

Clause 5 in Report No. 7 of Committee of the Whole was adopted, without amendment, by the Council of The Regional Municipality of York at its meeting held on April 23, 2015.

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York Region Office Attraction Review

Committee of the Whole recommends:

1. Receipt of the presentation by Doug Lindeblom, Director, Economic Strategy & Tourism.
2. Receipt of the communication from Jennifer Ladouceur, Director of Economic Development, City of Vaughan, dated April 8, 2015.
3. Adoption of the following recommendations contained in the report dated March 26, 2015 from the Commissioner of Corporate Services and Chief Planner:

1. Recommendations

It is recommended that:

1. Council receive the York Region Office Space Financial/Market Analysis and Marketing Plan Study.
2. The proposed Work Plan for the development of an Office Attraction Marketing and Communications Plan be endorsed.
3. This report and the York Region Office Space Financial/Market Analysis and Marketing Plan Study be circulated by the Regional Clerk to the local municipalities in the Region.

2. Purpose

The purpose of this report is to provide an overview of the York Region Office Space Financial/Market Analysis and Marketing Plan Study and seek endorsement for a work plan to develop an Office Attraction Marketing and Communications Plan for Centres and Corridors in the Region.

3. Background

Strengthening the Regions' economy depends upon the retention and attraction of knowledge-based businesses and jobs

Regional staff have developed three draft growth scenarios to accommodate the Amendment 2 Growth Plan population and employment forecasts to 2041 as part of the Regional Municipal Comprehensive Review (MCR) process. An accompanying staff report entitled "2041 York Region Population and Employment Draft Growth Scenarios and Land Budget" is being presented to Committee on the same April 9 2015 agenda.

The draft growth scenarios call for a significant increase in major office jobs in the Region – between 162,000 and 168,000 total jobs by 2041, more than double the 72,000 major office jobs in the Region in 2011. Attracting, retaining and growing jobs is key to strengthening the regional economy and creating live/work opportunities for York Region residents. Office jobs represent many key growth sectors like Information Communication Technologies (ICT), Financial Services, and functions such as headquarters and research that locate in office style facilities. These sectors and functions represent the high value, knowledge-based jobs the Region needs to flourish and remain competitive.

The Region's Centres and Corridors are intended to become economic hubs with a high concentration of commercial office development

The York Region Official Plan 2010 identifies the Region's Centres and Corridors as the areas to realize a significant share of growth in population and employment so that the Region can reach its intensification targets, support investments in transit, reduce congestion and create complete communities with live/work/play/shop opportunities for York Region residents. The goal is to transform Centres and Corridors into economic hubs, hosting the highest concentration of major office, mixed-use commercial and high-density residential uses. Office development represents a more intense, urban form of development that fits well within the Centres and Corridors. A large portion of new office jobs are planned to go in Centres and Corridors.

The Region's Economic Development Action Plan highlights the importance of the Region's Centres and Corridors to attract knowledge-based employment

Council approved the Economic Development Action Plan in December, 2012. As part of Goal 5 of the Region's Economic Development Action Plan, the Region identifies the importance of Centres and Corridors and the ability to leverage the planned urban form, transit-orientation and live-work communities to attract a young, highly-skilled workforce. This is the type of workforce that will assist the Region in meeting its employment growth targets and help establish the Region's Centres and Corridors as places for investment in urban format commercial office.

Stakeholders have identified challenges in realizing commercial office development in the Region's Centres and Corridors

There have been a range of challenges highlighted by the development community regarding the feasibility of commercial office development generally and in the Region's Centres and Corridors specifically. To realize the opportunities and understand issues around office supply and demand, and to better address potential challenges to attracting urban format commercial office investment, the Region undertook the York Region Office Space Financial/Market Analysis and Marketing Plan Study. The executive summary from the study is attached to this report (Attachment 1). The study in its entirety is available on the York.ca website.

The Region has undertaken several initiatives to better understand the office market

A consulting team headed by Watson and Associates Economists Ltd. and supported by Millier Dickinson Blais and DTZ were retained to complete this study. The work included:

- developing an understanding of the Region's commercial office market,
- completing an analysis of the costs of developing an office project within York Region in comparison to a selection of locations across the GTA, and
- identifying potential policies and strategies for promoting commercial office development in the Region's Centres and Corridors

The Region also joined the Strategic Regional Research Associates initiative in 2013 in partnership with the Canadian Urban Institute and others including the Cities of Toronto, Markham and Mississauga. The initiative is intended to provide insight on how to optimize the existing capacity of the office market by maximizing the public investment in rapid transit improvements in the GTA.

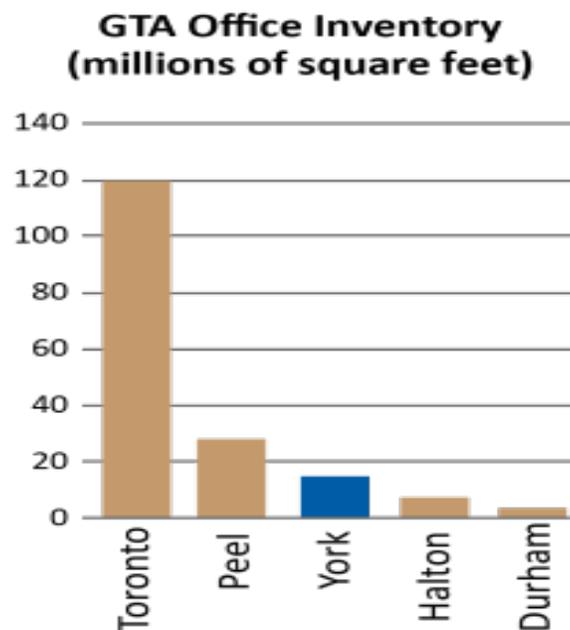
4. Analysis and Options

York Region is part of one of North America's largest office markets

York Region is part of the GTA commercial office market – which is one of the top five largest in North America with an existing built floor area of 16.9 million square metres (171 million square feet). At approximately 1.6 million square metres (17 million square feet), York Region is the third largest market within the GTA behind the City of Toronto and Peel Region (see Figure 1).

The City of Toronto has the vast majority of office space within the GTA, with a significant portion being located in downtown Toronto around the financial core.

Figure 1
GTA Office Inventory

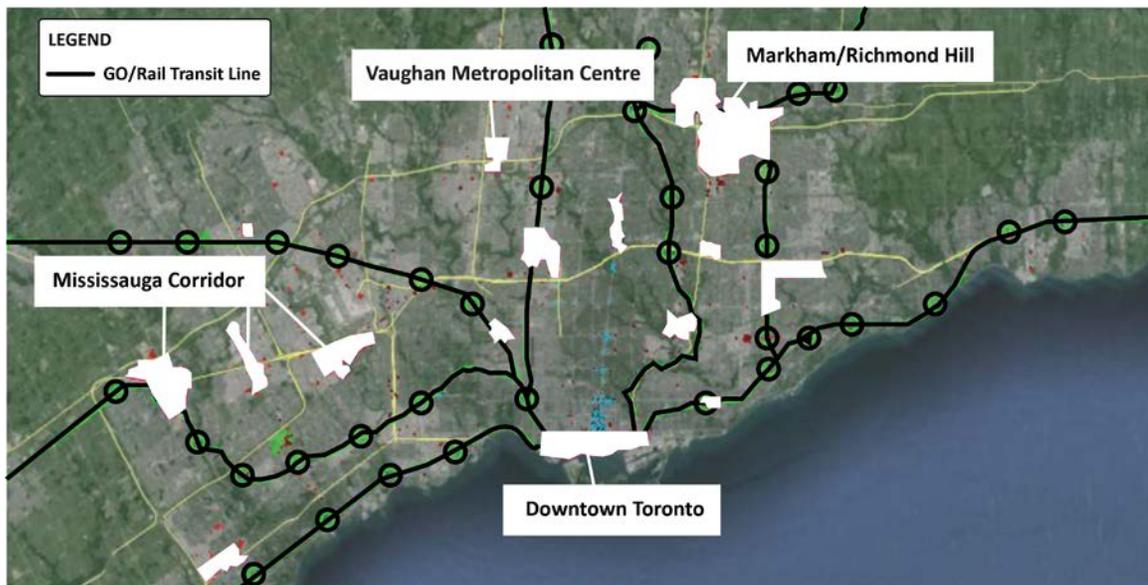


Source: Watson and Associates Economists Ltd.

Office development is focused in a number of key office nodes around the GTA

The GTA office market is made up of about 20 major office nodes (see Figure 2). The two most significant nodes in York Region are the Markham/Richmond Hill node centred around the Highway 7/Highway 404 interchange, and the Vaughan Metropolitan Centre at the Highway 7/Highway 400 interchange. There are a number of municipalities with which York Region competes directly for office development. York Region's most immediate competition within the office market includes the North Yonge Corridor in Toronto, Mississauga, and Brampton.

Figure 2
Greater Toronto Area Major Office Nodes

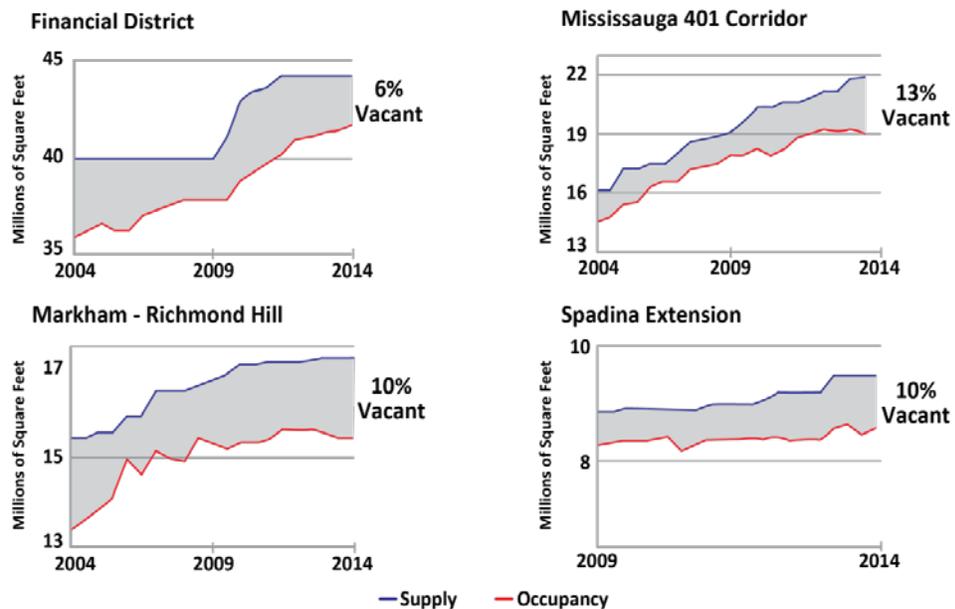


Source: Strategic Regional Research Associates, 2014

Office supply (new office construction) is driven by demand

The vast majority of office space constructed in the GTA over the past 20 years has been for single users or has had significant pre-leasing prior to construction. Figure 3 indicates the supply and demand for office space over time for several major office nodes in the GTA. The examples in the chart illustrate that upturns in demand lead to increased supply. Typically, new space is triggered when the vacancy rate, or difference between supply and demand expressed as a percentage, approaches the 5 per cent range.

Figure 3
Office Supply and Demand – Select GTA Office Nodes



Source: Strategic Regional Research Associates, 2014

Since the economic downturn in 2009, demand from the financial sector has been very strong, driving new office development in the downtown core of Toronto. Demand in the 905 areas has been soft, resulting in relatively less new office space being constructed. As the large supply of vacant space in the 905 area is taken up, new supply will be initiated to satisfy demand.

One of the greatest factors driving office location decisions is agglomeration, or the clustering of businesses for mutual benefit

There are a range of factors that drive office market demand both from a development and user perspective. Agglomeration or clustering is probably the most important factor that drives office location decisions. That is, like or related kinds of companies locate in proximity to each other for a multitude of reasons, all because it makes running their company easier. Clustering assists companies with sharing resources, accessing common services, safety/security and especially accessing a relevant workforce.

