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REPORT
Meeting Date: 2020-07-23
Regional Council

REPORT TITLE:	**Feasibility Assessment of a Regional Major Office Employment Community Improvement Plan**
FROM:	Andrew Farr, Interim Commissioner of Public Works Stephen VanOfwegen, Commissioner of Finance and Chief Financial Officer

RECOMMENDATION

That a Regional major office employment community improvement plan not be established based on the results of the feasibility assessment described in the joint report from the Interim Commissioner of Public Works, and the Commissioner of Finance and Chief Financial Officer, titled "Feasibility Assessment of a Regional Major Office Employment Community Improvement Plan";

And further, that the Region of Peel support local municipal major office employment community improvement plans by contributing tax incremental equivalent grants;

And further, that staff be directed to report back to Regional Council with detailed recommendations for establishing an office incentives program that uses tax incremental equivalent grants, including a framework and project criteria for enabling Regional participation in local Community Improvement Plans;

And further, that a copy of the subject report be forwarded to the local municipal councils.

REPORT HIGHLIGHTS

- In February 2020, Regional Council directed staff to examine the feasibility of establishing a Regional community improvement plan for major office development and report back in Q2 of 2020. This report provides an initial feasibility assessment.
- The 2017 Region of Peel Employment Strategy Discussion Paper identified strategies and recommendations to achieve Peel's employment growth projections to 2041 and one of the potential strategies to be explored include consideration of incentives through a regional community improvement plan for major office employment.
- Staff worked with a consultant to complete an initial feasibility assessment with local municipal input, the key findings of which are provided within this report (the "Feasibility Assessment").
- The local municipalities have all initiated their own community improvement plans targeting a variety of uses, including major office employment.
- There are many factors influencing the location of commercial investment, including complete community characteristics, transportation, and financial considerations.
- A key finding of the Feasibility Assessment is that the establishment of a Regional-level community improvement plan is not necessary.

- Peel's Long-Term Financial Planning Strategy includes the financial principle of: Work with local municipalities to manage growth and support economic viability of the community.
- The Region has invested heavily in major infrastructure to support local economic development; these investments are debt financed at $1.6 billion.
- The Region has no reserves allocated or available to fund a financial incentives program.
- A financial incentives program would require an incremental increase in property taxes to establish a dedicated reserve.
- It is recommended that the Region support local municipal major office employment community improvement plans by contributing tax incremental equivalent grants, which result in a deferral of increased property taxes for development that might not otherwise occur but do not require direct funding from other property tax revenue.
- It is recommended that further work be completed to develop detailed recommendations for establishing an office incentives program that uses tax incremental equivalent grants, including a framework and project criteria for enabling Regional participation in local Community Improvement Plans.

DISCUSSION

1. Background

On October 26, 2017, an overview report on the Peel Growth Management Strategy was presented to Regional Council (Resolution 2017-857). The report included an update on the coordinated approach to planning for employment in Peel and an Employment Strategy Discussion Paper. The Discussion Paper explored trends and issues related to achieving the 2041 employment targets in Peel and identified strategies for increased major office employment development to meet those needs.

It was suggested that financial incentives be explored in specific areas where offices are being planned, potentially in the form of a community improvement plan (CIP). Other strategies for increased major office development included providing a mixed-use urban environment with multi-modal transportation, amenities, shopping, and recreation to support the office workforce in suburban locations comparable to and competitive with the mixed-use urban environment of Downtown Toronto.

On February 27, 2020, an Employment Policies and Trends Overview report was presented to Regional Council, which reaffirmed that a lack of office development has been a contributing factor in Peel not meeting employment forecasts in recent years. Regional Council passed Resolution 2020-158, requesting that staff report on the feasibility of a CIP for major office uses (that considers a fair distribution of financial incentives between the Region and local municipalities), consult with local municipal staff on the scope and implications of a potential CIP, and report back in the second quarter of 2020. Since then, the economic impact of COVID-19 has arisen and will need to be considered in addition to the pre-existing trends which resulted in lower-than-forecasted office development.

Regional staff engaged N. Barry Lyon Consultants (the “Consultants”) to complete a Feasibility Assessment for a potential Regional major office CIP, and local municipal staff were consulted on the scope of work for the analysis and the report findings. Appendix I contains an executive summary of the results of the Consultants’ work and recommendations and a link to the full report on the Region’s website.

This report is in response to Council’s direction and builds upon the findings presented in recent reports regarding employment trends.

