nodes across the GTA.

Over time, NBLC expects to see growing demand for office space in the suburban market. It is, however, important to appreciate that this market is highly competitive. The importance of highway access will continue to be vital to Peel's attractiveness, but Mississauga and Brampton will naturally compete against many other equally-well located suburban municipalities to attract a greater share of demand. Toronto's suburban office locations, such as Downsview, the Eglinton LRT line, GO Stations, and many others are also being positioned for new office investment, which are attempting to attract the same non-downtown office market as all '905' suburban office markets, including Peel.

Furthermore, Peel and these other suburban municipalities tend to be dominated by a wealth of Class B office space (both new and old) that offer tenants more utilitarian space, with average to good maintenance, management, and lower rents. To some extent, the prevalence of Class B space will impact achievable rents for even the most attractive new buildings. It is therefore difficult for a new office project to advertise rents well-above the rates of available Class B space in the suburban market.

The primary implication of the above is that, across all three local municipalities, Peel's main competitive advantage remains its value proposition. However, without the ability to support higher rents, the economics of developing new projects, especially with underground parking, is challenged. This presents a difficulty establishing an attractive office node, shifting employment growth to more office, and achieving MOE targets.

Within Peel Region, Mississauga has absorbed the majority of office development activity. This is due to the established office nodes and the attractive features relative to other locations discussed throughout this report. Both Mississauga and Brampton have experienced owner-occupied projects, however multi-tenant projects have primarily been concentrated in Mississauga. This is exemplified by the weak performance of Brampton's most recent multi-tenant project (developed by Kallo) but also due to the economics of developing this type of project (evaluated in more detail to follow with the use of a pro forma). Caledon has experienced very little new major office investment, and nothing is currently proposed.

Looking forward, both Brampton and Mississauga are poised to continue to experience most major office investment in traditional business parks and along some segments of regional transit corridors, however as land capable of accommodating new development with surface parking continues to be absorbed, a greater need for new infill projects with underground parking will be necessary. This land supply-side challenge is more of a concern for Mississauga than it is for Brampton, at least over the short-term.

To meet 2041 MOE targets articulated in the Employment Strategy, from 2016 to 2041, NBLC estimates that an average of about 630,000 to 760,000 sf of new office space, on average, would need to be added to the Peel office market each year. This is based on a target of 76,530 net new office jobs and an approximate need of between 200 and 250 sf per office worker; already taking into consideration office densification trends outside of Downtown Toronto. However, since 2016, this average level of investment has not been achieved. In fact, delivery of new office space has dropped off in recent years and may not pick-up over the short-term as a result of uncertain conditions surrounding the Covid-19 pandemic. This indicates that an even greater shift in major office development may be required to achieve MOE job targets to 2041, of perhaps up to 710,000 to 870,000 sf per year. While only calculated for demonstrative purposes, this is a significant increase from current office market reality. By comparison, the actual delivery of new office space over the last decade in Peel has averaged 332,000 sf per year.

Challenges associated with rent growth and achievement of MOE targets are not expected to change imminently as a result of market forces. Overall, there appears to be a market rationale for municipalities to intervene in the office market to stimulate greater major office investment, or direct office investment to high priority areas. This is especially true in locations where office and mixed-use development is encouraged but not yet happening (e.g. Downtown Mississauga, Brampton's Central Area).

Overall, these findings indicate that it might be appropriate to incent major office to achieve specific outcomes in Mississauga (urban intensification, underground parking), and more generally across Brampton and Caledon. However, it is just as important to understand that financial incentives only address one side of the issue, as investment in transit, improved public realm, and the demand characteristics driving investment to downtown Toronto must also be considered. Similarly, given the competitive nature of the suburban office market, offering incentives to encourage a greater supply of office investment can be viewed as a "race to the bottom", as competing municipalities across the GTA also offer incentives as a means of offering a more competitive investment environment.

7.0 Incentives Landscape and Best Practices

The following section provides a general summary of the types of tools typically offered by regional, single- and lower-tier municipalities to incent major office development, with an emphasis on the typical role of upper-tier municipalities.

7.1 The Role of Regional Municipalities

While CIPs have been a tool available to municipalities for many decades, there are limited examples where they are used by upper-tier municipalities. This is particularly the case as it relates to supporting economic development activities and overall achievement of employment growth.

Traditionally, CIPs have focused on improving the physical environment of a specific area of a local or single-tier municipality. This has included modest incentive programs in small municipalities aimed at improving the condition of buildings along a historic main street to more significant programs targeting new higher density development as well as remedying brownfield properties. CIPs have also been utilized to accelerate the supply of affordable housing, rental and condominium apartments, office and other commercial development, community space, and other similar community benefits.

In-part a result of legislation only being introduced in 2006, there are few examples of CIPs adopted and implemented by regional municipalities in Southern Ontario, let alone, to more broadly support economic development activities and the achievement of major office employment growth.

- The Region of Waterloo is one of few upper-tier municipalities to have a regional CIP. Waterloo's Official Plan contains policies that allow for the designation of a regional CIP and project areas, as well as policies that allow the Region to provide grants, loans or other assistance under its own CIP or in support of local CIPs.
    - The Region adopted a limited CIP and project area, referred to as the Reurbanization Community Improvement Plan (RRCIP). This CIP applies to land in its Central Transit Corridor (CTC); generally following the corridor of existing (new) and future LRT service and encompassing all regional growth centres. The regional CIP does not, however, contain policies that allow for the implementation of financial incentive programs through its own CIP. Rather, Waterloo recognized there were several underutilized properties within the CTC with potential for reurbanization, but these properties were often viewed as complicated development sites relative to greenfield lands, which generally threatens the achievement of intensification objectives and the efficient use of regional transit infrastructure (e.g. improved ridership, efficient use of resources). The RRCIP was adopted in 2012, which set out guidelines for a Regional Reurbanization Facilitation Program (RRFP) to help

increase the number of development ready sites and incent involvement of the development community in this process. This program more specifically provides Regional Council with the authority to purchase key properties in the CTC with the intent to prepare them to a point where they become more attractive to the development community.

  - While not implemented through the regional CIP, Waterloo has provided financial incentives to local municipalities and the development community. Repealed as of February 28th, 2019, the Region offered DC exemptions for projects in the downtown areas in Cambridge, Kitchener and Waterloo; with the City of Kitchener previously waiving the City portion of development charges for major office too. These exemptions are expiring, particularly as market conditions have improved and they are no longer considered necessary to offset market weaknesses. Currently, the Region offers a DC reduction through its DC by-law for office uses, but this is limited to projects in urban growth centres where the proposed use is 20,000 sf or greater.

- The Regional Municipality of Niagara is the only upper-tier municipality of surveyed communities to have a CIP that is entirely devoted to the promotion of economic development activities.
  - The Niagara Region Gateway Economic Zone and Centre CIP was prepared to create a more attractive investment climate for employment lands by improving their appearance and infrastructure, reducing the cost of servicing industrial lands, expanding targeted tax increment equivalent grant (TIEG) programs on a regional scale, and promoting opportunities for developing in a environmentally sustainable manner. However, the financial tools offered are largely limited to industrial projects and development of ancillary office in more traditional business park areas; not explicitly, major office.
  - It is likely that Niagara has taken a more active role in coordinating a CIP given the importance of regional competitiveness relative to the US market and attracting industrial type employment growth. Given the low growth profile of Niagara local municipalities, funding and resources may also restrict a local-led program.

Most upper-tier municipalities surveyed provide a support function for the implementation of local CIPs, with the flexibility to match or provide some portion of a lower-tier's contribution.

- The Regional Municipality of Halton's official plan contains policies that permit the Region to use CIPs but their approach is premised on providing grants to local municipalities in support of individual applications in local CIP financial programs, provided grants approved by local Council supports the policies of the Region's official plan (e.g. intensification, brownfield and Greyfield redevelopment), but are not limited to office development only.

- York Region most recently investigated use of a CIP explicitly to improve its competitive advantage in the '905' suburban office market, as well as downtown Toronto. Following such investigation, they too have taken the approach of adding policies to the Regional Official Plan to allow for providing match funding of grants and loans granted through local CIPs.

- York Region has, however, introduced a specific financial incentive program via an amendment to its DC by-law. This program is called the Large Office Buildings Development Charge Deferral – Pilot Policy project which was just approved by York Regional Council to provide greater deferral inducements according to office project size (min. 100,000 sf). The program has yet to be utilized. However, to access regional funding, local municipalities must offer an equal or greater incentive.
- While the above Large Office incentive is new and its effectiveness is unknown, its use points to the possible need for a regional municipality to match funds to overcome significant market hurdles and competitiveness with other office nodes, even in office nodes that are performing relatively well compared to the rest of the '905' suburban office market – namely the VMC. In effect, without Regional incentives, it is understood that the City portion of the deferrals will not likely be enough to attract interest.
    - Incidentally, the City of Vaughan has extended the life of its current major office CIP for the VMC and Weston / 7 area to take advantage of this match funding and Regional DC deferrals.

7.2 Typical Incentives Offered

Table 3, on the following page, provides a more fulsome list of the types of financial programs designed to encourage employment growth across upper, single- and lower-tier municipalities surveyed. A more detailed evaluation of each program is provided in Appendix A.

7.2.1 Rebate of Processing Fees

A *one-time rebate of processing fees* (e.g. *Planning Act* application fees, building permit fees) is often found in CIPs. The intent of such relief is to reduce upfront development costs and improve development feasibility for office investment where market conditions do not support investment.

7.2.2 Grants for Due Diligence Work

Grants for environmental testing and other initial due diligence can also help an investor better understand the nature of the development site prior to making any major investments and allowing for better capital planning. This can be particularly valuable if employment growth is to be directed or encouraged in established areas where there is a legacy of possible contamination.

7.2.3 Development Charge Deferrals, Exemptions, Grants, and Reductions

Perhaps most common amongst financial incentives are DC deferrals, reductions, and exemptions, which can significantly reduce the soft costs associated with any development. This can significantly improve the bottom line of the project, possibly increasing profitability to acceptable levels.

Table 3: Select Incentives Offered for Office Investment in Across Ontario

Incentive Program	Toronto	Region of York	Vaughan	Markham	Richmond Hill	Peel	Brampton	Caledon	Mississauga	Hamilton	Oakville	Halton Hills	Region of Waterloo	Waterloo	Kitchener	Niagara Region	Niagara Falls	Welland
Rebate of process fees								X	X			X		X				X
Environmental testing other due diligence								X			X			X				
Grants or tax reflief- brownfield remediation	X		X								X							
Development charge deferrals		X	X							X								
Development charge reduction or grants			X				X	X								X		
Tax Increment Equivalent Grants (TIEGs)	X		X		X			X	X	X				X		X	X	
DC by-law waivers / excemptions / reductions	X			X			X			X			X					
Other*			X					X	X		X				X			

Notes: * such as parking reductions or other programs, CIP parkland deductions, aquistion / disposition strategies, tenancy assistance.

The following are examples of municipalities that have used this tool to incent office development.

- In 2014, the City of Vaughan began preliminary work to develop criteria for a CIP to attract major office to the VMC. With incentives retroactively applied to eligible developments, a 'toolbox' of incentives came into effect, including a DC reduction program as a limited time offering. In this instance, the DC rates were set at 2013 rates (a 38% reduction) for office buildings over 75,000 sf. Thus far, four projects have been awarded this grant, equating to 724,000 sf in total (or half of allocated funds and intensification target, leading to the expiry of the CIP). As previously discussed, this DC reduction for the VMC is complemented by a Development Charge Deferral program offered by the Region of up to 18-months. Of note, the City's reduction applies to the local portion of the DC, and deferral applies to the Regional portion of the DC.
- While not implemented through a CIP, the City of Toronto utilizes their DC by-law to only apply the DC rate to the ground floor GFA of an office building, which is one of the most substantial DC reductions observed. This alone would have significant reduced soft costs for some of the largest office projects in the City (often upwards of 900,000 sf per building). Appreciating the changing economics of development, the above 'discounted' method of calculating the total DC levy for office is begin reviewed.
- Brampton also waives DCs for some new office over 50,000 sf through the DC by-law, which applies to the City's portion of DCs only at the current time. This was recently implemented last year. Over the past decade, Brampton has seen the addition of 14 new office developments, and 10 have been over the 50,000-sf threshold. However, the waiver is only applied to new buildings containing office uses other than

neighbourhood commercial, which serve the general population. Of the 10 referenced projects, over half are condominium in tenure that are directly marketing as medical arts buildings or are imbedded in community areas with neighbourhood type commercial uses. As such, it is likely few would have qualified for the current DC waiver. This potential DC reduction is also new, and its effectiveness at inducing greater office development is unknown.