For example a globally significant financial services cluster is the primary driver of office demand in the Toronto Financial Core, representing close to 70 per cent of all office users in that location. The Markham/Richmond Hill node around the Highway 404 and Highway 7 area includes an information and communications technology cluster of significance in North America.

Cost is also always a factor, but more often for users it is secondary to 'the right space in the right place'. While municipalities don't control the market, some influence can be made to help create a positive environment for clustering through policies and strategic infrastructure investments.

Employers and employees are driving demand for more urban settings that service all their needs

Today more than ever, employers are driven by the ability to attract and retain skilled workers. Workers/employees are looking for an easier route to work (shorter commute and more options), and a workplace with amenities that allows them to live, work, shop, and play nearby.

A younger workforce is being attracted to live in locations such as Downtown Toronto where all this live/work/play lifestyle is possible. Fewer young people are driving today as evidenced by a measurable drop in young people with driver licenses, an almost 10% drop from 1991 to 2011 based on the most recent Transportation for Tomorrow Survey. This same young workforce is occupying the many condominium projects built or under construction in Downtown Toronto.

Another major factor impacting office location decisions is congestion, which is cited as one of the main issues employers across the GTA face in doing business and attracting and retaining employees. Facilitating intensification and creating the live/work/play environment requires investment in transit infrastructure to facilitate the movement of people and workers. In York Region, Centres and Corridors are being developed as true urban mixed-use connected locations with the broadest range of uses and mobility options, promoting live, work, shop and play in concentrated, accessible locations.

In the past the Region has been successful in attracting commercial office development to its suburban employment areas and business parks

The Region has been successful in attracting significant office development over time in a variety of locations, including the Centres and Corridors, highway-focused business parks and dispersed locations throughout the Region.

Historically, most of York Region's office development has occurred in business parks primarily along the 400 series highways. These business parks have presented high quality, affordable, accessible and highly visible automobile-oriented suburban locations centrally within the GTA. These areas have served the Region well, attracting many major offices such as IBM, State Farm, GE that serve as anchors for knowledge-based clusters like information and communications technology, financial services, and research focused activities in sectors such as clean technology.

Shifting from suburban to urban commercial office development presents different consideration and market opportunities

While highway focused business parks will continue to remain attractive for some types of office users, the emerging desire for vibrant, urban, transit-oriented work environments among office users will drive more high-density and mixed-use developments in the Centres and Corridors.

Developing commercial office in an urban format presents different challenges than those traditionally seen in York Region's suburban commercial office market. These include increased land costs, higher construction costs due to structured or underground parking, and the integration of transit-oriented mixed-use developments in areas of high traffic congestion.

Challenges in developing urban commercial office in the Region's Centres and Corridors are complex

As part of undertaking the York Region Commercial Office Market Analysis and Attraction Strategy stakeholders from the development community were engaged to better understand the challenges they face in building within the Region's Centres and Corridors. There were a number of challenges both real and perceived that were identified regarding developing urban format commercial office that fall into the following categories:

- Vision Versus Reality – the vision of the Centres and Corridors is viewed as positive; however the current conditions on the ground, with perceived deficiencies in public transit and a lack of mixed-use development and amenities make it hard to sell to potential tenants and developers;
- Cost of Development –the cost to develop in the Region's Centres and Corridors was identified as high due to land costs, development charges and the length of time for planning approvals; and
- Market Weakness – there are macro-economic conditions that have weakened the commercial office market across the GTA, while there is also increased competition across the GTA for that limited investment opportunity.

The study consultant analyzed the market and development costs to determine whether the challenges identified were evidence-based and to make recommendations on actions the Region might take to address these developer issues.

The study determined that York Region remains relatively competitive in the GTA from a development cost perspective

Within the GTA, cost competitiveness for businesses is largely associated with macro-economic factors such as wage rates, corporate income taxes and the dollar exchange rate, all of which are generally the same across the GTA. On a local level, cost competitiveness can vary based on a number of factors, including:

- Land prices;
- Area municipal and Regional development charges (DC's)
- Property tax rates;
- Utility costs; and
- Development approval/process timing

These factors can influence the cost component of business location decisions, both for new development and expansion of existing development.

The study reviewed prototypical office buildings in both suburban and urban markets throughout the Greater Toronto Area

To better understand the Region's competitiveness in relation to its GTA neighbours, the York Region Office Space Financial Analysis and Marketing Plan Study completed both a quantitative and qualitative analysis between urban and suburban commercial office markets previously noted in this report.

The quantitative analysis utilized a pro-forma that included the following elements:

- Total Development Cost/Annualized Cost – the total cost of development (i.e. land costs, construction costs, development charges, etc.) and the impact of annualized costs (i.e. property taxes) on the total cost of a project
- Residual Land Value Analysis – this provided an analysis of the revenue potential of the commercial office project under two scenarios:
 - Rental Revenue Stream – the financial viability of a development project subject to rental income over 25 years;
 - Sale of Project – evaluates the financial viability of a development project if sold immediately after completion

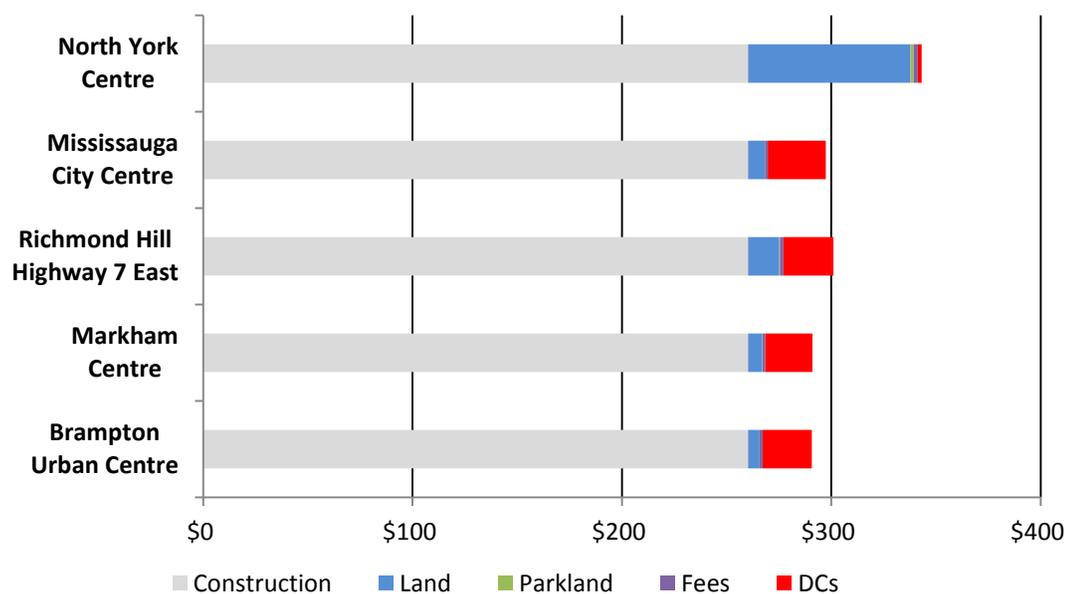
For each market, whether it was urban or suburban, a pro-forma was completed looking at prototypical developments that ranged in size from 4,645 square metres (50,000 square feet) to 27,871 square metres (300,000 square feet).

These prototypical developments considered land size requirements, land utilization and unique features of each type of development, such as underground parking for urban developments.

York Region office development costs are comparable with other GTA locations

Through the study work, office development costs in York Region were identified as being comparable to other Greater Toronto Area markets, as illustrated in Figure 4.

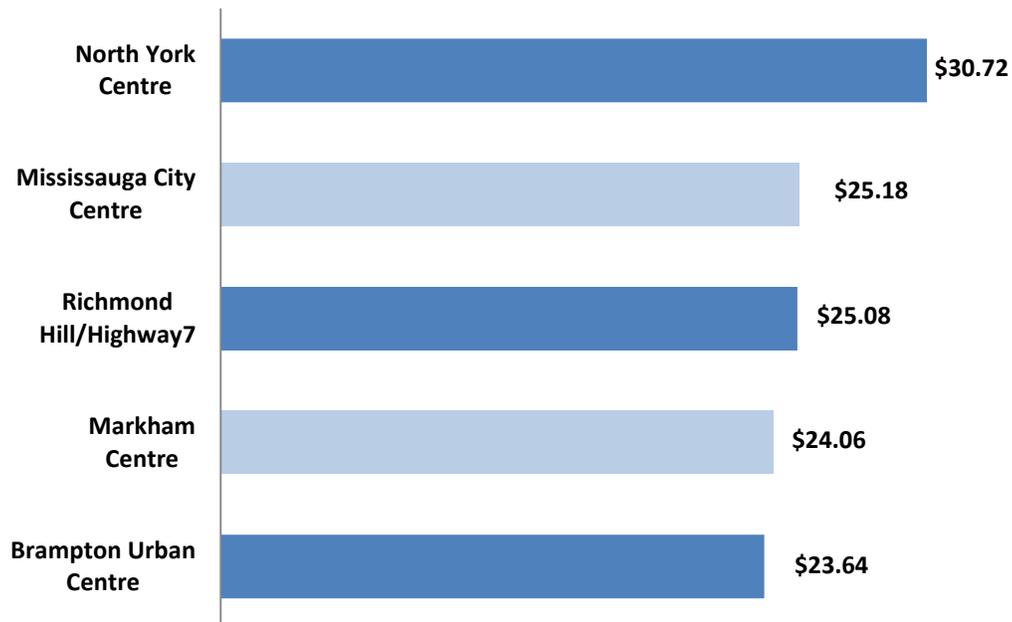
Figure 4
Comparative GTA Office Development Costs per square foot



Source: Watson and Associates Economists, Ltd.

A series of pro-forma analyses were also undertaken to compare annualized costs per square foot over 25 years for office development in competitive GTA office nodes. Figure 5 illustrates the comparative analysis for a hypothetical 300,000 square foot urban style freestanding office building.

Figure 5
Comparative GTA Office Pro Forma Analysis per square foot



Source: Watson and Associates Economists, Ltd.

Costs included in the analysis are construction (the largest component), land, development charges, parkland and development fees, realty taxes and a factor for profit.

In York Region, although area municipal and regional development charges are at the higher end of the range in the GTA, lower tax rates for office help York Region remain cost competitive overall.

The study identified several potential policy initiatives to promote office development

A range of potential policy initiatives were identified for the consideration of York Region with the overall intent of improving the marketability of the Region's Centres and Corridors for commercial office investment. The primary policy vehicle for facilitating local and regional incentives is through the introduction of Community Improvement Plans for specific locations where office investment is desired. The study concluded that the Region and local municipalities could consider:

- Development of an office-oriented C.I.P. framework at either the local or regional level
- Discussion of associated financial incentives to introduce in a C.I.P., particularly Tax Increment Equivalent Grant programs
- Continued efforts to align land use policies and regulations in Centres and Corridors, including consideration for pre-zoning of strategic lands or introduction of flexible approaches to height and density

The study notes that implementation of any specific policies must be positioned within the broader context of regional and local planning and budgetary discussions to ensure approaches are fiscally sustainable while obtaining objectives.

The study examined the use of office financial incentives and determined there is generally no strong correlation between offering incentives and generating demand

Through the study work, financial incentives for office development across the GTA and in other jurisdictions were examined. There are some areas in the GTA that offer office incentive programs and others that are considering them. However, the majority of GTA jurisdictions do not offer incentives specifically for office development, although a number are contemplating the introduction of more office-specific incentives through the introduction or updating of Community Improvement Plans.

The study identifies that there is no strong correlation between where incentives are offered and where new supply is built. There are locations across the GTA attracting new office development not providing incentives, such as areas within Mississauga and York Region. At the same time, there are locations offering incentives that are not attracting significant demand or new construction, such as in Durham Region. At best, incentives may prompt demand that is already coming to arrive sooner.

The City of Toronto has been generating significant office demand and also offers office incentives. However, the critical mass within office nodes in Toronto, and particularly in the financial core, generates significant demand internally. As noted previously, Toronto office demand growth is being driven primarily from the strength of the financial services sector concentrated in the downtown core. The financial cluster will continue to seek locations within the downtown core, and this demand would ultimately be realized without the use of incentives. It is difficult to assess the true impact of financial incentives when there are many factors that influence office location decisions.