2. Use of Regional Municipal Community Improvement Plans

A CIP is a planning tool that is authorized under Section 28 of the *Planning Act*. Section 28 is legislation that allows a municipality to develop a comprehensive plan for community improvement within a predefined community improvement project area. Regional Council has the legislative authority to develop a CIP, but for regional municipalities the scope is limited by the *Planning Act* 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.]

For the purposes of major office development, the extent of a Regional CIP project area is taken to be limited to regional transportation and/or transit corridors. This limitation does not apply to infrastructure and affordable housing community improvements. In contrast, single-tier or local municipalities can designate a CIP project area anywhere in their municipality.

As part of the Feasibility Assessment, the Consultants’ completed a review of nearby upper-tier municipalities’ use of CIPs. While some upper-tier municipalities like Waterloo and Niagara have established their own CIPs to focus on key transit corridors and economic zones, other 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 Consultants’ key advice resulting from the Feasibility Assessment is that the Region not proceed with a Regional CIP, but instead participate in the local municipal CIPs, if the decision is made to contribute Regional financial incentives.

3. Regional Participation in Local Municipal Community Improvement Plans

Subsection 28 (7.2) of the *Planning Act* allows regional municipalities to allocate funds to major office projects that contribute to or match the incentives already offered by local municipalities, if and where local CIPs already exist. This subsection authorizes upper-tier municipalities to make grants, loans, and other incentives to lower-tier municipalities for the purposes of carrying out a local municipal community improvement plan without enactment of a Regional-level CIP. The Peel Regional Official Plan currently contains policies that would allow for the Region’s participation and support of local CIPs (Regional Official Plan policy 7.7.2.27).

All three local municipalities in Peel have adopted CIPs with varying objectives and funding mechanisms including incentives for major office development.

4. Key Report Findings

The Consultants' Feasibility Report highlights key drivers of office demand, trends in the Greater Toronto Area (GTA) office market, conditions of the suburban office market, and current and future economic conditions (with a reference to new considerations of COVID-19). An overview of incentives for major office employment and the various factors surrounding their impact on development activity informs the report's recommendations to the Region. Key findings, insights and recommendations are summarized below:

a) Economic Conditions

- Peel maintains a strong competitive position within the GTA. Peel's main advantage is its central location within the GTA, Southern Ontario, and one of the most active economic hubs in Canada. Peel's central location within the GTA is attractive to those seeking office space with access to a large labour market area. Peel's attractive transportation network (i.e. 400-series highways, Toronto Pearson International Airport, and some of the largest intermodal hubs in North America) provide efficient access to the U.S. border and international markets.

- The long-term economic underpinning in Peel is positive, supporting improved long-term employment growth. However, there have been various factors impacting employment conditions in 2020 due the changing nature of work, US trade uncertainties, and other economic changes prior to the onset of the COVID-19 response. COVID-19 has created additional uncertainty due to job losses, business challenges, and continued U.S. trade uncertainty. As a result, shorter-term demand for office space across the Region may stall, resulting in higher vacancies, and reduced office investment interest.

b) Key Drivers of Office Demand

- In general, 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. The range of factors include, access to labour and talent, proximity to similar industries, access to highways, exposure/visibility, surface parking, regionally competitive pricing, operating costs, development charges (DCs), walkable communities, and access to transit. 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.

- In the case of the past decade, office development has become increasingly concentrated within Downtown Toronto and a select few suburban nodes. The office developer's desire to locate in a vibrant, mixed-use community located on a higher-order transit network has pulled the majority of recent major office development to Downtown Toronto (near Union Station) and the growing Vaughan Metropolitan Centre (also on a subway station). The other reasons for this shift are both financial and demand driven, with Downtown Toronto being able to satisfy virtually all these demand side characteristics while also supporting the highest rents and lowest parking requirements.

- Over time, many tenants could be priced out of Downtown Toronto. The result may be greater tenant demand looking to the '905' suburban office market for less expensive space. However, it is 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.