- Brampton also reduces development charges (up to 100% reduction) for approved office and residential projects through the Central Area CIP. The DC waiver applied to qualifying projects over 50,000 sf is offered City-wide.

Generally, a DC waiver or reduction through the DC by-law does not require funding by the municipality, rather it is viewed as foregone revenue. The same can be technically true for DC grants, where the developer pays the municipality and is then issued a refund. However, many municipalities likely view the infrastructure need that the DC would have funded as still being necessary and might therefore require funding the shortfall through the property tax base.

DC incentives are therefore observed to occur through a CIP, directly through the DC by-law, and also through other policies allowing for the deferral of DCs.

7.2.4 Tax Increment Equivalent Grants

One of the other most common financial incentives are Tax Increment Equivalent Grants (TIEGs). TIEGs allow the increase in municipal property tax to be refunded in full or partially over a period of time. A TIEG will generally function in one of two ways:

- For owner occupied buildings, a TIEG will directly reduce the property tax paid, thereby reducing the project's operating costs over the length of the program. This can make local municipalities, such as Brampton and Mississauga, an even more appealing location for major office projects from an operating perspective.
- For multi-tenant buildings, a TIEG will reduce the property tax paid, which will reduce the effective gross rent paid by a tenant through a typical "triple-net lease" arrangement. In this arrangement, a tenant pays a net rent to the landlord in addition to the gross rent that covers items such as insurance, utilities, and property taxes. A TIEG therefore will lower the effective gross rent paid by a tenant, which can significantly improve the marketability of a project. This "pass through" assists the developer with marketing space and can positively impact their decision to move forward with a project.

The main advantage of TIEG is that it does not require annual allocation of funds for the financial incentive itself, as a developer will pay the full property tax amount owed each year, and the City will refund the amount net of the pre-development tax amount. The City therefore continues to collect the pre-development tax amount for the property, and the full amount of the post-development tax once the TIEG has expired. How each municipality accounts for such a program differs depending on municipal finance principles.

- The City of Toronto's Imagination, Manufacturing, Innovation, Technology (IMIT) Property Tax Incentive program is an example of a highly successful TIEG program. IMIT was introduced in 2008 by way of three separate CIPs in response to slow employment growth. This program was designed to target Toronto's key industry sectors, economic development objectives, and unlock the development potential of contaminated sites. Amongst other factors, the IMIT program has been a catalyst for transformation of Downtown Toronto.

- The IMIT program has had 46 projects approved, adding 16 million sf of office space and 70,000 jobs to Toronto, which are estimated to yield a net gain of $361 million in new taxes. However, with vacancy at historic lows and rapidly escalating rents, incentives are unlikely to be a deciding factor in whether to invest in Downtown Toronto, and its continued need is being re-assessed.
- Appreciating the changing economics of development, as of 2020, the IMIT program has been amended (appealed to the LPAT) and no longer applies to the same geographies (e.g. excludes the Financial District) but is still used to incent office investment outside of the financial district.

A TIEG is also an effective choice as it largely incents tenants, rather than the developer, by reducing gross payable rent. This has the effect of improving demand and attractiveness of the space, leading to quicker lease-up, rather than putting money directly into the developer's pocket.

7.2.5 Façade Improvement Programs

Façade improvement programs are very common too, particularly within Business Improvement Areas (BIAs). Such building improvement loan/grant programs are typically used to help mitigate risk associated with public perceptions of retail or service commercial developments and areas that may not have the resources for exterior improvements. The net gain of such a program is generally an improvement to the overall character of a commercial area, which is positive for the overall enjoyment of the public realm and community building. However, Façade programs do not add additional commercial space to accommodate employment growth and typically improve population-related commercial spaces (e.g. retail). While these programs may complement incentives targeting the addition of office space, these programs are not discussed further for the purpose of this report.

7.2.6 Capital Improvement Grants

Capital improvement grants are also used to allow for the adaptive re-use of underutilized properties and conversion of existing industrial/residential/commercial-retail space to office use, but often on match funding basis between the owner or occupant and the municipality.

Like DC grants, these types of capital improvement programs also serve to offset upfront development costs and can be used to help an existing stock of commercial space from falling below contemporary or market standards, avoid state-of-good repair and functional obsolescence issues, and generally contribute to the revitalization of an area.

A capital grant can also be used in-lieu of a grant or incentive tied to individual fees and charges (e.g. DCs). This would involve providing cash to a developer rather than reducing or refunding DCs or property taxes.

7.2.7 Non-Financial Incentives

It is important to appreciate a CIP also allows for *non-financial incentives* to stimulate or attract investment through their own activities. Section 28 of the *Planning Act* reinforces municipal powers of expropriation, as well as assembly and preparation of land for the expressed purpose of encouraging revitalization. Practically, these powers provide a Council with the authority to purchase key properties in a predefined CIP project area with the intent to prepare them to a point where they become more attractive to the development community.

7.2.8 Other Incentive Programs

NBLC has also observed some less common incentive programs. These include, but are not limited to:

- Podium parking incentives at the VMC / Hwy 7 / Weston area in Vaughan (e.g. Centro Square buildings).
- Reduced parking standards, as appropriate (e.g. KPMG Tower at the VMC).
- Construction of a municipal parking garage with spaces leased/rented at below market rates in Downtown Mississauga.
- The Start-Up Landing Pad Program in Kitchener.
- Interest Free, Mezzanine Financing Assistance Program in Hamilton; albeit only utilized for high-density residential projects thus far.

7.2.9 Other Considerations

Beyond all possible financial and non-financial tools offered by way of either a CIP or DC bylaw, it is important to appreciate that other measures can also go a long way to encourage the desired form and location of office investment, most notably including a clear planning vision and regulatory regime that takes into consideration market feasibility, the trajectory of growth, and is supportive of the desired form of community renewal and revitalization. By providing this overarching and up-to-date guidance, a municipality is providing a greater sense of certainty and reduced risk to investors.

7.3 Community Improvement Plans in Peel

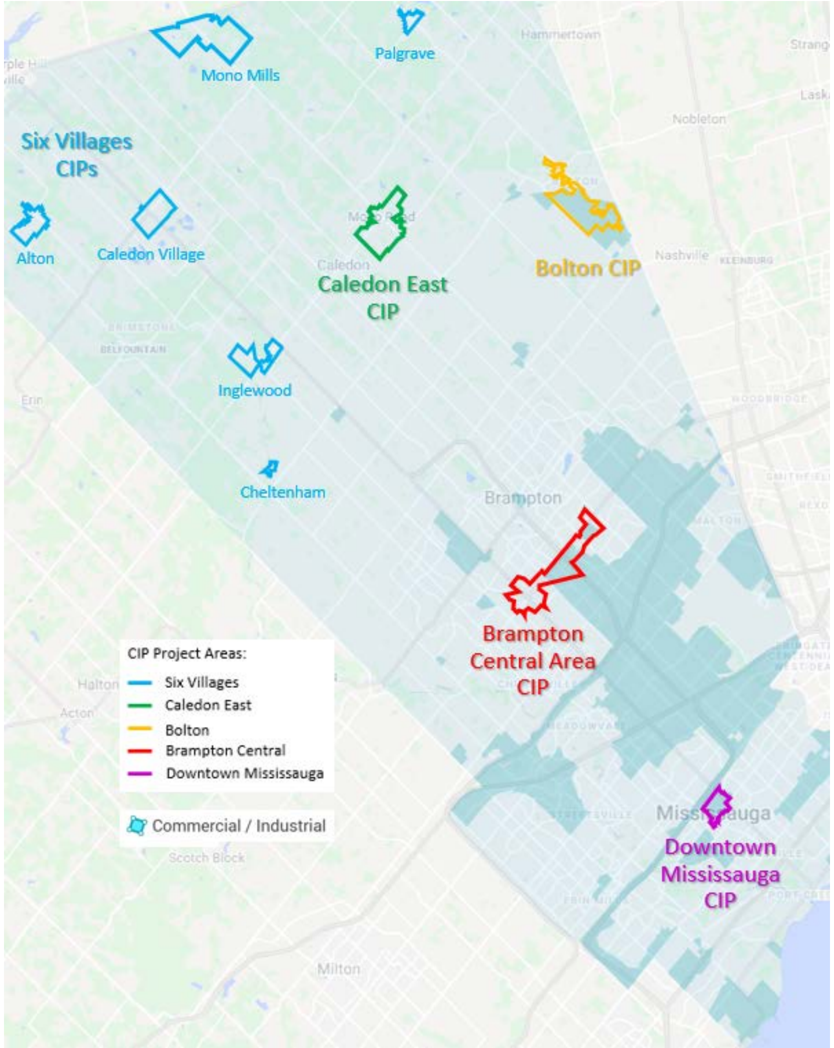
All three local Peel municipalities have adopted CIPs. The approximate extent and location of each CIP project area is illustrated in Figure 5.

- The City of Brampton was the first to adopt a CIP in 2000, with major amendments to its Central Area CIP brought into effect in 2008. This program is in addition the DC exemption for new office projects over 50,000 sf in size discussed previously.
- The Town of Caledon adopted the Bolton CIP in 2009, followed by similar CIPs for Caledon East and the Six Villages in 2014 and 2016, respectively.
- The City of Mississauga is the only municipality to adopt a Downtown CIP (2017) entirely limited to office development, in this case, a building or a portion of a mixed-use building with over 50,000 sf of GFA for office-use only.

As of the writing of this report, the local CIPs have not supported significant office development or contributed to MOE growth.

A description of the CIPs and associated financial incentive programs is provided on the following pages, as well a general overview of the uptake of incentives, and the source /approximate allocation of funds.

Figure 5: CIP Project Areas in Peel



Source: N. Barry Lyon Consultants Limited.

7.3.1 Brampton Central Area CIP

Located along Queen Street, and including the historic downtown, the Central Area CIP establishes programs to provide financial and other incentives to meet the City's Central Area land use planning objectives. The City is committed to revitalizing and redeveloping the Central Area into a vibrant, mixed-use, pedestrian-friendly area that acts as the heart of the City of Brampton.

The Central Area CIP allows for a wide range of possible financial programs, such as:

- Development Charge Incentive Program (DCIP);
- Façade Improvement Program;
- Development Application Fee Equivalent Grant Program;
- Brownfield Tax Assistance Program;
- Tax Increment Grant Program (TIEG);
- Façade, Building Improvement Loan / Grant Program;
- Sign Permit Fee Subsidy Program; and
- Direct Investment / Development Partnership.

However, only the DCIP, Façade Improvement Program, and Building Improvement Loan / Grant programs have implementation guidelines and have been activated thus far. By their nature, some programs target the revitalization of existing buildings and others target the development or expansion of new space.

The CIP has typically targeted both residential (with no affordability requirement) and office development.

Urban design and other city-building and revitalization objectives are also incorporated into the existing CIP. As such, the CIP can be viewed as a broad revitalization tool for the Central Area, rather than a targeted program seeking a specific result (e.g. affordable housing, office development).

However, a recent staff report brought forward to Planning Committee on September 23, 2019, amended the current Central Area CIP to recognize affordable housing as one of its goals.

The City is also currently undertaking a CIP for employment uses, including office, retaining the consulting services of NBLC. The report is expected to be completed this Fall (2020). It is the desire of the City to ensure that any incentives provided aligns with the Region's work to strive towards a stronger offering of incentives/tools and potentially improving the success of the program.

While significant support has been awarded across 10 projects over the last 11 years, only one office project was approved and constructed (490 Bramalea Road), receiving a DC exemption. An additional office project has been approved for a DC exemption as well (approx. $760,000 total) but has yet to be constructed. The latter project is referred to as the Atlas Healthcare Centre project, located at 241 Queen Street East. The remaining projects approved through the CIP have all been residential.