As 905 area office markets mature and begin to achieve critical mass, more self-generated office demand growth will occur there as well. The development of

strong clusters, supported by appropriate live/work/play/shop locations attractive to office users rather than financial incentives will be the primary driver of where offices locate.

The City of Vaughan is considering incentives for office development in the Vaughan Metropolitan Centre

The City of Vaughan undertook an Office Study in 2014 which identifies issues of competitiveness for attracting office development in the Vaughan Metropolitan Centre (VMC) and other intensification areas. Their consultant identified several factors unique to the VMC that contribute to higher market rents for new space compared to other 905 area locations, including a high water table that significantly increases the construction cost of underground parking.

Based on their consultants' recommendations, in May, 2014, Vaughan Council passed a resolution directing staff to initiate a Community Improvement Area (CIP) study for this area. The CIP study will consider a range of office incentives, including a development charge freeze, a Tax Increment Equivalent Grant (TIEG) program, and waiving of various other fees and charges. These incentives are intended to accelerate employment in the VMC and other intensification corridors in Vaughan and would leverage the significant public infrastructure investments being made there.

Vaughan Council directed staff to engage the Region and Province to advocate for their participation in the TIEG program.

Introducing a Regional Tax Increment Equivalent Grant program would have a measurable impact on Regional revenues

A TIEG is a grant equal to the estimated property tax increase (increment) over a specified period, typically 10 years, with a declining percentage value each year.

The proposed Vaughan TIEG program would be open for five years and is intended to act as an incentive for early adopters in the hopes of accelerating office investments, Vaughan staff estimates the cost to the City to implement the TIEG in the VMC to be \$2.4 million, spread over 10 to 15 years. The analysis is based on a maximum of 1.5 million square feet of new office development over the next five years.

Using Vaughan's assumptions and maximum new office development numbers, the cost to the Region in foregone revenue under the TIEG program would be \$5M in the VMC over the next 10-15 years. Using more conservative office growth assumptions based on current Regional employment projections, the impact for the Region in foregone revenue would be \$1.3 million over 10 to 15 years in the VMC. If the same TIEG program were to be introduced for all projected office development for this time period within the Centres and Corridors

across the Region, the total financial impact would increase to between \$5 million and \$7 million over 10 to 15 years.

The Region needs to maintain a balanced financial picture to ensure critical infrastructure investments can continue to be made

The Region needs to maintain a balanced financial picture. Implementing any office incentives would have a measurable impact on Regional revenues that would result in an increase in the general tax levy. The Region needs to retain revenues to deliver on an extensive capital program to develop the road, transit and servicing infrastructure that will allow intensification and city building to occur. It is this city building that will create the environment needed to attract office and mixed use developments to the Region over the long term.

Concerns exist in the business community around the ability to create functional, transit-oriented office nodes

Developing and delivering appropriate messages around office development opportunities, especially in Centres and Corridors, is necessary to support the Region's job growth and intensification goals. Developing Centres and Corridors as true live/work/play/shop locations will create attractive environments for office users to locate.

As noted previously, the research shows that there continues to be a disconnect between the vision contemplated and the delivery of that vision on the ground today. Both the Watson and Associates and Strategic Regional Research Associates work uncovered concerns in the business and development communities that not enough is being done across the GTA to create the right environment for attracting and retaining office users.

These perceptions persist in York Region despite significant on-going investments by the Region and various partners to deliver accessible, transit-oriented Centres and Corridors where the vision can best be realized.

Marketing and communications are necessary to influence behaviours that will achieve Centres and Corridors objectives

There are currently efforts underway in various parts of the Region to promote business growth, Centres and Corridors and transit ridership. As a result of the study work, an internal Regional working group has been formed to examine how best to develop common messages and deliver coordinated marketing efforts in this regard. A coordinated, concerted effort is required to create awareness, impact attitudes and ultimately change behaviors regarding office location decisions, urban choices and transit usage.

Various developers, brokers and municipalities are already undertaking activities and marketing campaigns to promote urban-styled developments in the Centres and Corridors. The Region and all stakeholders would benefit from a coordinated effort in developing and sharing common messages around:

- overall cost competitiveness
- competitive commercial tax rates
- workforce availability
- business clusters
- available sites and buildings
- live/work/play/shop opportunities

A Marketing and Communications Plan is under development to examine how best to create awareness and influence office location decisions

The attached Centres and Corridors Office Attraction Work Plan has been developed by the working group to guide the creation of an overall marketing and communications plan (see Attachment 2). The Region has already reached out to the local municipalities to initiate the conversation around possibilities for coordinated marketing efforts. The Work Plan also identifies outreach to the development and brokerage community, as well as continued connection with office users, to ensure the creation of effective messages and delivery vehicles.

Staff will bring back a Centres and Corridors Office Attraction Program in Q4 of 2015 for Council's consideration.

Link to key Council-approved plans

Business and job growth realized through office developments is recognized as a priority in the *2015-2019 Strategic Plan*, the *Regional Official Plan and Vision 2051*. In particular, focusing growth, intensification, mixed use developments and jobs in Regional Centres and along Corridors is a policy in the Regional Official Plan. The Plan is focused on increasing intensified mixed-use development, maximizing economic development potential and optimizing transportation capacity and services in Regional Centres and Corridors.

5. Financial Implications

The consultant undertaking the work was retained through a formal Request for Proposal and all costs associated with the work have been included in various department approved budgets. Implementation costs for the marketing and

communications plan will be addressed through existing budget allocations or appropriate budget requests in future budgets.

6. Local Municipal Impact

The development of the Region's Centres and Corridors plays a large role in meeting the population and employment growth targets that have been assigned by the Region to the local municipal level. All of the municipalities that are located within the Region's Centres and Corridors recognize the importance of realizing the right mix of commercial office development in order to realize the Region's vision of complete communities. All of these local municipalities have been engaged in this project and will continue to be engaged in the development of a marketing and communications program to support their own initiatives.

7. Conclusion

The Region has identified the creation of high value, knowledge-based office jobs as important to future economic prosperity. Many of these types of jobs will be accommodated in office space located in Regional Centres and Corridors. In an effort to better understand the opportunities and challenges of attracting and retaining these jobs in the future, the Region undertook the York Region Office Space Financial Analysis/Market Analysis and Marketing Plan Study. The Study concluded that while office market demand in the 905 municipalities is limited at present, generally York Region is an attractive and cost-competitive location for future office growth in the Greater Toronto Area context. The Study also concluded that promoting the strengths of the Region relative to office users would assist in efforts to attract investment.

The City of Vaughan has undertaken its own review of the office market relative to the Vaughan Metropolitan Centre, and as a result is proposing to introduce incentives to attract office investment there. Vaughan Council is asking for York Region's participation in a Tax Increment Equivalent Grant program to reduce development costs and make the VMC more attractive. The Region's Study determined there is no strong correlation between offering office development incentives and where office demand is realized. The Region needs to maintain a balanced financial picture to ensure funds needed to continue to build critical city-building infrastructure are available. It is this investment in infrastructure that will have the greatest long term impact on attracting and retaining office employment.

York Region Office Attraction Review

For more information on this report, please contact Doug Lindeblom, Director, Economic Strategy at ext. 71503.

The Senior Management Group has reviewed this report.

March 26, 2015

Attachments (2)

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Accessible formats or communication supports are available upon request

Executive Summary

Introduction

York Region retained Watson & Associates Economists Ltd. (Watson), in association with Millier Dickinson Blais (MDB) and DTZ Canada Inc. (DTZ), in the fall of 2013 to evaluate the competitiveness of the Region's office development market and the potential to develop and facilitate a greater amount of office commercial development within its Centres and Corridors. The study assesses York Region's competitive position in the office market within the context of the Greater Toronto Area (G.T.A) through a review of five (out of nine) of the Region's larger urban lower tier municipalities – Aurora, Markham, Newmarket, Richmond Hill and Vaughan.

York Region's Regional Centres and Corridors include four Regional Centres (Markham Centre, Newmarket Centre, Richmond Hill/Langstaff Gateway and Vaughan Metropolitan Centre) and seven Corridors (Highway 7 West, Highway 7 East, Yonge (Thornhill), Yonge (Richmond Hill), Yonge North, Davis Drive and Green Lane East).¹ The Regional Centres are categorized as emerging downtowns but they vary in terms of their current baseline conditions. The Regional Corridors are largely oriented along Highway 7 and Yonge Street and are intended to be urban mixed-use corridors linking the Regional Centres

Historically, York Region has been relatively successful at attracting and accommodating office development. The majority has been accommodated in employment areas along the Highway 400, 404 and 407 corridors within Markham, Richmond Hill and Vaughan. Though it is considered important that the Region maintain its competitive position in the suburban office market for the foreseeable future, the Region has identified that it is a key priority to promote office development within its Regional Centres and Corridors from both an economic and planning perspective.

York Region is anticipated to experience significant employment growth between 2011 and 2041 and a significant share of this is expected to be in the form of major office employment. At the same time, provincial and regional policy planning direction has identified the need to intensify development within key nodes and corridors in the Region. The Region recognizes major office employment growth should be focused along its Centres and Corridors to better leverage infrastructure investment and promote transit use. Further, though there is generally a sufficient supply of greenfield employment lands to accommodate growth, Richmond Hill and Newmarket are approaching buildout and there is a lack of strategically located vacant employment land along the Highway 400 corridor and there are also challenges related to servicing some remaining greenfield lands. As such, there will be an increasing need

¹ This study examines all Regional Centres and Corridors for office development potential, with the exception of Green Lane, which is largely a greenfield area and is considered to have relatively low potential for urban type office development.

over the longer term to expand market choice for office development beyond greenfield lands in employment areas to include opportunities within the Region's Centres and Corridors.

Though there are opportunities for office development within the Region's Centres and Corridors and a desire from a policy perspective to attract an increasing share of office development to these areas to meet planning, economic and fiscal objectives, there are also feasibility challenges. The Region has seen some success in residential development in its Centres and Corridors, while office development has been more limited.

The future market potential for office development within the Region's Centres and Corridors will be determined by a number of factors including:

- Macro economic trends affecting the G.T.A. office market;
- York Region's office market competitiveness;
- Cost of development;
- Character of the urban area (e.g. community amenities, access to public transit);
- Site availability/suitability;
- Land use policies/regulatory framework; and
- Financial viability and potential incentives.

This study explores factors related to demand, including macroeconomic trends and regional drivers of office demand and the competitiveness of York Region in the office market. The opportunities/challenges for office development within the Region's Centres and Corridors are also assessed along with potential planning and financial incentives/tools and marketing initiatives that can potentially facilitate office development within these areas.

Overview of Greater Toronto Area Office Market

The G.T.A. has Canada's largest concentration of office development and is among the five largest in North America, with total office space of 171.8 million sq.ft. of G.F.A. Of this, 70% is located within the City of Toronto with the majority located in the downtown core. Outside of the City of Toronto, major office clusters are located in the "905" area including York Region (Highways 404/407 in Markham and Richmond Hill and the Highway 400 Corridor in Vaughan), Peel Region (Mississauga Airport Corporate Centre, City Centre and Meadowvale), and Halton Region (Q.E.W. Corridor in Burlington and Oakville). York Region's office market totals approximately 16.2 million sq.ft. of G.F.A, representing 9% of the G.T.A. total.

Over the past 15 years, the G.T.A. office space inventory has expanded by approximately 30 million sq.ft. averaging approximately 2.0 million sq.ft. annually. Over the period, York Region's office inventory has increased by 5.9 million sq.ft., representing approximately 20% of total office space developed in the G.T.A.

Office development patterns in the G.T.A. have shifted significantly over the past 15 years. The City of Toronto's share of new office development has steadily increased from 12% over the 1999-2003 period to 57% over the 2009-2013 period. Over the same period, all "905" Upper Tier municipalities have seen a decline in their share of the office development activity. The most significant has been in York Region, which has seen its share of new office market development decline from 29% in 1999-2003 to 7% in 2009-2013. This is reflected also in absolute terms, where development activity over the 2009-2013 period was approximately one-fifth of the level achieved over the 1999-2003 period.