- Based on discussions with local municipal economic development departments, there is anticipation that due to COVID-19, businesses are starting to focus on recovery and may start to reconsider how and where they locate. There may be more desire to locate workplaces closer to residents, which would distribute offices instead of funneling people into one place (i.e. the Union Station Area). This may present new opportunities for office development in the suburban market in which incentives could assist with this restart of the economy. It is still too early to determine the exact effects of COVID-19 on the office sector, as there is also discussion of possible reduction in office space needs due to long-term remote work arrangements. Peel will need to monitor the impacts of COVID-19 on changes to the landscape of office development interest and market activity, and if any beneficial changes arise for suburban municipalities like Peel.

c) Examples of Financial Incentives for Major Office Development

- The nature of some incentives requires that funding or a reserve is secured upfront to implement a CIP, including commonly used incentives as follows:
    - DC-related incentives may include reducing or waiving DCs at the regional and/or local level, or a deferral of DCs. The funding shortfall for the infrastructure that would have been funded through the DCs, would still need to be funded by the municipality in the short or long term.
    - Capital improvement grants are also used to facilitate the redevelopment of underutilized sites to office use. This would require providing cash to a developer to offset upfront development costs.
    - Removing the cost of parking is also an incentive used in various formats, including a municipality building and providing a parking structure, partnering with the developer to build parking, reducing the site parking requirements, or providing cash/grants to the developer for their parking costs. Parking-related incentives typically require significant funding from municipalities but are often very effective.

- Another form of incentives is eliminating development application and permit fees. This has a limited effect on development proformas as such fees are a small percentage of the cost of development.

- Tax Increment Equivalent Grants (TIEGs) are a commonly used incentive which allow the increase in municipal property tax (from a vacant site to an office tower, for example) to be refunded in full or partially over a period of time. Each eligible year, the owner must pay the property taxes in full and the municipality provides the registered owner a grant equal to the tax increment following receipt of payment. Therefore, no upfront funding or reserve is required in advance of implementing the incentive. 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. For multi-tenant buildings, a TIEG can attract tenants and maintain a healthy vacancy rate by reducing the property tax paid and reducing the effective gross rent.

d) The Impact of Incentives on Office Development

- Financial incentives for office investment can technically improve the economics of developing in a location by lowering capital costs, reducing operating costs, reducing gross rents to attract tenants and removing some financial obstacles to development.

- Incentives are particularly effective in 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. As noted in the key drivers of office demand, there are many non-financial considerations that weigh into the business decisions of office development (e.g. transit, walkable and attractive public realm, urban amenities, range of housing options, etc.). This is evidenced by the fact that despite funding being available, several CIPs have had little to no uptake.

- The Consultants consider that it may be appropriate to incent major office to achieve specific outcomes and remove certain barriers in Mississauga (urban intensification, underground parking), and more generally across Brampton and Caledon. However, the report also notes that competing with other localities as to who can offer the most attractive set of financial incentives is a 'race to the bottom', in terms of municipal revenue collection.

e) Recommendations and Implementation Considerations

- Based on the market findings, the Consultants is of the opinion that further incenting major office could result in some success in achieving additional office growth outcomes. However, the market conditions and overall deficiencies and opportunities in each local municipality are unique, therefore requiring a locally specific approach. The Consultants' recommend that, should the Region pursue financial incentives for major office development, it should leverage and bolster the local experience by offering funding to support local CIPs targeting major office employment, as appropriate, instead of developing its own CIP.

- At present, Peel is not on track to meet its major office employment forecasts to 2041. While office growth across Peel Region has been declining in recent years, due to a number of factors, Peel remains an attractive place for office development looking forward. There is still modest major office development activity in areas like the Meadowvale and Airport Corporate Centre, and many other areas of Peel are planned for higher-density development including office uses in the future (Major Transit Station Areas, Urban Growth Centres, etc.).

- Over the past decades, all of the Region's local municipalities have taken steps to stimulate more office development by offering various financial incentives through the adoption of CIPs, which range from DC relief, Tax Increment Equivalent Grants, one-time development application and permit fee rebates, façade and capital improvement grants, and municipally funded parking programs.

5. Financial Considerations

To address Peel's financial vulnerability, Peel's Long-Term Financial Planning Strategy includes the financial principle: Work with local municipalities to manage growth and support economic viability of the community. As reported to Council in 2019, the Region commissioned the Mowat Centre report: ***Rethinking Municipal Finance for the New Economy***, which concluded that Peel is facing a long-term erosion of non-residential property taxes. Supporting the development of major office development is necessary to achieve a balance in property tax revenues.

One of the primary ways in which the Region manages growth and supports economic growth is through upfront investments in major infrastructure such as Water, Wastewater and arterial Roads. These investments are financed by debt until such time as development occurs and development charges are collected. To date, Peel has $1.6 billion in debt financed growth infrastructure.

If Regional Council were to implement financial incentives for major office development, careful consideration of the type of incentive is required. As explained earlier, some CIP incentives, like DC rebates would require that a dedicated funding source be identified. There are currently no identified provincial or federal funding programs available for municipalities to incent office development, nor are any existing reserves allocated to such a program.