Incentive programs offered through the CIP are offered on a first-come, first-serve basis following the evaluation of proposals and if annual allocations of funds are remaining. For example, the proposed 2019 to 2021 budget is to rely on existing base funding of $725,000 used for the Vacancy Tax Rebate program (which is to be phased out over the next three years) and will be re-directed as an annual contribution to the CIP Reserve Fund, beginning at $239,000 in 2019, increasing to $486,000 in 2020, and reaching $725,000 by 2021.

Discretionary reserve funds are created under Section 417 of the *Municipal Act, 2001 (S.O. 2001, c.25)*. Such discretionary reserve funds are established whenever a municipal Council wishes to earmark revenues to finance a future expenditure for which it has the authority to spend money, including Community Improvement Plans. The reserve funding source is typically from a municipalities operating budget.

It is important to appreciate that this funding amount is not specific to office development only, as the CIP also targets residential development.

Appreciating limited uptake of the existing financial incentives to improve feasibility of office development, Brampton has initiated a study to explore a new CIP to better attract employment growth, which is currently being completed by NBLC. While initial investigation is still underway, more specific direction will likely be made available in mid- to late- 2020

(Above) 241 Queen St. E. (Below) 490 Bramalea Road.

7.3.2 Bolton, Caledon East and the Six Villages CIPs

Overall, Caledon's CIPs have enabled a suite of financial tools that are typically used to support improvement to existing commercial retail establishments (e.g. façade and landscaping improvements, fee reductions, energy efficiency improvements). Since adoption in 2009, $135,707 in grants have been awarded to land and business owners in the Bolton CIP project area for property conversion and reuse, efficiency retrofit, building and façade improvements, landscaping, and application and permit fee reductions. There has been no uptake of available financial incentives that have resulted in new major office development.

A Community Improvement Plan Reserve Fund was established in 2009 to carry forward. With funds allocated from the Town's operating budget, the reserve currently totals $213,000 as of December 31st, 2019.

7.3.3 Downtown Mississauga CIP

On July 5, 2017, Mississauga Council approved its Downtown CIP, enacted through By-law 0135-2017. After the resolution of an appeal, the CIP came into full force and effect until July 4, 2022.

The CIP specifically targets office investment above 3-storeys and a minimum of 50,000 sf (in addition to other eligibility requirements). A suite of financial incentives are enabled through the CIP including:

- Development Fee Processing Grant: A one-time grant available to cover *Planning Act* application fees.
- Tax Increment Equivalent Grant (TIEG): A TIEG is available as described in this section of the report. However, the specific term and structure is not defined and is to be established on a case-by-case basis. The CIP also notes that the Region of Peel may participate in the TIEG (and other programs), however are not participating at this time.
- Municipally Funded Parking Program: As a means of stimulating new office building development, the City may build and own a municipal stand-alone parking facility. Alternatively, the City may co-locate a portion of municipally owned parking within a private office building development.
- Municipal Property Acquisition and Disposition: As described in this section of the report, the CIP provision allows for the City to acquire/assemble land for the purpose of redevelopment or disposition.

All of these programs are activated on a case-by-case basis, subject to feasibility and financial assessment. They are also offered on a time limited basis for five years from the date of Council approval and are set to expire in 2022. However, individual agreements that extend beyond the five-year program duration can remain active and valid (e.g. TIEG agreement that is approved prior to 2022, but extends for a ten year period).

However, all CIP applications are subject to City Council or delegated approval and budget availability. The City Manager may consider and approve applications requesting the TIEG and/or Development Processing Fees Grant resulting in a cumulative total of 500,000 sf of office space. All other applications require the approval of City Council.

As previously referenced in Section 6.0 of this report, while there has been one application under the CIP program, this project has not come to fruition, and there has been no up-take of any of the financial programs offered, which may be a result of:

- The most effective incentive is the provision of parking, which is also likely to carry a significant capital cost to the City;
- The incentive program being relatively new; and / or,
- The local municipal incentives being insufficient on their own to increase development interest.

On June 13th, 2016, a recommendations report to PDC which stated "That the Region of Peel be requested to work with City Staff to explore the development of a complementary community improvement plan for Mississauga's downtown." Without Regional incentives, it is thought that the local-tier portion of financial incentives will not be enough to attract interest from the local development community.

7.4 Other Considerations

Since attracting major office development relates to the pursuit of economic development objectives, it follows that any municipality offering a major office CIP and financial programs would have economic development capacity, including staff (e.g. Economic Development Office, Expeditors) with the appropriate knowledge [e.g. tracking applications and key performance indicators (KPIs)] in the local office market, and ultimately have time to immediately respond to: development inquires, connect interested investors with all possible funding programs (not necessarily just through a CIP), other municipal staff, and provide on-the-ground intelligence about current opportunities and on-going community improvements. This is particularly important as commercial investment is highly mobile, extending beyond local and international borders, it is particularly important for staff to respond fast and comprehensively, and in the best position to market their respective municipality. Local economic development staff also often travel abroad to conferences and to make possible connections to attract foreign investment and talent.

The most effective economic development related CIP programs would likely require at least one individual that is dedicated to the promotion, administration and assessment of such incentive programs. Administrative tasks are those related to the development and delivery of the program, for example the staff time required for processing applications, marketing and promotion, and performance measurement.

While all local municipalities in Peel appear to have an economic development function, the Region generally does not. Peel's support for employment growth and development is not tied directly to engagement with local businesses or on-the-ground economic development activities. Supporting employment growth is tied, rather to delivery of public works, and various human and health services to meet the needs of existing and future residents and local employers. For example, this includes provision of water and waste-water management, deliver of transit and transportation planning, social and affordable housing, public health services, amongst other functions. The region does not have economic development function, programing, or resources (e.g. staff dedicated to business attraction and retention). This role is generally reserved for local municipalities.

Encouraging major office development on a regional level more specifically speaks to supporting the economic development goals and strategic priorities and objectives of local municipalities through the alignment of infrastructure investment, capital improvements and other community building activities, as well as the wise management of shared resources (i.e. allocation of municipal funds, land).

7.5 Key Observations and Direction

Whether a result of being relatively new or insufficient on their own merit to overcome current market conditions, local CIPs and similar financial inducements in Brampton, Caledon, and Mississauga do not appear to have an impact on major office investment; particularly in the preferred growth areas or CIP project areas. This suggests the need for additional support from Peel to overcome market weaknesses, which also appears to be the possible case in other regional municipalities. Brampton has recognized this issue and is currently in the process of investigating a new CIP dedicated solely to employment growth.

Both variable market conditions and the diversity of financial tools utilized by each local municipality across Peel suggests a one size fits all approach to community improvement planning will not be effective. In other words, an incentive program in one community may not be effective/appropriate in another, and therefore neither an equitable nor efficient approach to incenting major office development.

Our precedent review points to the potential effectiveness of CIPs as a powerful economic development tool if properly aligned with market forces and economic development strategies at the local level, which requires collaboration between planning and economic development staff.

The most appropriate approach for Peel would likely be to allocate funds to major office projects that match the grants or loans already offered by local municipalities, if and where, CIPs already exist, relying on provisions of Subsection 28.7.2 of the *Planning Act*. This approach would have the advantage of:

- Responding to local-specific economic development aspirations and market conditions.
- Requiring only broad-based policies within the regional and local official plan to allow for such agreements and financial stimulus; rather than adoption of a regional CIP by-law, guidelines for financial tools, and need for regional staff regularly dealing with matters of economic development and program administration.
- Allowing participation in the success of local CIPs and associated financial incentive program, without dedicated resources (staff or reserve funds) to a specific program. The region, could pick and choose which of the programs it wishes to participate-in, currently including: TIEG and parking programs in Mississauga, development charge waivers, façade and building improvement grant programs in Brampton, and façade and landscaping improvements, fee reductions, energy efficiency improvements in Caledon.
- Further flexibility to either match or only contribute a portion of funds approved by any one of the three-municipalities and looking to market conditions and annual allocation of funds at the local level to set a budget for Peel.
- Contributions could also include matching grants, rather than tying incentives directly to fees and charges (e.g. a grant matching the value of the Regional portion of the DC, a grant matching the present value of a multi-year TIEG, etc.).

8.0 The Impact of Incentives on Office Development

The following section further explores the findings of the market analysis and incentive program review by illustrating the performance of a hypothetical office development under different development scenarios as well as testing the impact of different incentives.

8.1 Summary of Key Market Findings

Overall, NBLC has observed several key factors that appear to be limiting the amount of office development occurring in Peel:

- A preference for Downtown Toronto, resulting in a disproportionate amount of activity in a very concentrated geography.
- The densification of office development resulting in less physical office space being required to satisfy new office employment growth.
- A highly competitive suburban office market with emerging new office nodes that are likely to further compete with Peel.
- Rental rates that are relatively low due to market conditions. These rates assist with Peel's relatively low availability and vacancy, but restrict new investment, especially in urban forms (i.e. need for underground parking).
- The qualitative drivers of demand are either generally weak in Peel or other locations offer a more favourable context.
- A prevalence of owner-occupied building on large parcels with surface parking.

8.2 Financial Performance of Hypothetical Office Development

To illustrate the financial considerations associated with new office development, a proforma modelling exercise has been prepared for a new office project in Mississauga, Brampton, and Caledon. As illustrated by Table 4, each building was tailored to the specific market conditions in each municipality. The following briefly describes the results of each case study, with more detailed financial assumptions available in Appendix B of this report.

8.2.1 Residual Land Value Analysis

The residual land value analysis subtracts all development costs (hard and soft) from the total revenue of the project. Revenue is calculated by applying a capitalization rate of 6% to the estimated net operating income of the building.

For Peel, the supportable land value (including profit to the developer) is negative in every scenario. This means that if the developer built an office building and sold it at stabilized occupancy, they would not make a profit. This type of short-term investment is not typical of office development, as the revenue associated with the project is often unable to cover all development costs and support a profit. This form of investment in a suburban context is therefore relatively rare.

Table 4

Pro-Forma Summary Market Performance - No Incentives							
Scenarios	Building/Site Statistics				Short Term Investment (sale at occupancy)	Long Term Investment (10 year)	
	Gross Floor Area (meters)	Gross Floor Area (square feet)	Building Height (storeys)	Site Size (acre)	Residual Land Value + Profit (present$)	Internal Rate of Return	Equity Multiple
Brampton Surface Parking	6,968	75,000	6	3.84	-$5,074,216	1.84%	1.2
Brampton Underground Parking	6,968	75,000	6	1.50	-$10,800,294	-2.93%	0.8
Mississauga Surface Parking	11,613	125,000	12	4.45	-$253,946	6.48%	1.8
Mississauga Underground Parking	11,613	125,000	12	1.50	-$4,173,063	2.88%	1.3
Caledon Surface Parking	2,787	30,000	2	1.52	-$5,086,063	1.40%	1.1
No incentives have been included. Brampton net rents $23; Mississauga net rents $26; Caledon net rents $18							

8.2.2 Internal Rate of Return (IRR)

We have also assessed the IRR of each scenario, which indicates the average rate of return of an investment over a holding period. In this scenario, we have calculated a ten-year IRR that assumes equity into the project, the cash flow for the ten-year investment, and the sale of the building in year 11.

This longer-term investment horizon is more typical of office investment, where commercial developers hold the building over many years and collect revenue through rent paid by tenants. Since owner-occupied buildings are not assessing rental rates and a cash flow for the project to justify their investment, these models and discussion are specific to multi-tenant buildings.

The results of the analysis yield some interesting findings, which support many of the observations and discussion found throughout this report:

For the City of Brampton and Town of Caledon:

- The IRR for a 75,000-sf building in Brampton with surface parking is just under 2%, which would be unlikely to motivate an investor to undertake the project. There would be many other investment vehicles, that would also carry significantly less risk, that could yield a higher rate of return than this investment relative to the equity being invested.
- Similar to the above, the IRR for a 30,000-sf building in Caledon with surface parking is below 1.5%, again signalling weak economics.
- When the same office project in Brampton includes underground parking, which can cost anywhere between $40,000 and $100,000 per space, the IRR becomes negative. The revenue associated with the project is simply not high enough to cover the capital costs of the project.