Historically, a significant share of office development within the G.T.A. has been accommodated in the "905 area" within suburban greenfield employment areas. Over the past decade, however, there has been a notable shift in activity from suburban-type office development in 905 employment areas to urban-type office development in downtown Toronto. Office development activity in downtown Toronto jumped significantly in 2009-2013 compared to the previous 10-year period. While downtown Toronto has experienced significant success in office development, office development activity in other areas in the City of Toronto has been relatively limited. Based on the geographic location of office space currently under construction or pre-leasing in the G.T.A., the continued dominance of the City of Toronto in attracting office development in the downtown core will continue at least over the short to medium term.

Key suburban office nodes/corridors within employment areas in the G.T.A. (outside of York Region) profiled in this study include the Q.E.W. Corridor in Burlington and Oakville, Meadowvale and Airport Corporate Centre in Mississauga, Highway 407 Corridor in Brampton and Don Mills, Highway 401/404 and Highway 404/Steeles area in the City of Toronto and Pickering. Major urban nodes with concentration of office development profiled include North York Centre, Brampton Centre, Mississauga City Centre and Scarborough Centre.

The office nodes/corridors profiled in the G.T.A. range in size between approximately 1.0 million and 7.0 million sq.ft of office G.F.A. The largest include North York Centre, Mississauga Meadowvale, Mississauga Airport Corporate Centre and North York 401/404 which exceed 5.0 million sq. ft. each. The strongest office development activity over the past decade has been in Oakville Q.E.W. Corridor and Mississauga Meadowvale while suburban office nodes in the City of Toronto (Don Mills, 401/404 and 404/Steeles) have seen minimal development activity over the period.

York Region Office Market

York Region's employment areas have historically accommodated the majority of the Region's office development. Municipalities including Richmond Hill and Markham have traditionally been successful in attracting a steady absorption of office development. Recently, Vaughan has also seen an increasing share of office development on its employment lands. Key employment areas within the Region with notable office space concentration and profiled in this study include Commerce Valley, Allstate/Cachet/404 and the Denison Steeles Area in Markham, Beaver Creek-Barker Area in Richmond Hill, Highway 400 Corridor in Vaughan, Wellington/404 Area in Aurora and Highway 404 Corridor in Newmarket. The largest office nodes/corridors in York Region include Markham Denison/Steeles, Markham Allstate/Cachet/400 North, Markham Commerce Valley and Richmond Hill Beaver Creek Barker Area which have between 2.3 million and 4.3 million sq.ft. of office G.F.A.

The largest concentration of office development in the Region's Centres and Corridors is in Markham Centre (1.2 million sq.ft.) comprised of a mix of newer urban and suburban type office development. The remaining Centres and Corridors have relatively small office space inventories (260,000 sq. ft. or less) comprised largely of older small-scale suburban type office buildings.

The strong office development activity within York Region over the past decade has occurred in Markham Allstate/Cachett/400 North, Vaughan 400 North and Markham Commerce Valley. Relative to other office nodes/corridors surveyed, Markham Centre has experienced moderate office development activity over the period. Office development in the Region's other Centres and Corridors has been more limited, however, two recent developments are worth noting. This includes the KPMG tower (a 15-storey, 300,000 sq.ft. building) currently under construction in the Vaughan Metropolitan Centre and the World on Yonge development (10-storey, urban mixed-use development with 126,000 sq.ft. of office space) in the Yonge Street Corridor in Thornhill built in 2013.

Over the 2009-2013 period, nearly one-third of new office-based employment within York Region has been in the professional, scientific and technical services (P.S.T.S.) sector, followed by 20% in health care and social services, and 11% for finance and insurance. York Region has been relatively successful at attracting the P.S.T.S. sector. Though York Region has historically been relatively strong in management of companies and information and cultural industries sectors, new business employment growth in these sectors has been relatively limited since 2009.

Macro Economic Drivers of Office Development in the Greater Toronto Area

Similar to the provincial economy as a whole, the nature of the G.T.A. economy is changing. Over the past 20+ years, the composition of the G.T.A. employed labour force has gradually shifted from the goods-producing sector to the service sector, including education, health care and business services sectors. Collectively, these sectors comprise a large portion of the "knowledge-based" or "creative class" economy of which many are "export-based" and largely accommodated within office development.

G.T.A. employed labour force growth over the past decade has been strongest in service producing sectors including office-related sectors such as professional, scientific and technical services, finance, insurance and real estate. Currently, one-third of all jobs within the G.T.A. are accommodated within an office environment.¹

Over the next 30 years, considerable new employment growth is anticipated in the G.T.A. of which a significant share is expected to be office based. Key industry sectors to be accommodated within office development include finance and insurance, professional, scientific and technical services, head office/management and information technology.

Office Competitiveness in Greater Toronto Area Context

Within the G.T.A. market, there are a number of municipalities with which York Region competes directly for office development. York Region's most immediate competition within the office market includes Mississauga, Brampton, Burlington, Oakville, Toronto and Pickering. All of these municipalities generally offer regional attributes which appeal to prospective international and local firms. To better understand the context of office development in York Region, a roundtable consultation with the development community was held and facilitated by the Consultant Team, during which commercial office experts were led through an examination of the current position of York Region in the commercial office market, and a detailed discussion of where potential growth and investment attraction opportunities may lie. The results of these discussions are incorporated into the study findings.

A significant factor influencing business decisions on where to locate is the cost competitiveness (both capital investment and operating costs) of the development in relation to the market demand and potential return on investment. On a local level, cost competitiveness varies based on a number of factors, including:

- Lands prices;
- Development charges (D.C.s);
- Property tax rates; and
- Development approval/process timing.

Office development and the employment sectors they typically accommodate have certain site-specific requirements which includes:

- Access to skilled labour force;
- Proximity to related industry clusters (companies and public institutions such as universities);

¹ The New Geography of Office Location and the Consequences of Business as Usual in the G.T.A., Canadian Urban Institute, March 2011.

- Prestige setting;
- Access to high order public transit;¹
- Access and exposure to 400 series/limited access highway;
- Ease of access/egress;
- Access to on-site amenities/services and proximity to off-site services; and
- Potential for live/work opportunities.

These factors can strongly influence business location decisions, both for new development and expansions. Within the G.T.A. context, the relative importance of these attributes is changing which is impacting office development patterns. These factors were explored in understanding the recent shifts in office development patterns in the G.T.A.

Drivers of Shift in G.T.A. Office Development Activity

As previously highlighted, the G.T.A. has seen a significant shift in office development activity from the “905” area to downtown Toronto. There are a number of economic and demographic factors which are driving this shift in office development. These are ultimately being driven by preferences/requirements of office tenants.

It is evident from the analysis contained herein that office tenants across all sectors are increasingly looking for access/proximity to high-order transit and services/amenities, attributes which urban centres such as downtown Toronto offer more readily than suburban employment locations in the 905 area. An increasing number of office tenants are looking for environments that feature mixed-use development and offer opportunities for live/work. The quality and location of new office space is considered as a very important tool to attract and retain talent.²

The proximity to a growing labour force pool, comprised largely of the growing Millennial generation (Generation Y) in downtown Toronto has also been a notable contributor to increased demand for office space by select sectors, namely information and cultural industries, and professional, scientific and technical services, and impacted office development activity in the area.

The role of cost of office development and financial incentives in the shift in office development is less evident. The cost of development in downtown Toronto remains significantly higher than in the 905 area, which is reflected in the significantly higher market rents. While over the 2008-2013 period the cost of development in the City of Toronto has become marginally more competitive, it has

¹ High order public transit includes all forms of transit service separated partially or completely from general vehicular traffic.

² Emerging Trends in Real Estate, Canada and United States 2015, PricewaterhouseCoopers and Urban Land Institute.

not translated into a notable increase in office development in areas of Toronto outside of the downtown core. This suggests that the role of financial factors in driving the shift in office development is likely more limited, though certain financial tools/incentives may be having a positive impact on redevelopment/infill projects in certain geographic areas of Toronto.

Changing demands of office tenants and demographic trends are strong factors why downtown Toronto is becoming increasingly competitive for office development despite relatively high tax rates and land costs compared to the “905” area. This suggests that “905” municipalities need to make a greater effort to increase opportunities to accommodate office development in mixed-use settings that offer access to high-order transit and quality of life in their respective communities, to attract a “knowledge-based” skilled labour force to reside in their communities and attract “knowledge-based” employers to their communities.

Cost Competitiveness and Financial Feasibility Analysis

Overview of Analysis

A factor influencing business decisions on where to locate office development is the cost competitiveness (both capital investment and operating costs) of the development in relation to the market demand and potential return on investment. Further, it is critical that the revenue generation potential of a development be assessed with corresponding capital and operating costs through a cost benefit analysis, using a cost-based approach, to evaluate the economic attractiveness of the development.

The cost competitiveness of development, economic viability and investment potential of office development within York Region was examined through a series of pro-forma financial analyses. This is presented through the assessment of the feasibility of constructing and operating various prototypical industrial and office developments within each of the Region’s Centres and Corridors in comparison to the profiled office nodes in York Region and the rest of the G.T.A.

The cost competitiveness of development and financial feasibility analyses of select prototypical office development were completed through the following means:

- Total Development Cost/Annualized Cost – Comprises the total cost of development across municipalities and shows the impact of annualized cost components (including development charges) on total costs.
- Residual Land Value Analysis – Reflects both revenue potential and development costs under two revenue scenarios – rental revenue stream and sale of project.

For the purposes of the exercise, the G.T.A. office market is assessed through two distinct sub-markets:

- Suburban – office development with surface parking located in employment areas. Analysis includes York Region's key office nodes located within employment areas and key office nodes within employment areas in other G.T.A. locations;
- Urban – office development with underground parking located in downtown centres and more urban corridors. Analysis includes York Region's Regional Centres and Corridors and other key urban/downtown centres within the G.T.A.

For the purposes of this exercise, five prototypical Class A office developments were analyzed. This includes three suburban office buildings with surface parking with a G.F.A. of 50,000, 150,000 and 300,000 sq.ft. (reflected in the suburban office market analysis) and two urban office buildings with underground parking with a G.F.A. of 100,000 and 300,000 sq.ft. (reflected in the urban office market analysis)

In the generation of the total development annualized cost, the analysis considered land costs, construction costs, development charges, parkland dedication costs, building permit fees and a provision for developer project profit.

Comparison of Development Costs in the G.T.A.

A comparison of development charges, property taxes and land prices was undertaken with the following findings:

Development Charges

- Commercial development charges in Markham and Richmond Hill are, next to Mississauga, the highest of the municipalities surveyed.
- In comparison, rates in Aurora, Vaughan and Newmarket are similar to the G.T.A. survey average of \$20.51 per sq.ft.
- The lowest development charges within the surveyed municipalities are in Toronto, Burlington and Pickering.

Property Taxes

- Commercial property tax rates in the select York Region municipalities are among the lowest of the municipalities surveyed.
- The commercial property tax rates in Markham, Richmond Hill and Vaughan are significantly lower than in the other G.T.A. surveyed municipalities.
- Rates in Aurora and Newmarket are comparable to those in Burlington and Oakville.
- In comparison, rates in Mississauga and Brampton are marginally higher, while those in Pickering and Toronto are significantly higher.