A Regional incentives program would require an incremental increase in property taxes to establish an appropriate reserve. Committing to raising property taxes to create a reserve would potentially be at the expense of other important Regional priorities such as the Affordable Housing Master Plan, maintaining aging infrastructure, expanding Waste diversion and the Human Sex Trafficking Strategy response among many others. Offering financial incentives may also work against other Regional outcomes related to the principle of 'growth paying for growth' and may transfer costs associated with employment growth onto the residential property tax base. Therefore, any incentives that would require a financial reserve would add a new financial burden to property tax payers.

Incentivizing office development through TIEGs has considerably fewer risks and financial burdens in comparison to the aforementioned types of incentives. As a TIEG would only deal with returning the calculated difference in property tax rates from the current land use to the proposed office use once received, the Region would not have to allocate and reserve any funds in advance to facilitate the incentive.

By incenting major office development to locate in Peel, which may otherwise have located in another municipality, additional property tax revenues will be secured in the long term. For example, a TIEG incentive provides stagnant tax rates (and therefore stagnant revenues) for a property for a given amount of years, but following the end of the TIEG Peel would benefit from the increased tax revenues from the major office development. The Region can determine the duration of the TIEG as the *Planning Act* does not specify any period for an incentive to be available.

RISK CONSIDERATIONS

- Should Regional Council choose to move forward with participation in local municipal CIPs via incentives other than a TIEG, the resulting funding requirements may negatively impact property tax rates, increase the tax burden on residents, and impact funding for other pressures for other key Regional priorities.

- If contributing to local municipal CIPs is supported, Regional Council and staff must consider the equitable distribution of funding across the three local municipalities and the approach to supporting very different Community Improvement Plans.

- In 2019, the Region commissioned the Mowat Centre report: ***Rethinking Municipal Finance for the New Economy***, which concluded that Peel is facing a long-term erosion of non-residential property taxes and a shift in the property tax burden to residents. New major office development would contribute to an improved balance in property tax revenues.

- There are longer-term risks related to the Region not meeting its employment targets by 2041.

CONCLUSION

Increasing major office employment is a complex task and there are various considerations that come into play when businesses are considering where to locate.

While economic development is a role of the local municipalities, the Region invests in achieving its employment targets and securing office employment opportunities in “indirect” ways. Development is supported by the Region’s extensive capital program that requires upfront investment in major infrastructure with the Region bearing the associated risk. In particular, water and wastewater infrastructure must be built in greenfield areas or upsized in intensification areas before development like major office can occur. Infrastructure investment represents incentivization of major office development by providing “shovel-ready” land that improves Peel’s attractiveness.

While the Region will continue to deliver infrastructure and policy which creates a mixed use, vibrant, and attractive community to draw office development, there is also some evidence that financial incentives are effective in bridging the financial gap in making developments viable, as shown in this Feasibility Assessment.

As discussed, there are contextual and financial considerations which have informed how incentives may or may not be effective for the Region. It is not recommended that a Regional CIP be established or implemented, but rather, that the Region support and contribute to the local municipal CIPs in a way best suited to Regional priorities. Providing incentives through TIEGs would not require funds to be drawn from the residential tax base or Peel’s other critical programs and services.

Therefore, it is recommended that the Region move forward to develop an incentive program to contribute to the local municipal CIPs via TIEGs. Next steps would include providing detailed recommendations for establishing an office incentive program that uses TIEGs, including the framework and project criteria for enabling Regional participation in local CIPs. The Region would work with the local municipalities on determining an appropriate framework for administration of the program that reflects the local context.

APPENDICES

Appendix I - Feasibility Assessment for a Major Office Employment Community Improvement Plan for the Region of Peel – Executive Summary

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For further information regarding this report, please contact Adrian Smith, Acting Chief Planner and Director of Regional Planning and Growth Management, Ext. 4047, Adrian.Smith@peelregion.ca.

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Department Commissioners, Division Directors and Legal Services.

Final approval is by the Chief Administrative Officer.

Nancy Polsinelli

N. Polsinelli, Interim Chief Administrative Officer

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

June 2020
N. Barry Lyon Consultants Limited

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.

A full copy of the Feasibility Assessment for a Major Office Employment Community Improvement Plan for the Region of Peel can be found on-line at:

https://peelregion.ca/officialplan/review/focus-areas/growth-management.asp#july