For the City of Mississauga:

- The IRR is nearly 6.5% for a 125,000-sf building in Mississauga, with surface parking, which is a much healthier rate of return that is likely to attract greater investment interest. This is due to the higher rental rates in Mississauga and explains why there is particularly more multi-tenant office investment activity occurring here than in Brampton.
- When underground parking is required, the project suffers. Optimistically, the IRR remains positive, however drops below what would typically be considered an "acceptable" return. Even when charging for parking on a monthly basis, the IRR does not measurably improve (assuming $60 per month per space in this scenario). The results of this analysis again illustrate why office development with significant underground parking is not occurring on a large scale at the current time, even within the areas of the City with the most desirable market attributes and highest rents in Peel.

8.2.3 Equity Multiple

Another way to view a longer-term investment is through the equity multiple. The equity multiple is the total cash distributions received from an investment, divided by the total equity invested. Simply defined, an equity multiple less than 1.0x means you are getting back less cash than you invested. An equity multiple greater than 1.0x means you are getting back more cash than you invested.

Like the IRR discussion, the highest equity multiple is associated with the Mississauga project that is accommodating surface parking and the only negative multiple is the Brampton project with underground parking.

8.3 How Incentives Impact Development Economics

Offering Incentives can directly impact the pro-forma in several ways. By waiving or reducing development fees, this reduces the capital cost of delivering a new building. By reducing the capital costs, the amount a developer is required to finance and front-end with equity is reduced, thus improving both the short and long-term investment outlook of the project.

Despite disadvantaged market characteristics of a location relative to a competing site (e.g. Toronto, VMC), lower development costs could sway either an owner-occupied project or a multi-tenant project to locate in one area over another.

Table 5, on the following page, illustrates the impact that could result if certain incentives were offered. We have assessed the impact of eliminating local and regional DCs as well as planning application and permit fees. We have also assessed the impact of eliminating underground parking requirements, assuming that parking has been implemented by the public-sector (particularly for illustration of the impact of Mississauga's CIP allowance).

8.3.1 Waiving Development Charges

Waiving both the regional and local DCs can drastically improve the economics of a project. In this situation, only the Brampton project with underground parking carries a negative IRR when DCs are eliminated. The other scenarios all indicate investment returns that might sufficiently attract investment. In terms of magnitude, waiving development charges for each scenario include:

- Brampton: $2.6 million ($1.7M from the Region and $950,000 from the City)
- Mississauga: $4.4 million ($2.8M from the Region and $1.6M from the City)
- Caledon: $880,000 ($680,000 from the Region and $200,000 from the Town).

8.3.2 Eliminating Application and Permit Fees

Unsurprisingly, eliminating application and permit fees has a modest impact on the proforma, given the relatively small cost associated with these items relative the capital cost of delivering a new office building.

8.3.3 Removing the Cost of Underground Parking

Like lowering capital costs, the challenge of overcoming parking issues in urban areas could have a significant impact. Many suburban municipalities have considered this option, which could involve:

- Building a municipal garage to accommodate demand for parking from new office investment.
- Purchasing a private garage from a developer once the office building reaches stabilized occupancy.
- Partnering with a developer and/or other groups to deliver a parking solution.

Table 5

Pro-Forma Summary Market Performance - Development Charges Waived (Region and Local)							
Scenarios	Building/Site Statistics				Short Term Investment (sale at occupancy)	Long Term Investment (10 year)	
	Gross Floor Area (square meters)	Gross Floor Area (square feet)	Building Height (storeys)	Site Size (acre)	Residual Land Value + Profit (present$)	Internal Rate of Return	Equity Multiple
Brampton Surface Parking	6,968	75,000	6	3.84	-$2,861,931	4.42%	1.5
Brampton Underground Parking	6,968	75,000	6	1.50	-$8,588,010	-1.52%	0.9
Mississauga Surface Parking	11,613	125,000	12	4.45	$3,426,855	9.46%	2.3
Mississauga Underground Parking	11,613	125,000	12	1.50	-$507,997	5.09%	1.6
Caledon Surface Parking	2,787	30,000	2	1.52	-$4,357,065	4.06%	1.4
Brampton net rents $23; Mississauga net rents $26; Caledon net rents $18							

Pro-Forma Summary Market Performance - Permit and Application Exemptions							
Scenarios	Building/Site Statistics				Short Term Investment (sale at occupancy)	Long Term Investment (10 year)	
	Gross Floor Area (square meters)	Gross Floor Area (square meters)	Building Height (storeys)	Site Size (acre)	Residual Land Value + Profit (present$)	Internal Rate of Return	Equity Multiple
Brampton Surface Parking	6,968	75,000	6	3.84	-$4,724,216	1.87%	1.2
Brampton Underground Parking	6,968	75,000	6	1.50	-$10,450,294	-2.94%	0.8
Mississauga Surface Parking	11,613	125,000	12	4.45	$96,054	6.59%	1.8
Mississauga Underground Parking	11,613	125,000	12	1.50	-$3,823,063	2.90%	1.3
Caledon Surface Parking	2,787	30,000	2	1.52	-$4,736,063	1.41%	1.1
No incentives have been included. Brampton net rents $23; Mississauga net rents $26; Caledon net rents $18							

Pro-Forma Summary Market Performance - No Parking Requirement							
Scenarios	Building/Site Statistics				Short Term Investment (sale at occupancy)	Long Term Investment (10 year)	
	Gross Floor Area (square meters)	Gross Floor Area (square feet)	Building Height (storeys)	Site Size (acre)	Residual Land Value + Profit (present$)	Internal Rate of Return	Equity Multiple
Brampton Underground Parking	6,968	75,000	6	1.50	-$1,555,405	5.56%	1.6
Mississauga Underground Parking	11,613	125,000	12	1.50	$5,425,375	8.77%	2.2
No incentives have been included. Brampton net rents $23; Mississauga net rents $26; Caledon net rents $18							

- Allowing residential to share an underground garage, which might allow for cross subsidization in strong market areas.

Mississauga has rightfully recognized the challenge of providing underground parking in their downtown for new office development. One of the provisions in their CIP is to construct a parking garage for office uses. While this has yet to be used, it would have a very large impact on project economics. Brampton has also recognized this issue and is assessing options through their investigation of a new CIP for office uses.

8.3.4 Reducing Property Taxes

Reducing property taxes through a TIEG can also assist a developer with attracting tenants, as previously discussed, as the effective gross rent would be significantly reduced. This incentive is often viewed favourably by a municipality because it allows the City/Region to continue to collect pre-development taxes and the incentive is generally passed along to a tenant through a reduced gross rent.

However, while a TIEG will not result in a significant change to the proforma as modelled here, it can significantly lower the risk of a project advancing to stabilized occupancy and maintaining a healthy vacancy rate. This will be especially important in markets like Brampton and Caledon that have experienced a challenge in this regard.

For owner-occupied buildings, a TIEG will directly lower their operating costs, which can be very attractive for these types of projects and could result in greater investment activity.

8.4 How Incentives Impact Investment Locational Decisions

Financial incentives for office investment can improve the economics of developing in a location by lowering capital costs, reducing operating costs, reducing gross rents to attract tenants, removing obstacles to development, and other similar considerations. As observed in this section of the report, the development patterns observed in Peel Region are supported by the exploration of development economics:

- It is very challenging to earn an attractive return by providing underground parking for new office development. The cost of an underground parking space is very expensive and the requirement for parking across Peel Region is high. Even with RER, the Hurontario LRT, and other planned transit improvements, it is likely that office developers and tenants will continue to demand access to affordable parking over the short to medium term, and possibly even the long-term.
- In Mississauga, the return of a typical suburban office building for multi-tenant occupancy with surface parking, in traditional business parks, is positive and improves significantly if a developer purchased land many years ago or is repurposing the land from a previous use. It is not surprising that Mississauga has experienced a relatively large share of office growth over the past several decades in this form and type of location (e.g. ACC, Mississauga Gateway, and Meadowvale business parks). There is generally no need to incent this form and location of major office development.

- In Brampton, the return of a typical suburban office building for multi-tenant occupancy with surface parking is marginal. Key issues impacting this type of development are lower net achievable rents, slow lease-up, higher vacancies, competition from older space in the Region, and competition from other competing municipalities for new space. This suggests a possible need to support this type of office development over the shorter-term if there is an economic development imperative to do so.

- Owner-occupied buildings will continue to be viable across Peel Region, as these types of projects are typically looking for the lowest capital and operating cost environment that also meets their locational/employee needs and preferences as discussed throughout this report. While most of the development in Brampton has been from this type of model, Mississauga has captured a greater share over time due to the superior locational attributes, established office nodes and agglomeration economics, and other factors as discussed in this report. There is generally no need to incent this type of major office development.

- As Mississauga continues to run out of large parcels of land designated for employment purposes that can accommodate large areas of surface parking, Brampton and Caledon could see an increased share of office investment. However, they will compete with other areas in the GTA for this space.

- Given the locational and market discussion throughout this report, it is likely that Caledon will continue to experience modest investment in major office uses.

Incentives can therefore address some of these issues. In Mississauga for instance, the City has recognized that office investment has been occurring in suburban style setting but is not occurring in more central areas like the downtown. They have implemented a CIP to directly address this issue within the downtown, with the most impactful incentive being the provision of municipal parking to support office development.

Brampton on the other hand has recognized that office development in general has not been occurring at a significant pace. To address this issue, they are currently in the process of studying the implementation of a CIP that will exclusively look at employment growth. While unknown at this stage, the program could include:

- city-wide or location specific incentives.

- significant operating and capital incentives.

- investment targeted for office only, or a range of employment uses.

- tools to support both owner-occupied and multi-tenant projects.
  - While owner-occupied buildings have been occurring, incentives might stimulate greater activity / MOE job growth.
  - Multi-tenant projects are challenged and generally not occurring, with incentives designed to address this issue.

Incentives therefore can assist a municipality with removing financial and other obstacles that are hindering development from occurring, or from occurring at a larger scale.

However, removing financial barriers will not necessarily result in development occurring. While improving economic and financial considerations, financial incentives do not directly affect the demand side of office development. As discussed throughout this report, there are many factors influencing where development occurs, and many are not directly related to financial incentives or even GTA market conditions. Access to a deep and talented labour pool, access to transit, walkable access to urban amenities and a vibrant mixed-use context, a vibrant and established office node with similar businesses, and many others are also key considerations (e.g. macro-economic, trade conditions).

Implementing incentives in Peel Region will not reverse the larger trends observed in the GTA market, such as Downtown Toronto's dominance. Similarly, other emerging office nodes like the VMC have been successful with the incentives offered to that geography, however the primary factors driving investment in the area is the installment of a new TTC subway station, the mixed-use policy framework implemented, and buy-in from local developers and land owners.

Similarly, other areas across the GTA are set to experience improved transit service through the province's GO RER initiative, with many planning for office development. Peel Region will continue to compete regionally for this investment, and while incentives will assist with this objective, they will not solve the issue in isolation. Continued investments in Downtown Brampton and its Central Area (e.g. Public University, Riverwalk, and other economic development initiatives and public realm improvements), Downtown Mississauga (e.g. Square One redevelopment, an improved internal road network, LRT), and others will all begin to address the other factors influencing office demand and development. These investments are just as important as any financial tool through a CIP.

Incentives therefore are effective at removing obstacles, and particularly effective to eliminating or lessening any single financial issue that precludes development from happening. However, these tools do not address every factor influencing where commercial investment occurs. Offering incentives may not therefore directly result in the successful attraction of new office development. This is evident by the fact that despite funding, Mississauga's CIP has yet to experience any take up, and Brampton's CIP has resulted in only one built office project in over ten years.

9.0 Recommendations and Implementation Considerations

Peel Region is not on track to meeting its MOE job forecasts to 2041. While office growth across Peel Region has been declining in recent years due to a number of factors discussed throughout this report, Mississauga and Brampton remain an attractive place for office development looking forward. The City of Mississauga has successfully attracted the greatest number and range of office projects relative to other suburban office markets, however infill development with underground parking remains a challenge. While major office investment is occurring in Brampton, albeit at a modest pace, it is almost entirely owner-occupied (if not, condominium in tenure and satisfying demand for population-related commercial services). Generally aligning with growth expectations, the major office market in Caledon is nearly non-existent. In all instances, major office investment is highly dispersed and attracted to traditional business parks with large lots, affordable surface parking, and regionally competitive rents.