Land Prices

- Generally, land prices tend to be higher in urban locations than in geographically comparable suburban employment areas;
- With the exception of Don Mills, suburban office market employment land prices are the highest in Markham, Richmond Hill and Mississauga, ranging between \$1.2 million and \$1.5 million per acre;
- In comparison, employment land prices in Halton Region (Burlington and Oakville) are moderately lower (\$712,000 and \$895,000 per acre, respectively);
- Land prices in Newmarket and Aurora employment areas are relatively low at \$600,000 and \$650,000 per acre, respectively;
- The least expensive land within the surveyed municipalities is in Pickering where land costs average \$310,000 per acre.
- In the G.T.A. urban office market, the highest land price of the surveyed locations is in North York Centre (\$13,535,000 per acre);
- Land costs in York Region's Centres and Corridors range between \$1,100,000 and \$3,900,000 per acre, with Richmond Hill Centre, Markham Langstaff Gateway and Vaughan Metropolitan Centre being the most expensive (\$3,300,000 to \$3,900,000 per acre); and
- In comparison, land prices in Mississauga City Centre and Brampton Centre average \$1,375,000 and \$950,000 per acre, respectively. The corridors in Newmarket and Aurora (Yonge Street North and Davis Drive) have the least expensive vacant commercial office land, ranging between \$350,000 and \$500,000 per acre.

Annualized Cost Comparative Assessment

Based on the cost comparative analysis, the following conclusions can be drawn on the costs of office development in the G.T.A.:

- Cost of development (on a sq.ft. basis) for office development generally declines as building size increases, due to higher land utilization (higher F.S.I.);
- Of the office nodes surveyed, Toronto Don Mills has the highest annualized cost of development, largely due to the high cost of land;
- The next most expensive suburban office nodes surveyed from an annualized cost of development perspective are Mississauga Meadowvale and Mississauga Airport Corporate Centre;
- The cost of suburban office development in Markham, Richmond Hill and Vaughan is slightly lower than in Mississauga but marginally higher than in other suburban office nodes in Brampton and Oakville/Burlington Q.E.W. Corridor and Pickering;
- The cost of urban office development is significantly higher than for suburban office development, due largely to higher construction costs (provision for underground parking) and higher land costs which are only partially offset by higher land utilization.

- Of the urban office nodes/corridors surveyed, North York Centre has the highest annualized cost of development, largely due to the high cost of land;
- The cost of development in Vaughan Metropolitan Centre and the Centres/Corridors in Markham and Richmond Hill are the highest in York Region, but comparable to Mississauga City Centre and Scarborough Town Centre;
- Newmarket Centre, Vaughan Highway 7 West and Corridors in Newmarket and Aurora have the lowest cost of urban office development of the areas surveyed, similar to Brampton Centre; and
- Overall, York Region municipalities have a competitive annualized cost for both suburban and urban type office development.

Development Charges as a Share of Total Development Cost – York Context

Development charges currently account for approximately 8% of the total annualized development cost of a typical 150,000 sq.ft. suburban office development in York Region. Construction costs on average account for 55% of total development cost, while land costs account for 14%, developer profit 4% and property taxes 19%. Parkland dedication costs (cash in-lieu) and building permit fees are a relatively small charge of the total cost, comprising 0.3% and 0.4% of the total, respectively. In comparison, for a 300,000 sq.ft. urban office building, development charges account for 6% of total annualized development costs, while construction costs account for 70%, land 3%, property taxes, 17% and developer profit 4%. Parkland dedication costs (cash-in-lieu) and building permit fees comprise 0.1% and 0.3% of the total, respectively.

Financial Feasibility of Office Development

Based on the residual land value analysis undertaken, the following summarizes the financial feasibility of office development in York Region and the broader G.T.A:

- The financial viability of a project increases as the size of the office building increases. This is largely attributed to lower development costs attributed with higher utilization of land. This is particularly relevant in areas with high land costs, such as Markham and Vaughan, where only the larger office buildings (i.e. 300,000 sq.ft.) are likely financially viable. It is important to note, however, that in outer G.T.A. locations such as Newmarket, Aurora and Pickering, the market demand may limit the upward size potential of an office development despite the pro forma suggesting otherwise.
- The analysis suggests the the economic viability of a stand-alone office development within the surveyed urban office nodes, including the Region's Centres/Corridors, is unfavourable. This is largely attributed to relatively higher construction costs (attributed to high land prices and the requirement for structured parking) and net market rents that are generally no higher than in the suburban office market;

- In relative terms, suburban office development is more financially viable than urban office development in both York Region and other parts of the G.T.A. This is attributed to higher costs of development and market rents/sale prices that are only marginally higher than suburban office locations;
- Market conditions and the corresponding financial viability for suburban office development are favourable in most York Region locations, though high land prices limited the potential for smaller office buildings (150,000 sq.ft. or less) in Markham, Richmond Hill and Vaughan. Competitive land prices in Newmarket and Aurora make the 404 corridor in these municipalities an attractive location for small- to medium-sized office buildings (i.e. 50,000-150,000 sq.ft.); and
- With the exception of Yonge Street Corridor in Thornhill, the financial viability of stand-alone urban office development in the G.T.A. is currently relatively weak without other financial incentives to offset development costs. The analysis suggests that an urban office development project needs to be part of a mixed-use development (i.e. combined with a retail/residential component) in order to be economically viable in these markets.

Development Potential of Region's Centres and Corridors

Based on the baseline conditions identified, office market profiles, market drivers of office development and the cost competitiveness/ financial viability of office development, a S.W.O.C. (strengths, weaknesses, opportunities, challenges) of York Region's Centres and Corridors was undertaken.

Based on the findings of the work completed, the following provides an overall assessment of the Region's Centres and Corridors in terms of office development competitiveness and potential.

The G.T.A. office market is in a period of transition and structural change with an increasing demand for locations which offer access to high-order transit, a mixed-use environment potential for live/work opportunities, and access/proximity to amenities and services. Urban mixed-use environments are becoming increasingly desirable locations for office-related businesses, as reflected in the relatively high market rents and low vacancy rates for office space in these locations. This, combined with diminishing greenfield opportunities for office development within employment areas in York Region, and provincial and regional policy initiatives to locate major office development increasingly within the built boundary, offers strong opportunities for this type of office development within the Region's Centres and Corridors. However, the Region's Centres and Corridors are not a uniform entity with wide variation in terms of their baseline conditions, geographic location and market demand for office space which impacts the short-, medium- and longer-term prospects for urban office development, as summarized in Figure E-1. Further, the market for new office development within the G.T.A. is competitive, and York Region's Centres and Corridors will compete directly with other locations for future office development.

The strongest short- to medium-term opportunities for urban office development within the Region's Centres and Corridors are in Markham Centre and Vaughan Metropolitan Centre. Markham Centre has a strong existing mixed-use community and a track record for urban type office development, as evidenced by recent development activity and pre-leasing activity. Vaughan Metropolitan Centre, though less developed than Markham Centre, will shortly be served by the Yonge-Spadina subway extension which is expected to strengthen the office market potential significantly. This is already evident with the construction of the KMPG building and other planned development. Richmond Hill Centre Langstaff/Gateway, though well located geographically, has some challenges and offers moderate office development potential over the short to medium term. However, potential will become much stronger over the longer term which will likely be strengthened greatly with the planned subway extension. In comparison, Newmarket Centre is anticipated to have more limited market potential for urban office development in the short and medium term, though this will strengthen over the longer term.

Yonge Street Thornhill and Highway 7 East (West of Markham Centre) offer moderate potential for urban office development over the short and medium term and are expected to become stronger over the longer term. Both Corridors have elements of urban character to build on and are geographically well positioned. In contrast, Highway 7 East (East of Markham Centre), Highway 7 West and Yonge Street Richmond Hill are comparatively more suburban and though well located geographically, will require a longer term outlook to become urban Corridors and hold potential for urban office development. In the meantime, these locations will continue to offer moderate potential for low-rise suburban type office development. Yonge Street Newmarket/Aurora and Davis Drive have the most limited potential for urban office development which is expected to remain low for the foreseeable future. The Corridors will offer opportunities for low-rise suburban office development, particularly in proximity to the health cluster along Davis Drive.

Figure E-1
York Region Centres and Corridors
Market Potential for Urban Office Development

Location	Urban Office Market Potential (Short to Medium Term)	Urban Office Market Potential (Longer Term)
Regional Centres		
Markham Centre	Strong	Strong
Vaughan Metropolitan Centre	Strong	Strong
Richmond Hill Centre/Langstaff Gateway	Moderate	Strong
Newmarket Centre	Low	Moderate
Regional Corridors		
Highway 7 East (West of Markham Centre)	Moderate	Strong
Yonge Street Thornhill	Moderate	Strong
Yonge Street Richmond Hill	Low	Moderate
Highway 7 East (East of Markham Centre)	Low	Moderate
Highway 7 West	Low	Moderate
Yonge Street Newmarket/Aurora	Low	Low
Davis Drive	Low	Low

Despite the increasing demand for urban type office development, the financial analysis presented suggests that the financial viability of this type of office development tends to be less favourable than for suburban office development. The following section explores development incentives and marketing initiatives that could be implemented to better capitalize on the market potential of the Region's Centres and Corridors for office development.

Development Incentives Scan

There are a range of financial and policy tools available to local and regional municipalities in Ontario, which have the ability to support and encourage specific types of development. A scan of policies and programs currently offered in municipalities across the G.T.A., and in other parts of Ontario and Canada was undertaken to identify potential incentives that have been designed (in whole or in part) to promote or attract office uses.

Incentives encouraging development or redevelopment have been developed by most communities across the G.T.A., including in York Region, though very few are focused exclusively on supporting office development. The primary policy tool used to deliver incentives across the surveyed communities is the Community Improvement Plan (C.I.P.), with a range of communities providing programs and incentives in support of more general land use development objectives (e.g. mixed use development, transit-oriented development at higher order transit nodes), or more site-specific policies and programs to support community redevelopment objectives (e.g. façade improvement). Generally speaking, C.I.P.s are used as the framework to create and provide specific incentives targeted, and in most communities surveyed, represented the first step in the process.

Many of the C.I.P.s currently under study across the G.T.A. are contemplating the introduction of more office-specific incentives as they are developed, while many of those currently in place are considering amendments to introduce office-oriented policies. Through C.I.P.s, municipalities often provide incentives in the form of grants equivalent to tax increases, as well as development charge and fee rebates. Outside of C.I.P.s, several municipalities in Ontario and across Canada offer incentives to allow for density and height above prescribed levels in exchange of community amenities.

Overall, most of the jurisdictions surveyed saw a need for incentives to encourage office development, particularly office development that accomplishes specific economic development objectives. This includes development in areas of lower market demand, but also development that accomplishes community-specific objectives like more headquarter operations, such as in Toronto's financial district. However, as with all types of incentives, surveyed communities have attempted to address a number of common problems related to program balance to ensure sustainability, as well as transparency in how potential incentives are evaluated or approved.

Potential Policy Initiatives

Building on the findings of the background review and incentives scan, a range of potential policy initiatives were identified for the consideration of York Region, with the overall intent of improving the marketability of the Region's Centres and Corridors for commercial office investment. However, implementation of any specific policies was intended to be positioned within the broader context of regional and local planning and budgetary discussions, to ensure approaches are fiscally sustainable, while achieving both local and regional objectives in the Centres and Corridors.

Planning tools and mechanisms offer the Region the potential to create environments more conducive to office development. For example, provision of conditional or approved zoning was highlighted as a potential priority in areas where the region could see greenfield development (e.g. Vaughan Metropolitan Centre, Highway 7 East), as a means of providing more certainty to the development community. Further, opportunities for the Region to provide guidance on height and density flexibility, promote mixed-use development, and develop or participate in Community Improvement Plans were noted as high priority planning tools and mechanisms to consider.

Given the relative cost of office development in the Region's Centres and Corridors (compared to projects in the region's employment areas), financial incentives were examined to facilitate and encourage standalone and mixed-use office development in the Centres and Corridors. Tax Increment Equivalent Grants (T.I.E.G.s), largely as a result of development community interest and comparatively more limited cost to implement, emerged as higher priority financial incentives to investigate, where C.I.P. frameworks permit. T.I.E.G.s can be a driver of development in geographic areas where the market has been slow to respond, or in market sectors where developments do not match municipal objectives. As such, T.I.E.G.s were highlighted as a comparative priority, particularly in the Centres and Corridors that offer greenfield opportunities. Development charge incentives and building fee rebates were also highlighted as potential strategies, but given their potential financial impacts on the municipality, were noted as best deployed only in strategic areas where urban office-type development is most viable, or if the Region and local municipalities can develop strategies to mitigate potential fiscal impacts.

Several conclusions were generated through the process, with recommendations for the Region and its local municipalities including:

- Development of an office-oriented C.I.P. framework at either the local or regional level;
- Discussion of associated financial incentives to introduce in a C.I.P., particularly T.I.E.G. programs; and
- Continued efforts to align land use policies and regulations in Centres and Corridors, including consideration for pre-zoning of strategic lands or introduction of flexible approaches to height and density.

Outline of Strategy to Promote/Facilitate Office Development in the Region's Centres and Corridors

At present, much of the marketing and promotion of the Region's Centres and Corridors is done by private sector developers who own land or buildings in the area. In order to further encourage development of office uses in the Centres and Corridors, a strategy was developed for the Region and its local municipalities to take a more proactive role in supporting office-oriented development in strategic areas. The strategy was based on principles of rapid response and customer service, collaborative approaches with the private sector, and coordination of resources and efforts into a "one team" approach.

The recommended strategy notes a number of potential target markets, with priority targets including existing developers in York Region, existing businesses in York Region, investment influencers (e.g. real estate professionals, site selection consultants, provincial/federal government investment advisors), and corporate decision makers connected to the region's existing global networks. These targets were followed by a secondary targeting of corporate location decision makers more broadly. Three key initiatives are recommended in the strategy, to build the profile of York Region and ultimately attract office-oriented investment:

- Action 1 – Improve Investment Readiness through Enhanced Online Presence and Incentive Tools, including the creation of a sector profile and associated web-based materials, streamlining of existing web presence, adoption of customer service

standards, development of a “One Team” approach, collection of testimonials, development of digital video investment and marketing content, and web optimization techniques;

- Action 2 – Increase Profile and Build Relationships with Influencers, including inventorying of key contacts, preparation of fact sheets, media interaction and public relations, organization of events, attendance at major events, targeted social media, and staging of familiarization tours; and
- Action 3 – Undertake Business-to-Business Level Engagement with Corporate Decision Makers, including engaging with existing business networks to understand and leverage global business networks, and attending strategic trade show events paired with undertaking targeted pre-show lead generation and post-show follow-up activities.

Future Outlook for the Greater Toronto Area and York Region Office Markets

Based on a review of the employment forecast for the Greater Toronto Area as presented in the Growth Plan, a review of office buildings under construction and pre-leasing, and a market assessment of growth prospects by sector and area, an office development forecast for the G.T.A. was developed. It is forecast that office space in the G.T.A. is expected to increase by 24 million sq.ft. of G.F.A. over the 2014-2034 period. Of this, 55% is expected to be captured within the City of Toronto and 45% in the 905 area. York Region’s share of new office development is anticipated to be approximately 15% of the G.T.A. total, equating to approximately 3.6 million sq.ft. York Region’s forecast share of new G.T.A. office development is expected to be nearly double that experienced over the past five years, but will remain below levels achieved over the 1999-2009 period.

Over the next decade, finance and insurance, and professional, scientific and technical services are expected to experience strong employment growth and are expected to occupy a significant share of office space that is to be constructed. Moderate growth opportunities also exist in information and cultural industries, and real estate and leasing and rentals.

It is anticipated that downtown Toronto will remain an attractive location for office development over the next decade. This will be driven largely by office space demands by the finance and insurance sector, information and cultural industries and professional, scientific and technical services. Office space in downtown Toronto is expected to be strongest for front-office and higher-paid occupations.

Sites to accommodate new office development in the downtown core are becoming more limited, which is requiring developers to look further in the periphery to locate new development. With limited development sites and low vacancy rates, net market rents are expected to remain at a premium. Furthermore, limited population growth in the 20-34 age group over the next decade and an anticipated exodus of a share of Millennials from the downtown core to more suburban locations is expected to have a negative impact on the labour force pool in downtown Toronto.

Over the next decade, York Region's attractiveness in the office market is expected to improve. It is expected that York Region, along with other 905 communities which have significantly lower development costs than downtown Toronto, will remain very cost competitive in terms of market rents. Cost control and efficiency is considered one of the key factors influencing a decision to relocate and firms are expected to remain cost conscious into the future which is expected to hinder downtown Toronto's competitive position in the office market.

Office tenants are going to continue to look for location opportunities which provide access to high-order transit and more urban-type environments. The competitiveness of the 905 area in offering these types of locations is expected to improve with time. York Region's Viva Transitway has strengthened the competitiveness of the Highway 7 corridor for office development in the Markham and Richmond Hill area by providing needed high-order public transit access. This will strengthen the competitiveness of key office employment areas in the area. Further, a number of York Region's Centres and Corridors, including Markham Centre, Vaughan Metropolitan Centre (with the new Spadina subway extension) and the Highway 7 East corridor, are becoming increasingly competitive and are expected to capture a greater share of G.T.A. office development over the coming decade.

In the coming decade, York Region is expected to be most competitive in the office market in accommodating the professional, scientific and technical services and finance and insurance sectors, and catering to smaller scale tenants and back-office functions. Though the Region will still attract a certain share of larger-scale head office tenants, the demand will be largely oriented to single-occupant, multi-function facilities (e.g. distribution/training centres) as opposed to solely a corporate office presence. As office tenants continue to be cost conscious, York Region's competitive office market rents will remain a strong advantage moving forward but will be more challenged in competing with downtown Toronto for premium office space demand by large-scale tenants.

Conclusions

Office commercial development is critical to the development of York Region's economy and long term future. Though the G.T.A. office market continues to expand at a strong rate, York Region competes directly for suburban and urban type office development with other locations in the G.T.A. Historically, York Region has been relatively successful at attracting and accommodating office development largely in suburban employment areas.

The comprehensive assessment of office development cost and financial feasibility determined that market conditions and the corresponding financial viability for suburban office development are favourable in most York Region locations though high land prices limited the potential for smaller office buildings in Markham, Richmond Hill and Vaughan.

Despite York Region's relative competitiveness in the suburban office market, office development patterns in the G.T.A. have shifted significantly over the past 15 years, with an increasing share of development occurring within Toronto's downtown core and York Region's relative share of office development has diminished over the period.

This shift appears to be driven by an increasing interest in the G.T.A. for more pedestrian-oriented office environments that feature mixed-use development and offer opportunities for live/work and greater access to high-order transit. This suggests that "905" municipalities, including York Region, need to make an increased effort to increase opportunities to accommodate office development in mixed-use settings that offer access to high-order transit and live/work opportunities in their respective communities to attract "knowledge-based" skilled labour force to reside in their communities and attract "knowledge-based" employers to their communities. As such, there will be an increasing need over the longer term to expand market choice for office development beyond greenfield lands in employment areas to include opportunities within the Region's Centres and Corridors.

York Region is anticipated to experience significant employment growth between 2011 and 2041 and a large share of this will be in the form of major office employment. Provincial and regional policy planning direction has identified the need to intensify development within key nodes and corridors in the Region and major office employment growth should be focused within Centres and Corridors to optimize infrastructure investment and promote transit use. The demand for office space in the G.T.A. is expected to continue and York Region is well positioned geographically to take advantage of this regional growth potential.

Though there is a desire from a policy perspective to attract an increasing share of office development to the Region's Centres and Corridors to meet planning, economic and fiscal objectives and an apparent growing market demand for more urban office development, recent development trends suggest that to-date, office development activity in York Region remains largely focused on suburban office development within employment areas. The Region has seen some success in residential development in its Centres and Corridors, office development has been more limited.

The analysis contained herein suggests that market conditions for urban office development as standalone projects are largely unfavourable in York Region's Centres and Corridors and other surveyed areas of the G.T.A. due in part to high costs of development (driven by high land costs and the provision for structured parking) which are only partially offset by higher land utilization and market rents/sale prices which have marginal premium compared to office space in suburban office markets. The analysis suggests that an urban office development project needs to be part of a mixed-use development (i.e. combined with a retail/residential component) in order to be economically viable in these markets. Though there are a handful of recent or planned office developments within the Region's Centres and Corridors, they represent a relatively small share of overall office development activity in the Region.

The policy tools/financial incentives presented herein suggest a number of initiatives could be implemented in York Region to improve the financial viability and attractiveness of office development within the Region's Centres and Corridors. Achieving an increasing

amount of office development in the Region's Centres and Corridors poses a challenge for the Region. Optimizing the market potential for office development in the Region's Centres and Corridors will largely be determined on a regional and local level, requiring a "Made in York Region" approach.

Given the extent and diversity of the office and mixed-use development opportunities identified within the Region's Centres and Corridors and the economic challenges of urban office development in these areas, York Region needs to prioritize its efforts to encourage and promote this office development where the potential is highest. This includes ensuring that planning policies and regulations are supportive of intensification initiatives and the office objectives of the region. This includes implementing pre-zoning, allowing for flexibility and height of developments, promoting mixed-use developments (which include office component) within the Regional Centres and Corridors and generally increasing expediency of development approvals.

Further, a range of financial incentive tools/programs could be used as a means to facilitate and encourage office and mixed-use development within the Region's Centres and Corridors, such as development charge exemptions, redevelopment or rehabilitation grant programs, redevelopment loan programs, and or the rebate of planning and building application fees. However, the Region should be strategic in their use, in terms of where these are applied and where fiscally sustainable. Based on the analysis presented herein, the relative strength of office market in the Region's Centres and Corridors varies widely. It is anticipated that demand for office space within the Centres and Corridors will continue to increase over the coming decades and the market conditions for urban office development in these areas will become more favourable with time. Considering baseline conditions and future prospects, the office market in Markham Centre and Vaughan Metropolitan Centre are likely strong enough to be successful without the need for financial incentives. Financial incentives may be options in Richmond Hill Centre, Yonge Street Thornhill and Highway 7 East (west of Markham Centre) to advance urban office development over the short to medium term, though over the longer term, the market should be sufficiently strong to not require such measures. Over the short to medium term, prospects for urban office development along Highway 7 West, Yonge Street Richmond Hill and Highway 7 East (East of Markham Centre), Yonge Street in Newmarket) and Davis Drive are limited and these areas will continue to be more attractive for low-rise office buildings with surface parking, consistent with their existing character. It is unlikely that financial incentives will have much impact on prospects for urban office development along these corridors but could be useful in facilitating further suburban office development. Over the longer term, as the Region matures and begins to buildout, the prospects for urban office development in these corridors will likely improve, and incentives applicable for urban office development may be more appropriate at that point.

To take full advantage of the potential for office development in its Centres and Corridors, York Region will need to focus on activities that build awareness and support local growth while also continuing to enhance the basic offering in York Region through an Action Plan. The Action Plan reflects York Region's continued efforts to grow the commercial office cluster alongside its local municipal partners and the local development community.

Marketing Centres and Corridors Office Attraction Work Plan

Purpose

Establish and oversee delivery of a Marketing and Communications Plan for office attraction in Centres and Corridors

Scope

- Development of a coordinated Regional messaging and communications plan by all departments around office attraction for Centres and Corridors
- Engagement/understanding of other stakeholder messaging and communications and coordination where possible and practical

Outcomes

1. A marketing and communications plan including a set of coordinated marketing messages and targeted media, tools, tactics and initiatives for delivery over 2015 and 2016.
2. Increased awareness of office development opportunities in Centres and Corridors.
3. Influence over demand-side decisions by office users.
4. Achievement of development targets for office space in Centres and Corridors

Activities

Local EDO/Planner Session – early engagement of municipal representatives around plan development and identification of potential areas of common messaging and collaboration

Stakeholder Sessions – third party facilitated sessions with developers, real estate brokers, and the business community to identify current activities, identify potential areas of common messaging and collaboration, and identify target audiences. Results compiled as input to plan, messaging and tool development.