Over the past decade(s), all of the Region's local municipalities have taken steps to stimulate more office development and revitalization in urban areas and settlements by offering various financial incentives through the adoption of CIPs, which range from development charge relief, TIEGs, one-time development application and permit fee rebates, façade and capital improvement grants, and municipally funded parking programs; the latter of which is unique to Mississauga.

Only two of these CIPs – namely, Brampton's Central Area CIP and the Downtown Mississauga CIP – align with encouraging major office growth in the Region's growth centres and corridors, as well as aligning with significant transportation and transit infrastructure investments. However, these CIPs have had limited (or no success) at attracting office investment. The lack of success can largely be attributed to:

- The market weaknesses of new office development in Brampton's Central Area. Brampton's CIP is also a broad program with multiple revitalization objectives and is not necessarily tailored specifically to encouraging new office development. As noted throughout this report, Brampton is currently in the process of investigating a new CIP tailored specifically to new employment growth, which might also result in amendments to the existing Central Area CIP.
- In Mississauga, the CIP is relatively new and therefore too early to judge regarding success. However, it is likely, based on the financial analysis in this report, that a local TIEG and *Planning Act* application grant is unlikely to overcome the challenges of delivering new office development in this urban infill context. Solving underground parking issues could significantly increase development activity, however this is an expensive solution for the public sector that has yet to be utilized.

Based on the market findings, we are of the general opinion that it is appropriate to further incent major office investment. However, a single blanket approach to the entire Region would not be an effective or appropriate solution. The market conditions and overall deficiencies and opportunities in each local municipality are unique, therefore requiring a nuanced approach for each context.

Brampton and Mississauga have taken proactive steps to address employment growth deficiencies that are specific to each local context. These CIP programs (existing and proposed) are being administered by planning and more specifically, economic development staff, that are best suited to carry out a program of this nature.

We therefore recommend that the Region leverage and bolster the local experience by offering funding on a matching basis to each local CIP targeting major office employment. The key strengths of this approach are:

- The Region leverages the built-in expertise at the local level.
- Funding dollars are focused and stacked, which amplifies the impact and effectiveness of public funding.
- The approach offers greater clarity to the market and results in less administrative complexities associated with two separate programs.
- Administration is much simpler, less time consuming, and less costly for the Region.

To implement this approach, the following will be necessary:

- Broad Official Plan policies to enable participation in a local CIP.
- Establish criteria for enabling participation, which might include:
    - Matching local funds for all office development secured through a local CIP.
    - Only matching local funds for office development that also meets Regional requirements, such as being in a strategic growth centre, transit area, etc.
- Determine the funding mechanism. This might involve matching local funds through the same mechanism (e.g. waiving Regional DCs in Brampton, offering a Regional TIEG in Mississauga), or offering a capital grant of an equivalent amount (e.g. the value of a DC, the present value of a 10-year TIEG, etc.).
- Building off the above, the Region may also consider not matching every incentive offered by a local municipality, but rather selecting which incentives you intend to match. This might also include a lump sum capital grant that roughly equates to the value of all or a portion of local incentives.
- Work with local municipalities to best integrate Regional participation.
    - Mississauga might consider adding or adjusting incentive programs through the local CIP if Regional participation is confirmed. Working with the City to investigate parking solutions in the downtown should also be considered.
    - Brampton is currently in the process of developing a new employment CIP and possibly adjusting the existing Central Area CIP. Confirming participation in these programs will allow the CIP to best achieve desired outcomes as they are being developed.

- Determine annual funding contributions. Currently, this is challenging for several reasons:
  - In Mississauga, the TIEG (length and structure) is determined on a case by case basis, making funding unpredictable.
  - Notwithstanding the above, the very nature of an office CIP is unpredictable given the discussion throughout this report (i.e. most office CIPs have had no or minimal uptake).
  - Brampton is also considering a new program and adjusting the existing CIP, again making funding commitments uncertain at this time.
- Peel could therefore estimate the funding that would be required through participation in each CIP utilizing an assumed building size and then estimating the value of an incentive accordingly. Alternatively, Peel could match the funding allocation made by each local municipality to the CIP budget on an annual basis.
- While it is unlikely that significant Regional staff and resources would be required through this recommended plan, which is another major benefit of this approach, identifying financial resources must be considered.

As discussed throughout this report, it is important to appreciate that while financial incentives can impact the decision-making process of office investment, other factors must also be present that are not directly tied to financial considerations (e.g. transit, walkable and attractive public realm, urban amenities, range of housing options, etc.). While Peel's local municipalities are currently planning such improvements, so too are many of the competing suburban office nodes across the GTA.

Finally, while NBLC suggests further investigating the means through which Peel could participate in local municipal CIPs, it is important to appreciate that the success of the programs cannot be guaranteed, as their use is also a function of external influences on demand, varying business models of developers, and many others. As a next step, NBLC recommends engaging with local municipalities to discuss how to best integrate with existing programs.

Appendix A

Table 6 – Comparison of Incentive Targeting Employment Growth in Southern Ontario

City of Toronto
Chronology of Office Incentives
▪ The City of Toronto's Imagination, Manufacturing, Innovation, Technology (IMIT) Property Tax Incentive program was established in 2008 by way of three separate community improvement plans (CIPs) in response to slow employment growth compared to surrounding 905 municipalities. Designed to also support Toronto's key industry sectors, economic development objectives, and unlock the development potential of contaminated sites, the IMIT program has been highly successful. Amongst other factors, the IMIT program has been a catalyst for transformation of Toronto Downtown, particularly south of Union Station, in the South Core. However, with vacancy at historic lows and rapidly escalating rents, incentives are now unlikely to be a deciding factor in whether to invest in Downtown Toronto. By contrast, employment growth has not experienced to the same extent across the city (outside of the Downtown) and by sector. Non-office sectors and uses (e.g. manufacturing, creative industries, information and technology) represent only a small percentage of committed IMIT grants, and suburban office nodes outside of the Downtown (e.g. North York, Scarborough, and Etobicoke) have not seen a resurgence in employment growth. These areas still face significant barriers to office development, particularly with Toronto's commercial tax rates being the highest amongst GTA municipalities but offering similar rents to 905 municipalities and very limited opportunities for more cost-effective surface parking solutions. ▪ The IMIT program has been regularly reviewed and amended since it was first rolled out. It was amended in both 2012 and in 2017; in the latter instance, most significantly given major market shifts. A new IMIT By-law was approved as of June 30, 2018 but it has since been appealed to the Local Planning Appeal Tribunal (LPAT). As such, the 2012 IMIT By-laws is still in effect. Amongst many changes, the approved but no yet in-force and effect by-law seeks to: - replace the three existing CIPs with a single CIP - eliminate eligibility for office buildings within the city's Financial District - phase out development grants at the Liberty (King Liberty SmartTrack Station) and Queen/Carlaw (East Harbour SmartTrack Station) zones - eliminate enhanced grants available in employment areas and replace the program with a sector-based enhanced grant specifically for Manufacturing, Food and Beverage Wholesaling, Creative Industries, Film Studio Complexes, Convergence Centres and Incubators - Outside of the Financial District, simplify eligibility for office buildings by removing requirements related to employment sectors and rapid transit proximity ▪ Starting as of October 1, 2019, City Council also approved a points-based system as part of the IMIT program, which provides a menu of options of City-endorsed local hiring and training activities to help applicants prepare their Local Employment Plan. Each option has a corresponding point value and tracking indicator, which impacts the amount of allocated funds to each applicant. ▪ While not part of the IMIT program, the City of Toronto also exempts most non-residential development from paying development charges (DCs). Industrial development is entirely exempt, while other forms of non-residential development – office – only pay development charges on the ground floor of a project. ▪ While Toronto currently offers a significantly reduced rate for office development, the City does notably have a substantially higher municipal taxes on these properties. As well, land costs, building forms, the planning process, ease of construction are significantly more challenging. Made possible by unmatched access to multiple-modes of higher-order transit and increasing value placed on such access by tenants, development cost have partly been reduced by allowing for low to no parking in some locations. Overtime, these barriers to investing in Downtown Toronto has also been offset by both much higher commercial service levels, lifestyle amenities, overall tenant attractiveness to Toronto's Downtown Core, lower availability and higher rents. The result has been an increasingly attractive location for investment. Appreciating the changing economic of development, as of 2020, the above 'discounted' method of calculating the total development charge levy for office is under study.

Incentive Tool	**Name: DC By-Law 515-2018** **Status:** adopted by Council January 24, 25, 26 and 27, 2018 **Duration / Expiry:** duration of by-law, subject to 5-year review			
	Geography	**Description**	**Criteria / Requirements**	**KPIs**
DC Reduction	- citywide	- the non-residential DC for new buildings or structure is calculated according to the amount of non-residential gross floor area (GFA) located on the ground floor of such building or structure	- achieves Tier 1 of the Toronto Green Standard Program	-
Toronto Green Standards Program Credit	- citywide	- a partial DC refund is provided if Tier 2, 3 and 4 requirements are met by multiplying the applicable ground floor GFA by a reduced amount set out in the bylaw	- the City has certified all the Tier 2, Tier 3 or Tier 4 requirements or successor program have been met	-
Incentive Tool	**Name:** CIP By-law No. 1323 2012 (Citywide), By-law 1325 2012 (Waterfront) and By-law 1324-2012 (South of Eastern District) **Status:** adopted by Council October 2, 3, and 4, 2012, and B **Duration / Expiry:** regularly reviewed and amended			
	Geography	**Description**	**Criteria / Requirements**	**KPIs**
Imagination, Manufacturing, Innovation, Technology (IMIT) Property Tax Incentive	- citywide	- A TIEG grant is offered to offset incremental increase in property taxes from new construction which: o begins at a 100% grant in year 1 o declines by 9% annually, and o ends with a 20% grant in year-10 - The average grant over the 10-year period is 60% - For projects located in Employment Districts and other designated employment areas, the incentive is increased to 70% over the 10-year period	- The program is only available to buildings that will be wholly occupied by eligible target sectors or uses[1] - Office development within the Financial District are not eligible except for national and international corporate headquarter developments with a minimum GFA of about 107,639 sf - Application must include a Local Employment Plan to support local hiring and/or training - construction values exceeding $150 million require City Council approval - construction value must be at least $1.0 million total to qualify - new construction must not be demolished over the term of the grant	- 46 projects approved, adding 16 million sf of office space and 70,000 jobs - estimated to yield $950 million in new taxes over the grant period, while they will be eligible to receive $589 million in grants, which equal to a net gain of $361 million
	- waterfront (East Bayfront, West Don Lands, and Port Lands)		- same as above (citywide) but manufacturing and film studio uses is restricted to the Port Lands, while uses such as offices, colleges, and tourism attractions are restricted to the West Don Lands and East Bayfront	
	- South of Eastern District		- Same as citywide but eligible uses exclude tourism attractions	
Brownfield Remediation Tax Assistance (BRTA)	- focus areas (Financial District, Focus Area A, Focus Area B)	- the program complements IMIT by providing an additional incentive to support the remediation of contaminated land associated with development projects for employment uses in the CIP project areas - it provides for the cancellation of up to three years of property taxes, capped at the lesser of 100 % of the total	- The applicant must submit a Phase II Environment Site Assessment confirming it does not meet standards, a signed declaration respecting funding from other sources, and a statement of costs to be incurred in connection with remediation	- approved 8 applications under the TIEG and BRTA program as of 2018

		increment over a three-year period or the total cost of remediation - when combined with a Brownfield Remediation Tax Assistance (BRTA) program, the IMIT incentive can increase to a 77 % tax reduction grant and extend to over a 12-year period for eligible projects - grant can cover such matters as costs incurred for remediation within 12 months prior to the submission of an application, environmental studies, environmental remediation, environmental insurance premiums, environmental testing costs, demolition or removal relating to remediation		

- Notes: 1) Targeted sectors are: Biomedical, Creative, Financial, Information and Communication, Manufacturing, Tourism. Targeted uses are: Broadcasting, Call Centres Computer Systems Design and Services Convergence Centres Corporate Office, Corporate Headquarters, Film Studio Complex, Food and Beverage Wholesaling, Office Building, Incubators, Information Services and Data Processing, Scientific Research and Development, Software Development, Transformative Project

York Region

Chronology of Office Incentives – Upper and Local Municipalities

- Starting in 1998, the Regional Municipality of York (the Region) offered a DC discount for non-residential construction through its first development charge bylaw. During this time, the average discounted rate to the non-retail portion was about 40%. The Region's 2007 DC by-law discontinued the reduction to the percentage of the incentives until they were completely phased-out by mid-2010.
- In 2010, the Region introduced an 18-month development charge deferral incentive instead.
- Between 2013 and 2015, staff reviewed appropriateness of offering financial incentives to encourage greater office development, which would be in addition to the DC deferral program but decided not to move forward. At this time, it was determined that the Region's office market was already competitive to neighboring suburban municipalities and financial incentives alone would not generate enough demand to capture a share of growth from Downtown Toronto; particularly in light of their significant incentive program – DC's on only the ground-floor, coupled with IMIT.
- Between 2015 and 2018, the local municipalities of Vaughan, Markham and Richmond Hill introduced various incentives to encourage office development by way of a combination of DC By-law reductions and CIP programs.
  - In 2014, Vaughan began preliminary work to develop criteria for a CIP, which focused on attracting major office to the VMC and other intensifications areas. As of November 2015, the City passed a CIP for the VMC and the Weston Road & Highway 7 Primary Centre (Weston & 7), combined. However, incentives would be retroactively applied to eligible developments with building permits issued on or after January 1, 2014 – coinciding with the beginning of preliminary CIP work.
  - In 2017, Markham passed a new DC bylaw and introduced a new discount for office use greater than 100,000 sf.
  - In 2018, Richmond Hill adopted a CIP bylaw, most notably offering a 10 Year TIEG program for office use only.
- The Region has recognized that to have a greater impact on commercial real estate markets and offset Toronto's many advantages, matching local municipalities may be necessary.
- In the Fall of 2019, the region was to consult with stakeholders on potential financial incentives to promote major office development in the Region's Centres and Corridors., and a new DC deferral pilot policy program to incent large office building, by way of a DC by-law update, was adopted by the Region as of October 17, 2019.
- The Region does not intend to offer incentive by way of a CIP.
- As of April 2019, the Town of Newmarket started an Official Plan Amendment process to add a policy to the Town's Official Plan to allow the Town to partner and participate in any matching incentives offered by the Region.

Current Incentives - Regional Municipality of York				
Incentive Tool	**Name:** Development Charge By-Law No. 2017-3 **Status:** approved October 17th, 2019 **Duration:** Regional by-law available for duration of by-law, subject to 5-year review, and pilot policy available for three years and capped at 1.5 million sf			
	Geography	**Description**	**Criteria / Requirements**	**KPIs**
Development Charge Deferral	- regionwide	- an 18-month deferral of DC levies owed is available starting at the date of the issuance of a building permit by a local municipality	- must be office use - must be a min. 4-storeys - must provide a letter of credit	- 2 projects or 760,000 sf total have been delivered utilizing this program
Large Office Buildings Development Charge Deferral – Pilot Policy	- regional Centres and Corridors - specific Local Centres	- The length of the deferral agreement is based on size of development, set at: o 5 yrs for buildings between 75,000 and 150,000 o 10 yrs for 150,000 to 250,000 sf o 15 yrs for 250,000 to 400,000 sf20 yrs for 400,000 sf + - No interest is charged	- same as above - plus the Region will only enter an agreement if local municipality has provided similar, if not better, incentive - applies only to office buildings in excess of 100,000 sf	- no take up, new program
Current Incentives – City of Vaughan				
Incentive Tool	**Name:** VMC & Weston and Hwy 7 CIP **Status:** approved November 17th, 2015 **Duration / Expiry:** valid from January 1, 2014 until November 17, 2020 or until total office building permits issued reach 1.5 million sf of office space, extended up to two years (November 2022) to coincide with the region's DC deferral pilot policy program			
	Geography	**Description**	**Criteria / Requirements**	**KPIs**
Development Charge Reduction	- VMC and - Weston / 7	- The DC rate for new office development is set at 2013 rates, as opposed to current rates, which is approximately 38% lower than the current rate	- must be office use - office component must be 75,000 sf or larger - the building permit must be issued before expiration of the CIP by-law - an appraisal must be submitted, no more than 6 months prior building permit approval	- 4 projects, or delivery of 724,000 sf total (1/2 of allocated funds)
Cash-in-Lieu (CIL) of Parkland Exemption / Reduction	- VMC and - Weston / 7	- provides exemption from cash-in-lieu of parkland (CIL) fees, equivalent to 2% of the land value for office space - for mixed use buildings, a discount on CIL fees is applied at $4,400 per residential units for every 750 sf of office space built on the same development site	- same as above	
Increment Equivalent Grant (TIEG)	- VMC and - Weston / 7	- Begins with a 70% grant in year 1, and, - declines to a 7% grant in year 10. - The average grant over the 10-year period is 38%	- same as above	
Development Charge Deferral	- VMC only	- the applicant can defer payment of City portion of the DCs for up to 18-months after the issuance of a building permit, matching program to region	- same as above	
Podium Parking Incentive	- VMC only	- up to two storeys of integrated above-grade parking may be excluded from the total density calculation of a building, with the intent to limit Section 37 contributions	- A minimum of two below grade parking levels are provided	-

		- Section 37 contributions may be required if the height exceeds two additional storeys		
Expedited Development Approvals	- citywide	- provides an expedited development approval process for office and mixed-use development process with dedicated staff team to meet with the applicant, its tenant(s) and/or its consultants	- Office uses must be the prevalent use	-
Current Incentives – Town of Markham				
Incentive Tool	**Name:** DC By-law 2017-117 (Citywide Soft Costs) and DC By-law 2017-116 (Hard Costs) **Status:** approved December 12, 2017 **Duration/Expiry:** duration of by-law, subject to 5-year review			
	Geography	**Description**	**Criteria / Requirements**	**KPIs**
Development Charge Discount	- citywide	- allows for 25% reduction of citywide development charge rate for office GFA above 100,000 sf	- Must be office use - Min. of 100,000 sf	- no take up, new reduction
Current Incentives – City of Richmond Hill				
Incentive Tool	**Name: Richmond Hill CIP –** Richmond Hill Centre, Regional mixed-use Corridor designated lands, Yonge/16th Avenue KDA, Yonge/Bernard Key Development Area (KDA), Downtown Local Centre, Oak Ridge's Local Centre, Newkirk Employment Area, Beaver Creek Employment Area **Status:** approved February 20, 2018 **Duration / Expiry:** reviewed and amended as appropriate			
	Geography	**Description**	**Criteria / Requirements**	**KPIs**
Increment Equivalent Grant (TIEG)	- all CIP project areas (see above)	- begins at 90% grant in year 1, - declines by 10% annually, and, - ends with a 0% grant in year 10. - the average grant over the 10-year period is 45%	- must be minimum of approximately 17,222 sf GFA	- no take up, new program
Building Renovation Grant Program	- Oak Ridges Local Centre, Newkirk Employment Area, Downtown Local Centre and Beaver Creek Employment Area	- provides minimum grant of $10,000 and maximum grant of $50,000 for conversion of existing industrial/residential/commercial space to office space, on a matching funds basis to a maximum of 50% of eligible costs	- requires that two quotes are prepared demonstrating the valuation of the works/eligible costs - excludes general tenant fit-up and systems upgrades associated with existing uses	- no take up, new program

Peel Region

Chronology of Incentive Programs

- The Regional Municipality of Peel (the Region) currently does not offer non-residential (office) development incentives, except for standard industrial intensification exemptions.
- As mentioned, the City of Brampton was the first local municipality to introduce a CIP bylaw, implication guidelines and programs, starting in 2000, now applicable to its Central Area. While significantly enhanced in 2007, the CIP by-law and its programs are still available for use. Since adoption, there has been minimal uptake of financial tools for office development applications. Brampton's CIP has been primarily utilized to improve financial viability of high-density residential projects in its historic downtown.
- The Town of Caledon also took advantage of a CIP as a planning tool.
  - This work began in 2007 with the organization of the Bolton Community Improvement Task Force (BCITF) in 2007. The BCITF completed background work, such as the completion of a Strengths, Weaknesses, Opportunities, and Challenges exercise.
  - Council adopted CIPs for each of the Bolton (2009), Caledon East (2014) and Six Villages urban areas (2016). The CIP enables a suite of financial tools, which have typically been used to support improvement of commercial retail establishments (e.g. façade and landscaping improvements, fee reductions, energy efficiency improvements), with the exception of support one greenfield development that has added new industrial units to Bolton employment areas.
  - Alongside completion of the CIPs, Caledon also completed a companion document, the Bolton Urban Design Guidelines, which provides additional guidance for community improvement by identifying design principles and guidelines with respect to built form, facades, streetscape, and, open spaces, for example, to the local development community. These documents are further sported by respective community improvement strategy documents.
- While Mississauga's Downtown was once the largest and most popular office location in the region, there had been no additional office projects added to the area for nearly a thirty-year period. Recognizing a need for a mix of residential and non-residential uses as part of the evolution of a maturing downtown, the City approved a CIP for its Downtown Core in 2017 to attract new office development specifically.
- Concurrently, Council requested that the Region develop a Regional CIP to support office development in their Downtown Core. While Peel Region does not have development incentives specific to new office, staff are in the earlier stages of investigating appropriateness of an Office CIP or other means to achieve the same outcome.

City of Mississauga

Incentive Tool	**Name:** Downtown Community Improvement Plan **Status:** approved July 5, 2017 **Duration/Expiry:** valid until July 4, 2022			
	Geography	**Description**	**Criteria / Requirements**	**KPIs**
Increment Equivalent Grant (TIEG)	- Downtown Core Character Area	- Provides full grant for up to five years after an application is deemed acceptable by the Review Panel (composed of relevant City directors)	- applies to standalone office or pro-rated to apply to the office component of mixed-use buildings - must be a minimum of 3-storeys - must be a minimum 50,000 sf - the project must include transportation demand management measures	- no take up
Development Processing Fees Grant	- Downtown Core Character Area	- provides a one-time grant equivalent to development application fees and building permit fees, in whole or in part, for the office component of a development		
Municipally Funded Parking Program	- Downtown Core Character Area	- allows the City to contribute equity to a project in the form of municipal parking, either in a stand-alone structure or as part of a private development, to reduce project parking requirements and provide parking at reduced cost		
Municipal Property Acquisition and Disposition	- Downtown Core Character Area	- allows the City to contribute equity to a project in the form of land at affordable price to developers - the City may purchase, participate in public-private-partnerships (P3s) or sell municipal land for office development		