Plan, Message and Tool Development – identification of delivery partners and target audiences, and development of messaging, delivery tools and tactics including performance metrics

Program Delivery and Monitoring – plan implementation with measurement of activities and monitoring of direct and indirect influence on economic activity within Centres and Corridors

Project Timeline

Milestones	Duration							
	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16	Q2 16	Q3 16	Q4 16
Draft Project Charter and Consultation Outline								
Local EDO/Planner Session								
Report to Committee of the Whole - Launch		*						
Stakeholder Session 1 – Developers		*						
Stakeholder Session 2 – Brokers		*						
Stakeholder Session 3 – Business, Others		*						
Plan, Message and Tool Development								
Report to Committee of the Whole				*				
Program Delivery and Monitoring								
Report to Committee of the Whole								*

York Region Office Attraction Review

Presentation to
Committee of the Whole

Doug Lindeblom

April 9, 2015



Outline

- Importance of Office Development
- Drivers of Office Demand
- York Region Office Market Today
- York Region's Competitive Position
- Attracting Office Development/Jobs
- Next Steps

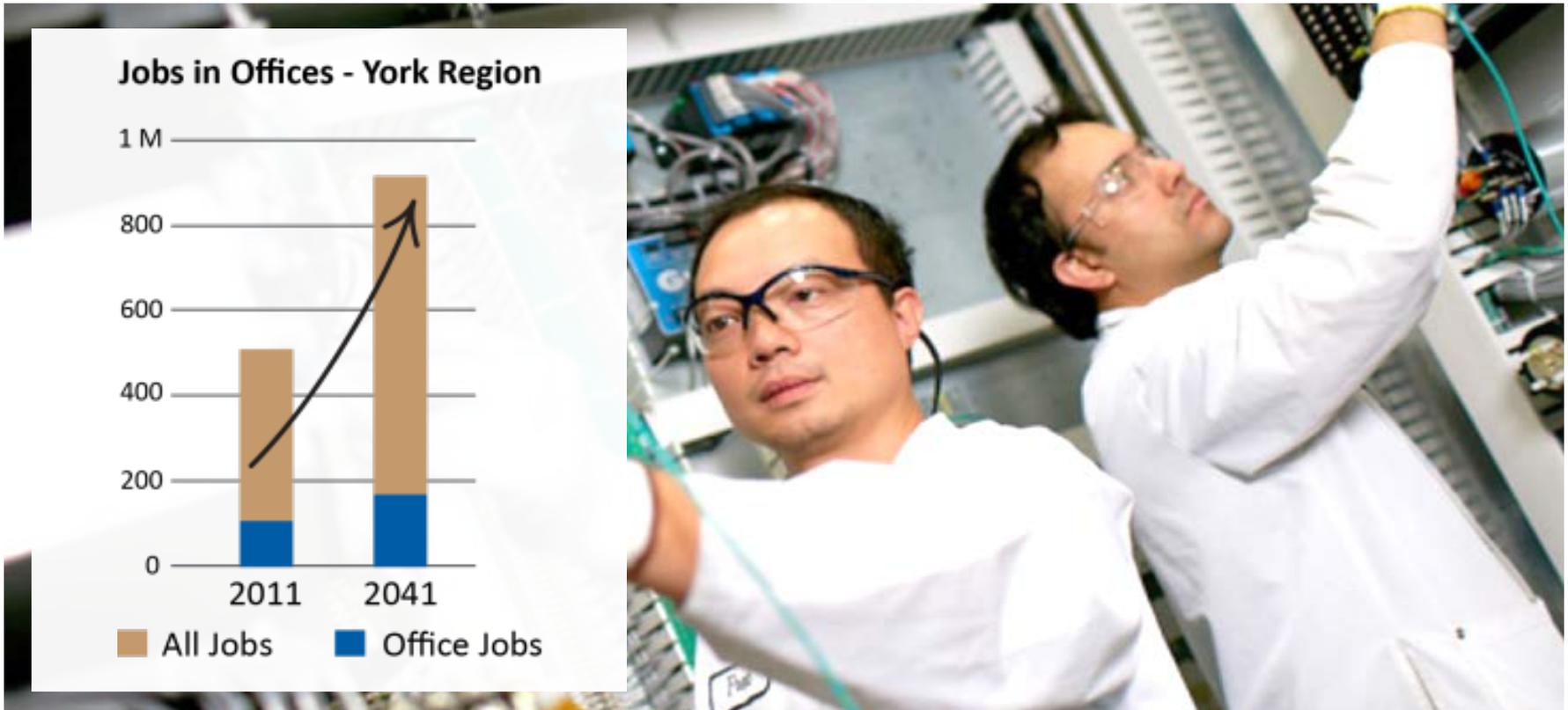


Council Direction Regarding Office Development and Employment



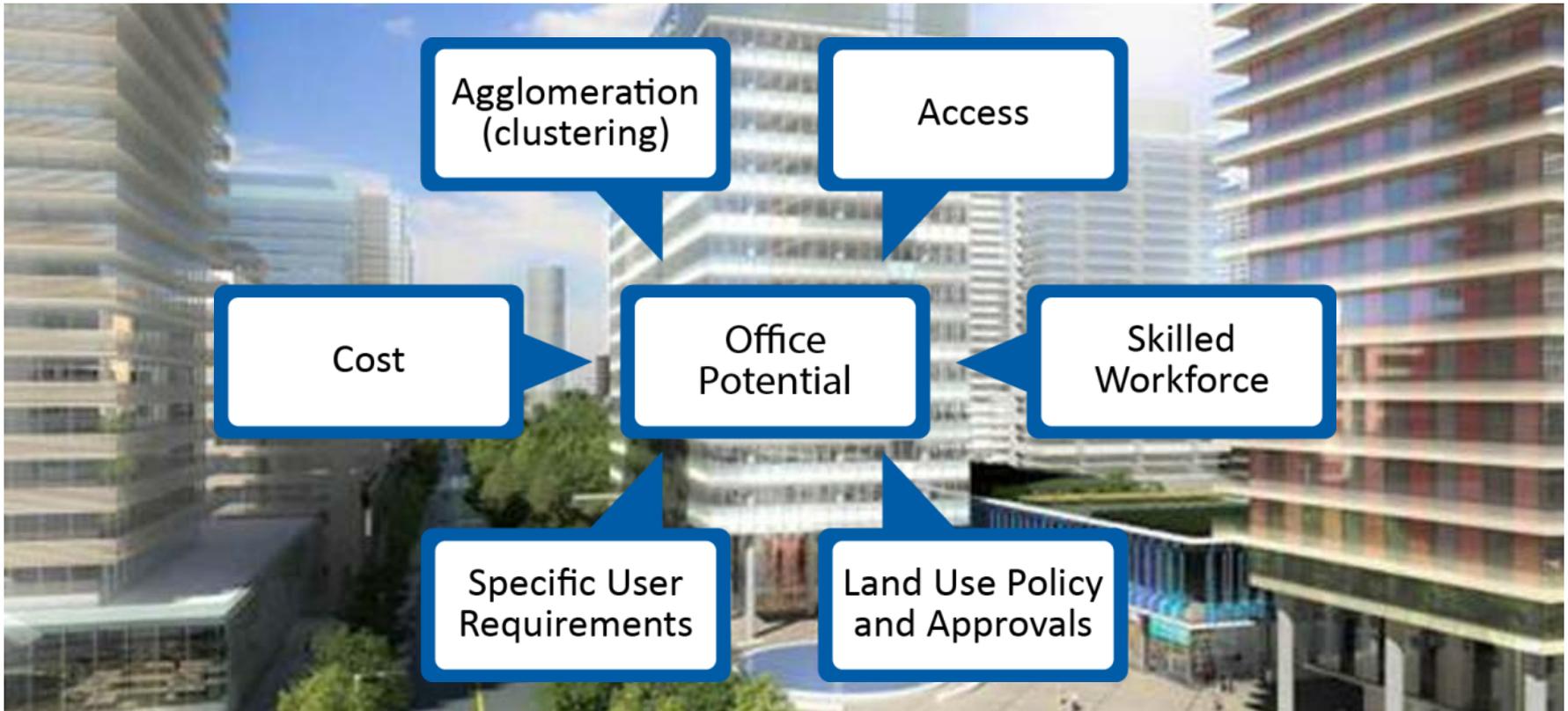
A number of Regional plans support economic vitality and job growth

Office Development is Important to the Region's Economy



Office development accommodates high quality jobs the Region is looking to attract and retain

Factors Affecting Office Location Decisions



There are numerous factors affecting office market potential

Source: Watson and Associates Inc., March 2015; Strategic Regional Research Associates, 2014

What Office Employees Want

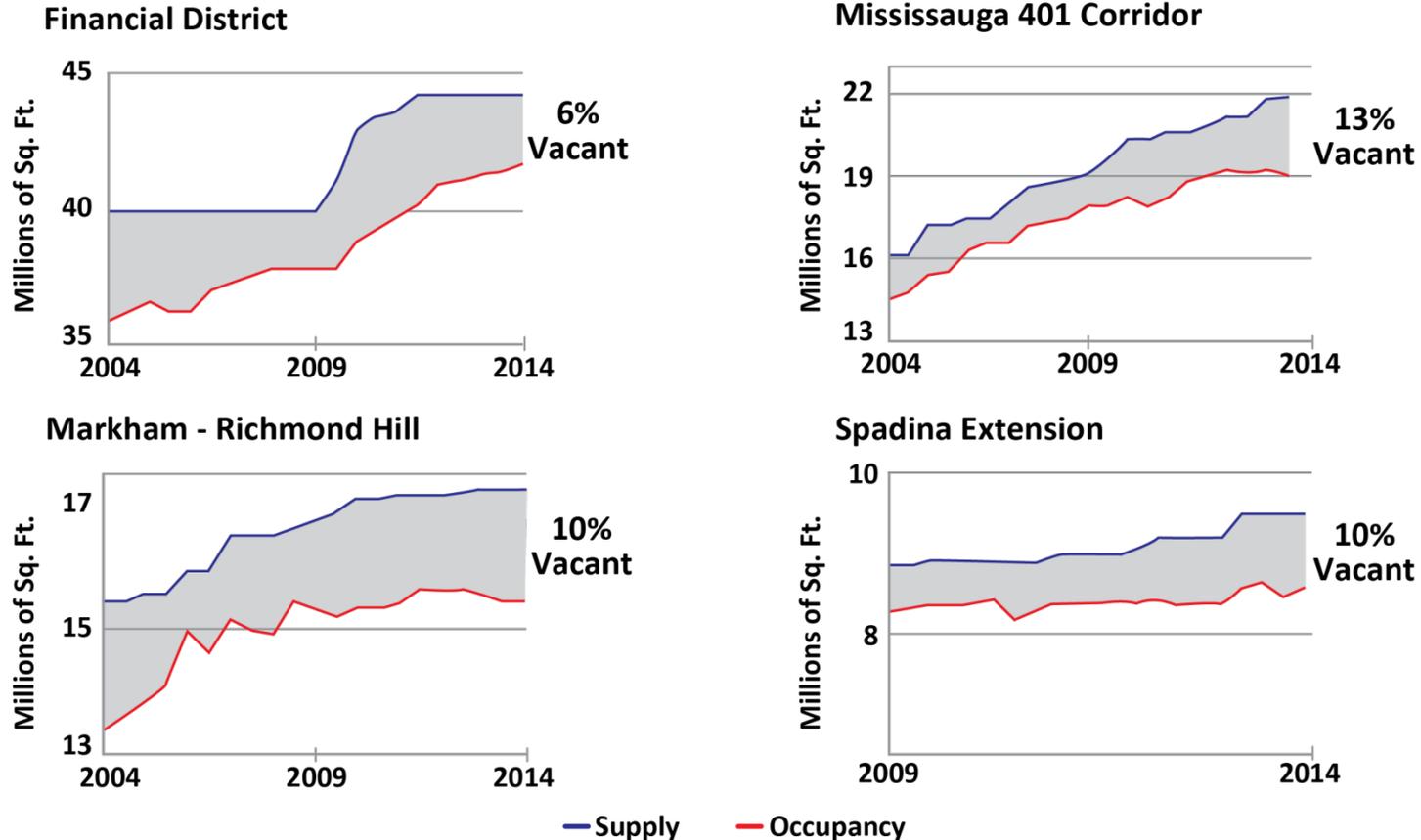
Agglomeration
(clustering)
Access
Services
Lifestyle



York Region is developing a critical mass of accessible, attractive locations for future office workers and employers