City of Brampton				
Incentive Tool	**Name:** Central Area CIP **Status:** approved November 2007, Amended June 2010 **Duration/Expiry:** subject to regular review and amendment, programs offered on first-come, first-serve basis, subject to annual allocation of funds			
	Geography	**Description**	**Criteria / Requirements**	**KPIs**
Development Charges Incentives Program (DCIP)	- reduced DCIP program boundary within Central Area	- provides relief from <u>all or part</u> of the City's portion of development charge - relief is provided for up to a maximum of 1,500 square metres (sm) per site (or 16,146 sf), and to a maximum of 9,000 sm (or 96,875 sf) in any given year - the amount of relief provided is based on a scoring system tied to planning and urban design objectives - however, if an applicant meets the set-out requirements, they are eligible for at least 50% relief - the higher the project scores against the set of criteria (location, preferred type of development, high quality physical environment, community benefit and sustainability) the greater the additional 50% discount	- only major residential, office or mixed use development - only new construction or adaptive reuse - designated "Central Area Mixed Use", and "Medium High/High Density Residential" land use designations prescribed by the Brampton Central Area Secondary Plans (The Downtown Brampton Secondary Plan (SP 7) and Queen Street Corridor Secondary Plan (SP 36)) - for office application of 3-storeys or greater	- while $25 million in relief has awarded across 10 projects over the last 11 years, only one is a complete office project (490 Bramalea Road) and one is an approved office application but not yet under-construction (Atlas Healthcare)
Building Improvement Loan / Grant Program	- reduced program area within Central Area (Downtown Brampton) for properties from on Queen and Main, plus some eligible laneways	- provides either a loan or grant to capital improvements for: o tenant "fit-up" of internal space and comprehensive improvements to building systems for the purposes of activating previously unused space or to make the buildings more attractive to potential lessors; o installation/upgrading of fire protection systems and structural repairs; o improvement to private patio space including appropriate fencing, lighting and landscaping; o screening of utilities and mechanical equipment; o entrance modifications to provide barrier-free access; o other improvements related to health and safety; and, o design fees for the preparation of drawings necessary to undertake the proposed works up to maximum of 10% of the grant amount.	- only in reduced downtown area	-
Incentive Tool	**Name:** DC By-law 129-2019 **Status:** adopted June 17, 2019 **Duration / Expiry:** duration of by-law, subject to 5-year review			
	Geography	**Description**	**Criteria / Requirements**	**KPIs**
Major Office Exemption	- citywide	- buildings containing office uses <u>other than neighbourhood commercial office buildings and structures</u> which serve the general population in the immediate neighbourhood are exempt from payment of development charges	- applies to a building or structure that is freestanding with a total floor area of at least 50,000 sf - applies to project proposing a minimum of two storeys - does not contain any personal service facilities (medical health clinics, dental offices, optometrists and opticians' offices and aesthetic clinics)	- no take up

Town of Caledon				
Incentive Tool	**Name:** Bolton, Caledon East and Six Villages CIP Community Improvement Plans **Status:** Approved April 2009, June 2014, and January 2016 respectively **Duration/Expiry:**			
	Geography	**Description**	**Criteria / Requirements**	**KPIs**
Tax Increment Equivalent Grants	- Bolton Commercial Corridor Precincts and Industrial Area Precincts; Downtown (Caledon East)	- Provides grant of the total amount of any tax increment equivalent up to 50% of the original total cost of the improvements or $20,000 annually whichever is lesser - Grants are provided for a maximum period of 10 years - In year one, the grant to the approved applicant may equal 90 percent of the municipal tax increment with the grant phased down by a percentage each year thereafter	- must be a landowner in eligible area - must have conducted pre-consultation with CIP Review Panel and / or the Administrator - proposed community improvement works increate the total existing floor area by at least 25% - provides at least two cost estimates of work - may require a business plan	Bolton: - $135,707 in grants awarded for combination of property conversion and reuse, efficiency retrofit, building and façade improvements, landscaping and application and permit fees Six Villages: - $4,979.43 award for property conversion and reuse, energy retrofit, and planning and building fees.
Development Charge Grant		- Provides for a grant of equal to up to 50% of the development charges paid by the applicant, to a maximum of $15,000.		
Application and Permit Fee Grant		- Provides for planning application fee grants for: o Minor Variances, and/or, Site Plan Applications to a maximum of $10,000 o Building Permit fees and/or Demolition Permit fees to a maximum of $10,000.		
Energy Efficiency and Retrofit Grants		- grant to assist in retrofits to commercial or mixed-use buildings for a total of 25% of the retrofit costs to a maximum of $7,500. - The maximum amount of a grant for the services of a professional architect or engineer shall not exceed 15% of the grant that is calculated for eligible costs.		
Environmental Study Grant		- Grant of up to 50% of the cost to complete a study (studies) to a maximum of $10,000 per property to confirm and describe contamination on the site; or develop a plan to remove, treat, or otherwise manage contamination found on the site - The maximum amount of a grant for the services - of a professional architect or engineer shall not - exceed 15% of the grant that is calculated for - eligible costs	- Same as above plus, Phase I ESA must be completed and submitted to the Town to demonstrate that site contamination is likely	

City of Hamilton

Chronology of Incentive Programs

- Originally implemented in 2002, the Downtown Hamilton CIP has been offering various financial incentives with limited success. By 2015, private sector investment began to pick up in the downtown, with several condominium apartment projects and other smaller scale commercial investments occurring.
- In 2015, 2017 and 2019, the City undertook a review of its CIP programs to determine if incentives were still a crucial element of development viability.
- As part of the City's development charge update, the 2017 review eventually concluded that while financial incentives are still a crucial element of development viability in Hamilton's downtown, they were becoming less necessary and could be reduced.
  - The 2019 review informed the final development charge rates and reductions were incorporated into the updated development charges by-law.
  - While incentives for market housing were scaled down, it was determined that office development still required a package of incentives.
- In addition to the Downtown CIP, Hamilton has also introduced the ERASE (Brownfield) CIP. While not specific to land use, programs available under this CIP may further support feasibility of office development where contemplated. The ERASE CIP programs include the: ERASE (Environmental Site Assessment II and III) Study Grant, Redvelopment Grant, Education Tax assistance, The Hamilton Downtown or West Harbourfront Remediation Loan program, municipal acquisition and partnership, and further development charge reductions.

Incentive Tool	**Name:** Downtown and Community Renewal CIP – Downtown, Ancastor Village, Binbrook, Dundas, Downtown Stoney Creek, Waterdown, Barton Village, Concession Street, Locke Street, Ottawa Street, Westdale, Mount Hope Airport Gateway, and various pre-defined Commercial Corridors **Status:** adopted May 11, 2016 **Duration:** reviewed and amended as appropriate			
	Geography	**Description**	**Criteria / Requirements**	**KPIs**
Hamilton Tax Increment Grant Program (TIEG)	- Downtown Hamilton, Community Downtowns, Mount Hope/Airport Gateway - BIAs - properties designated under the Ontario Heritage Act	- begins at max. of 100% in year 1, - declines by 20% annually, and, - ends with a 20% grant in year 5. - The grant is assignable to a condominium unit owner	- must provide plans, estimates, contracts and other details as may be required to satisfy the City of the cost of the project	-
BIA Commercial Property Improvement Grant Program	- BIAs	- provides financial assistance to commercial property owners and owner-authorized tenants	- The existing use is in conformity with the current zoning by-law regulations	-

Commercial Property Improvement Grant Program	- Downtown Hamilton
	- Community Downtowns
	- Mount Hope/Airport Gateway
		- provides grant to improve the physical appearance of properties, including façade improvements, and support property and business owners with limited (no more than 50% of available grant, up to $5,000) for rehabilitation of interior space, and assist in creating a barrier-free and accessible environment
		- a maximum of $3,000 grant is available for related permits and fees
		- grants are provided on a matching basis up to:
		  o $10,000 per property
		  o $12,500 for corner properties
			- only eligible for one grant every five years
			- applicant must be property owners or authorized tenants
			- a pre-inspection by the City Building Inspector is required
				-

Office Tenancy Assistance Program	- Downtown Hamilton, Community Downtowns, Mount Hope/Airport Gateway, Business Improvement Areas (BIAs) and some commercial corridors	- Provided to help improve attractiveness and marketability and reduce vacancy - provides financial assistance to either building owners or tenants for eligible leasehold improvements to office buildings	- office only	-
Incentive Tool	**Name:** DC By-law 19-142 **Status:** by-law approved June 12, 2019, and DC deferral program effective January 22, 2020 **Duration / Expiry:** partial exemptions available for the duration of by-law, subject to 5-year review, and deferral program on first-come first-serve basis			
	Geography	**Description**	**Criteria / Requirements**	**KPIs**
Downtown CIPA Partial Exemption	- Downtown CIP project area	- provides Class A office development within the boundaries of the Downtown CIP with a 70% DC discount for only the portion of development within prescribed height restrictions - development in excess of height restrictions is subject to full DC rate	- Must be a minimum of 20,000 sf	-
Partial Exemption	- Downtown CIP project area and BIAs	- for any non-industrial development or office development, other than expansion, DCs are calculated by paying o 50% of applicable DCs on the first 5,000 sf o 75% of applicable DCs in excess of 5,000 sf and under 10,000 sf o 100% on the amount exceeding 10,000 sf	- must be minimum of 5,000 sf - Excludes medical clinic or any part of an industrial development	
DC Deferral Program	- citywide	- applicants can defer payment of City portion of the DCs for five-years - applicant request the amount to be deferred to the City	- must be a minimum of $50,000 levy - only non-residential, high density residential or mixed-use buildings can apply	-

Halton Region

Chronology of Incentive Programs

- The Regional Municipality of Halton's (Halton Region) official plan (OP) contains policies that permit the Region to use CIPs as a tool to implement the policies of the ROP. The Region's approach is premised on providing grants to local municipalities in support of individual applications in their CIP programs (match funding), provided grants available from local municipalities support the policies of the Regions OP (e.g. intensification, brownfield and Greyfield redevelopment). The Region does not have a CIP per se.
- Since April 2010, the Town of Halton Hills identified the entirety of the Town of Halton Hills as a Community Improvement Project Area, and prepared a Comprehensive CIP and complementary incentive programs for eight sub-areas: Guelph Street; Downtown Georgetown; Georgetown Community Node; Downtown Acton; Agricultural/Rural Lands; the Georgetown Industrial Park; and, Acton Industrial Park. The CIP also has multiple Brownfield redevelopment incentives specific for Georgetown GO Station Lands, South Acton Special Study Area (the former Beardmore Tannery lands) and other Brownfield sites.
  - Programs activated for Brownfield sites include an: Environmental Site Assessment Grant, Brownfield Tax Assistance Program, Brownfield Redevelopment Grand, and Brownfield Development Charge Reduction.

- The town wide CIP has been amended since to extend incentives with a Brownfield Parkland Dedication Program, and also allow consideration of some financial programs summarized below outside of eligible areas, on a case-by-case basis.

- While the Town of Oakville does not have a CIP specifically targeting the development of office, a Brownfield CIP was approved by Town Council on July 9, 2018 that focuses on encouraging development in multiple areas of the city, with the first priority being all designated Employment Areas, Major Transit Station Areas (MSTA) and Midtown Oakville, followed by all designated Nodes and Corridors, and lastly, the Rest of the Town's Urban Area.
  - Programs activated by the Brownfield CIP include: Environmental Study Grant (ESG), Tax (Cancellation) Assistance, and a TIEG program – the latter of which uses the priority area rank order to determine the percentage and length of grant, as well as other factors such as other project achievements (employment growth, design, sustainability).

<table>
<tr><th colspan="5">Town of Halton Hills</th></tr>
<tr><td rowspan="2">Incentive Tool</td><td colspan="4">Name: Comprehensive CIP – Georgetown Community Node (Guelph Street), Downtown Georgetown, Downtown Acton, Brownfield Sub-Areas, and Georgetown and Acton Industrial Park Sub-Areas
Status: approved April 2010, amended November 2017
Duration/Expiry: CIP indicates suggests duration of 10 years for all programs</td></tr>
<tr><td>Geography</td><td>Description</td><td>Criteria / Requirements</td><td>KPIs</td></tr>
<tr><td>Revitalization Grant Program</td><td rowspan="2">- Georgetown Community Node, Downtown Georgetown, Downtown Acton</td><td>- provides a grant equal to 80% of the municipal property tax increase created by the project for up to 10 years after project completion</td><td rowspan="3">- located in CIP project area
- application must be submitted prior to any works or study related to the proposed development and issuance of a permit
- must include plans, estimates, contracts, reports and other details with respect to costs and conformity with the CIP</td><td rowspan="2">-</td></tr>
<tr><td>Comprehensive Planning Grant Program</td><td>- provides for 50% of the cost of draft plans and professional urban design studies/drawings to a maximum of of $7,500 per project</td></tr>
<tr><td>Landscape Improvement Grant Program</td><td>- Georgetown and Acton Industrial Parks</td><td>- provides grant equal to 50% of the cost of eligible fencing, landscaping and screening of industrial properties to a maximum of $12,500 per property</td><td>-</td></tr>
<tr><th colspan="5">Town of Oakville</th></tr>
<tr><td rowspan="2">Incentive Tool</td><td colspan="4">Name: DC By-law 2018-001
Status: approved 27th day of February 2018
Duration/Expiry: duration of by-law, subject to five-year review</td></tr>
<tr><td>Geography</td><td>Description</td><td>Criteria / Requirements</td><td>KPIs</td></tr>
<tr><td>Caps on Coverage</td><td>- townwide</td><td>- where there is non-residential development, the development charge payable is calculated at 50% of the levy owed for the portion of the total floor area greater than 2.0 times the area of a lot</td><td>- must be non-residential use
- must have a minimum FSI of 2.0 x the lot area, including separate lot if assembled for required parking</td><td>-</td></tr>
</table>

Waterloo Region

Chronology of Incentive Programs

- The Regional Municipality of Waterloo Official Plan allows for designation of Community Improvement Project Areas and adoption of Regional CIPs as it relates to infrastructure that is in the Region's jurisdiction, as well as land and buildings within and adjacent to Existing or Planned Transit Corridors that have potential for higher density reurbanization, and also allows the Region to provide grants, loans or other assistance as Council deems appropriate in this area. While the Region identified the entire corporate boundary as the Community Project Area in its Official Plan, the Region has adopted a Region of Waterloo Reurbanization Community Improvement Plan that only applies to land in what is called the Central Transit Corridor (CTC). Generally following the corridor of existing (new) and future LRT service, the Region recognized there were several under-utilized properties within the CTC with potential for reurbanization but areas were often complicated by faulty arrangement and unsuitable buildings. Despite their availability for reurbanization, these individual properties may not be large enough to accommodate higher density buildings. The cost and time of preparing the land for redevelopment would likely be onerous to the development community, particularly when compared to greenfield land free of any complications. The RRCIP was adopted and sets out the guidelines for a Regional Reurbanization Facilitation Program (RRFP) to help increase the number of development ready sites and incent involvement of the development community in this process.
- While the RRCIP currently does not include provisions for financial incentives per se, the Regional Official Plan policies contain language that allow Council to provide match funding to financial incentives for the purpose of carrying out local municipal CIPs.
- Today, Cambridge, Kitchener and Waterloo all adopted CIPs.
- In addition to CIPs for respective downtowns, local municipalities have introduced a Tax Increment Grant (TIG) program to encourage brownfield clean up in partnership with the Region.
  - The TIG program generally provides a grant for remediation of brownfield sites, with payments made after remediation with the total grant based on all eligible costs, and payment provided over a 10 years period.
  - From 2009 to 2019, 20 projects across the Region have used incentives through regional development charge exemptions and TIGs. The majority (11) were in Kitchener, along with six in Cambridge, two in Waterloo and one in Woolwich Township.
- Repealed as of February 28th, 2019, the Region offered DC exemptions for projects in the downtown areas in Cambridge, Kitchener and Waterloo, with the City of Kitchener also waiving the City portion, however, this exemption has since expired. The Region currently offers a DC reduction for office uses in urban growth centres where such use is 20,000 sf or more. The region had previously Regional DC exemption for the downtown areas in Cambridge, Kitchener and Waterloo.

Regional Municipality of Waterloo				
Incentive Tool	**Name:** Region of Waterloo Reurbanization Community Improvement Plan (RRCIP) **Status:** Effective August 1, 2019 **Duration/Expiry:** duration of by-law, subject to five-year review			
	Geography	**Description**	**Criteria / Requirements**	**KPIs**
Regional Reurbanization Facilitation Program (RRFP)	- Central Transit Corridor (including regional growth centres)	- provides Regional Council with the authority to purchase key properties in the CTC with the intent to prepare them to a point where they become more attractive to the development community - for example, the program authorizes Regional Council to: purchase and hold lands; prepare lands (e.g. land assembly, site cleanup and associated studies, lot reconfiguration, planning preparations, demolition, clearing of land, grading, improvement to and construction of buildings, marketing and disposition of properties)	- criteria for identifying sites generally compare the potential for urbanization vs obstacles to development - the RRCIP overlaps with local CIPs and works with area municipalities to identify sites and confirm to policy directions	-

Incentive Tool	**Name:** Regional DC By-law 14-046 **Status:** Effective August 1, 2019 **Duration/Expiry:** duration of by-law, subject to five-year review			
	Geography	**Description**	**Criteria / Requirements**	**KPIs**
Regional Redevelopment Charge Allowance	- regionwide	- redevelopment allowances are given in recognition of the value of services previous provided to the site and are valid for up to 7 years from the date of issuance of a demolition permit may be entitled to a credit. - is only applied against regional DCs	- not applicable to former residential uses and some former non-residential or mixed-use developments	-
Development Charge Reduction (Major Office)	- regional urban growth centres	- provides a 50% discount for the portion of an office building that is the third floor and above	- located in an urban growth centre - minimum of 3-storeys - proposed development is greater than 20,000 sf (excluding podium portion of building) - podium does not have residential uses - a minimum of 75% of GFA making up the office portion of the building is dedicated to office space and associated facilities (e.g. reception, meeting rooms)	
City of Waterloo				
Incentive Tool	**Name:** Uptown Waterloo **Status:** approved in 2013 **Duration/Expiry:** programs to expire December 2020			
	Geography	**Description**	**Criteria / Requirements**	**KPIs**
Major Activity Grant	- Uptown Waterloo	- provides grant for large reurbanization projects that create new space for office employment - grant is equal to the portion or full amount of the property tax increase as the property is redevelopment and reassessed - 80% to 100% of the potential grant is provided based on achievement density, designation of heritage resources and achievement of LEED certification or other sustainable design and construction standards	- the project is over 5,000 sf	-
Minor Activity Grant		- provides grant for small reurbanization projects that create new office space for employment - a minimum of $25.00 psf is offered to maximum of $20,000 per project, where minimum requirements are met. Up to $400 psf or $50,000 per project is provided where there are there is a designated heritage resource and achieves LEED certification or similar	- for projects between 400 sf and 5,000 sf	-

Parking Exemption		- reduced parking standards for office expansions	- provided where developer is unable to provide the on-site parking as required by the city's zoning bylaw	-
Study Grant		- provides grant for professional urban design studies and drawings, heritage feasibility studies and assessments - provided as matched funding of up to $3,000 per project	-	-
Fee Grant		- provides a grant to offset planning and development fees, up to $10,000 per project	- for renovations and small expansions only	-
City of Kitchener				
Incentive Tool	**Name:** Downtown CIP			
	Geography	**Description**	**Criteria / Requirements**	**KPIs**
Startup Landing Pads program	- Downtown Kitchener	- helps start-up companies transition from accelerator programs, incubator facilities, and short-term lease space into more permanent locations - assists property owners and tenants with the financing of interior leasehold improvements and/or accessibility improvements - enables the city to repair, rehabilitate or improve buildings on land it holds or acquires, and to sell, lease or dispose of any such buildings and land for the purpose of establishing start-up landing pads;	- for 2nd storey properties and above - the occupant, start-up company is endorsed by a program partner	-
City of Kitchener				
Incentive Tool	**Name:** Downtown CIP **Status:** Adopted January 20, 1997, amended March 31, 2014 **Duration/Expiry:**			
	Geography	**Description**	**Criteria / Requirements**	**KPIs**
Startup Landing Pads program	- Downtown Kitchener	- helps start-up companies transition from accelerator programs, incubator facilities, and short-term lease space into more permanent locations - assists property owners and tenants with the financing of interior leasehold improvements and/or accessibility improvements - enables the city to repair, rehabilitate or improve buildings on land it holds or acquires, and to sell, lease or dispose of any such buildings and land for the purpose of establishing start-up landing pads	- for 2nd storey properties and above - the occupant, start-up company is endorsed by a program partner	-

Niagara Region

Chronology of Incentive Programs

- Starting adoption of Amendment 2 to the Regional Policy Plan in 2009, which first introduced the Niagara Economic Gateway, policies were put in place to for employment landsstating that the Region would work in partnership with the Province, local municipalities and economic development agencies to develop a comprehensive funding strategy to create an attractive investment climate f through such measures improving appearance, infrastructure, and reducing the cost of servicing industrial lands and exploring opportunities for developing environmentally sustainable industrial buildings.
- The Niagara Gateway Economic Zone and Centre CIP was prepared as the main tool for the Region and local municipalities to achieve regional policy goals. In consultation with the five affected local municipalities (Fort Erie, Niagara Falls, Thorold, Welland, Port Colborne) and other key stakeholders, Niagara Region led and coordinated the preparation of this "Master Gateway CIP" for employment lands in the Gateway Economic Zone, with the Region endorsing the "Master Gateway Plan" and all local municipalities approving the final Economic Gateway CIP to provide the legislative basis and comprehensive policy framework for the provision of incentive programs.
- This approach has ensured consistency amongst municipalities, but still has allowed local municipalities to provide their own grants with partial funds from the Region. For example, a Tax Increment Based Grant (TIBG) program are established in the Master Gateway CIP and applies only to municipal property taxes - including the Regional portion, and the local portion and lower-tiers since each has opted to participate – plus the City of Niagara Falls provides addition financial incentives to TIBG approved projects (e.g. application fee rebates and study fee grants), as does the City of Welland (e.g Planning Application Waivers). These complementary Economic Gateway CIPs are in addition to CIP for traditional downtown areas, providing other incentives to these targeted areas (e.g. capital improvement grants, site remediation and other improvements).
- The City of Welland has established a Downtown and Health and Wellness Cluster CIP to promote the revitalization of this area, and reinforce the Downtown as a mixed use, transit supportive area, and encourages uses in the Health and Wellness Cluster that strengthen Welland's health and wellness resources. The CIP includes a Public Realm Improvement Plan which identifies opportunities to improve the overall image and sense of community within the Project Area. Several financial incentive programs designed to stimulate private sector investment activity in the revitalization and redevelopment of the Project Area, notably including a development charge reduction of 75% to 100% of the city-portion depending on the number of Smart Growth Features achieved.

Regional Municipality of Niagara

Incentive Tool	**Name:** The Niagara Gateway Economic Zone and Centre CIP **Status:** adopted February 2012 **Duration/Expiry:** effective 2015, no expiry provided			
	Geography	**Description**	**Criteria / Requirements**	**KPIs**
Tax Increment Based Grant Program (TIBG)	- entire CIP project area	- provides an incremental tax rate rebate of a percentage of the post-project values for a period of 5 or 10 years period depending on the location of the project - a rebate is provided for 5-years for project within the CIP project area but outside of strategic areas for investment or 10-years for strategic areas	- for projects proposing employment land uses and businesses in the targeted sectors identified in the Niagara Gateway Economic CIP - retail and residential uses are not eligible - if conversion to retail uses occurs prior to cessation of a grant payment, the amount remaining for payment is adjusted to reflect non-retail space remaining - the applicant must submit a business plan	- more than $36 million in relief awarded between 2015 and 2017
Regional Development Charge Grant Program	- entire CIP project area	- provides a grant to offset development charges related to the investment - projects that score 14 points or more according evaluation criteria receive greater relief from Regional DCs, with payments capped at $1.5 million - additional relief of up to $1.5 million from regional development charges is provided for exceptional projects - exceptional projects achieve a higher standard with regard to economic performance and environmental design	-	

City of Niagara Falls				
Incentive Tool	**Name:** Niagara Fall Gateway Economic Zone and Centre CIP **Status:** adopted November 2015 **Duration/Expiry:**			
	Geography	**Description**	**Criteria / Requirements**	**KPIs**
Municipal Employment Incentive Program (MEIP)	- entire CIP project area	- provides supplemental incentives to the TIBG local and regional rebate, including: Planning Application Fee Waivers, Building Permit Fee Rebates, Study Grants - Study Grants are based on 50/50 match funding up to a maximum of $5000 per study or $50,000 per applicant	- received approval for the TIBG by the Region	-
City of Welland				
Incentive Tool	**Name:** City of Welland Gateway Economic Zone and Centre CIP **Status:** adopted February 2014 **Duration/Expiry:**			
	Geography	**Description**	**Criteria / Requirements**	**KPIs**
Planning Application Grant Program	- entire CIP project area	- provides supplemental incentives to the TIBG local and regional rebate in the form of Planning Application Fee Waivers	- received approval for the TIBG by the Region	-