Source: Watson and Associates Inc., March 2015; Strategic Regional Research Associates, 2014

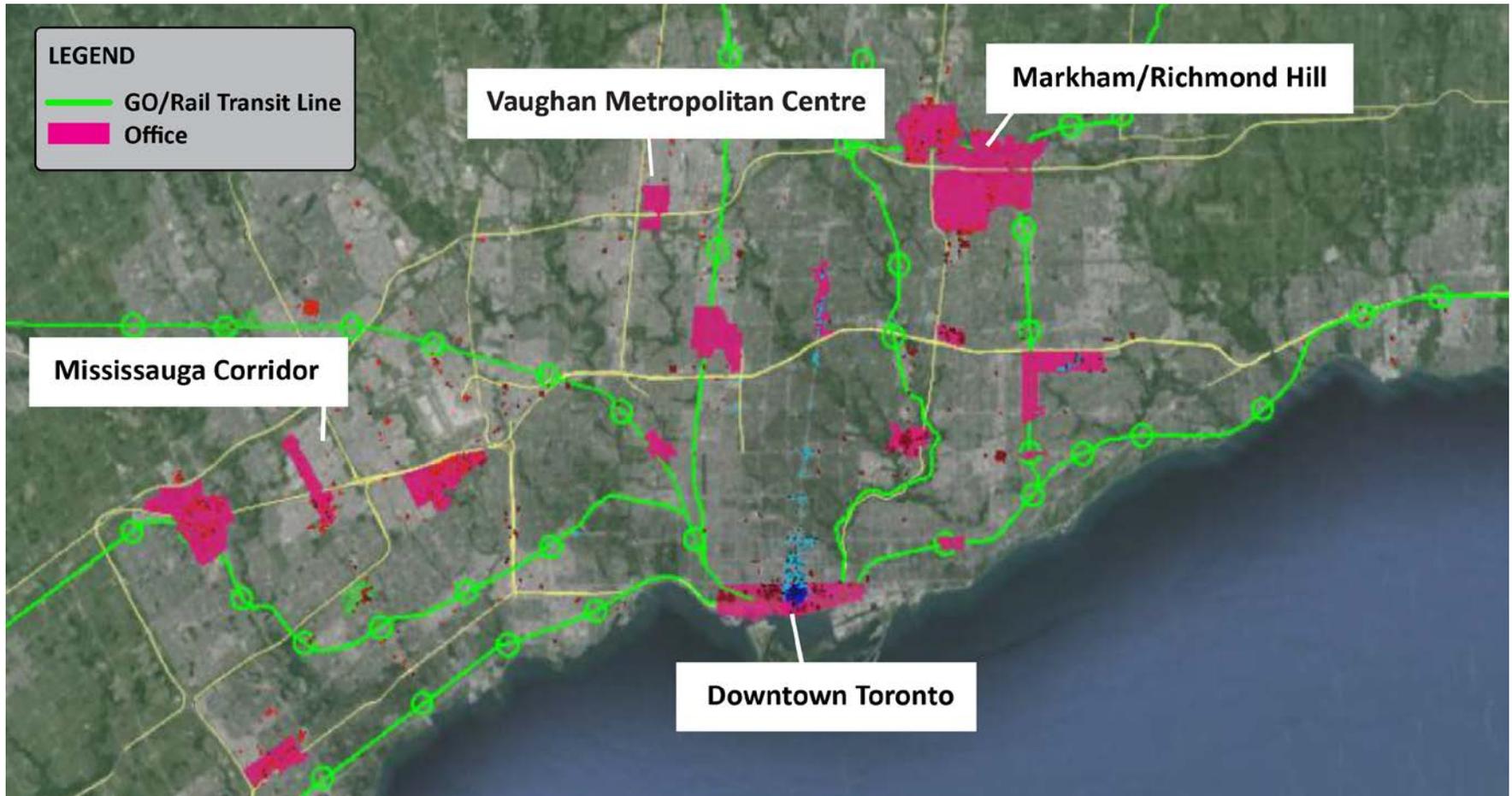
Office Supply is Driven by Demand



The Region proactively monitors the market to be able to respond to opportunities

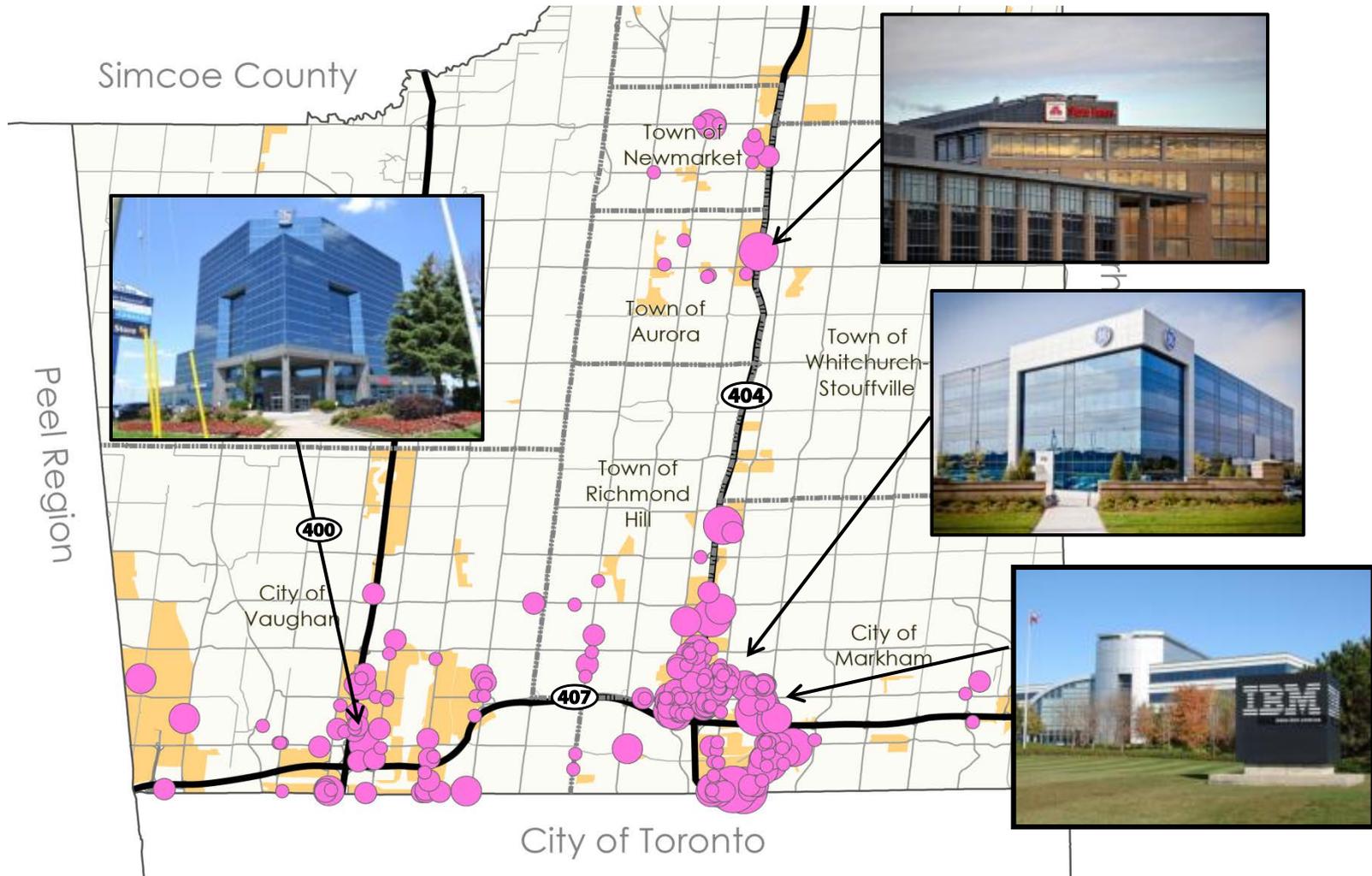
Source: Strategic Regional Research Associates, 2014

The GTA Office Market Context



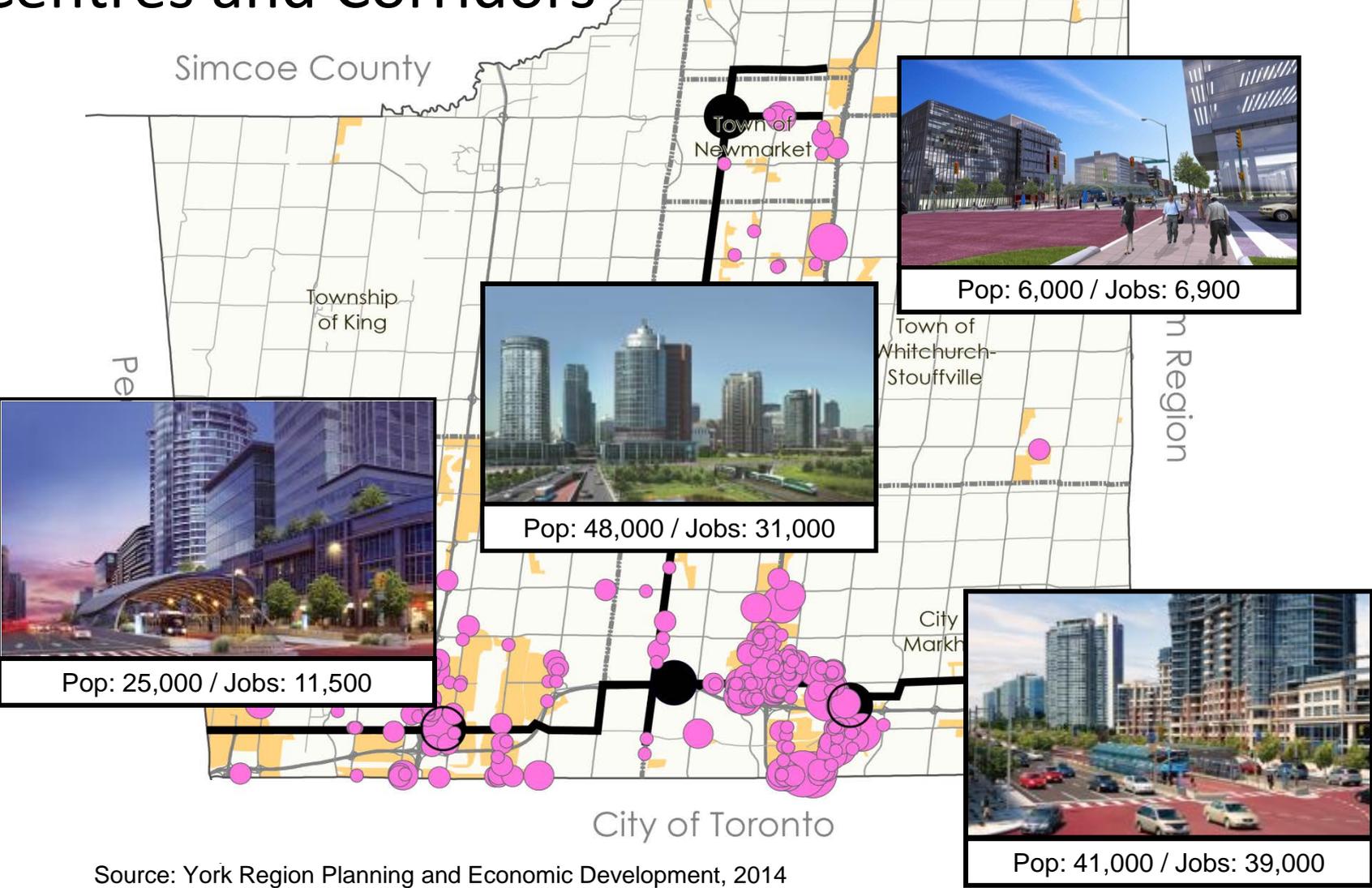
Source: Strategic Regional Research Associates, 2014

Historic Office Growth has focused in Employment Areas Along 400-Series Highways



Source: York Region Planning and Economic Development, 2014

Future Office Growth is Planned to Focus in Centres and Corridors



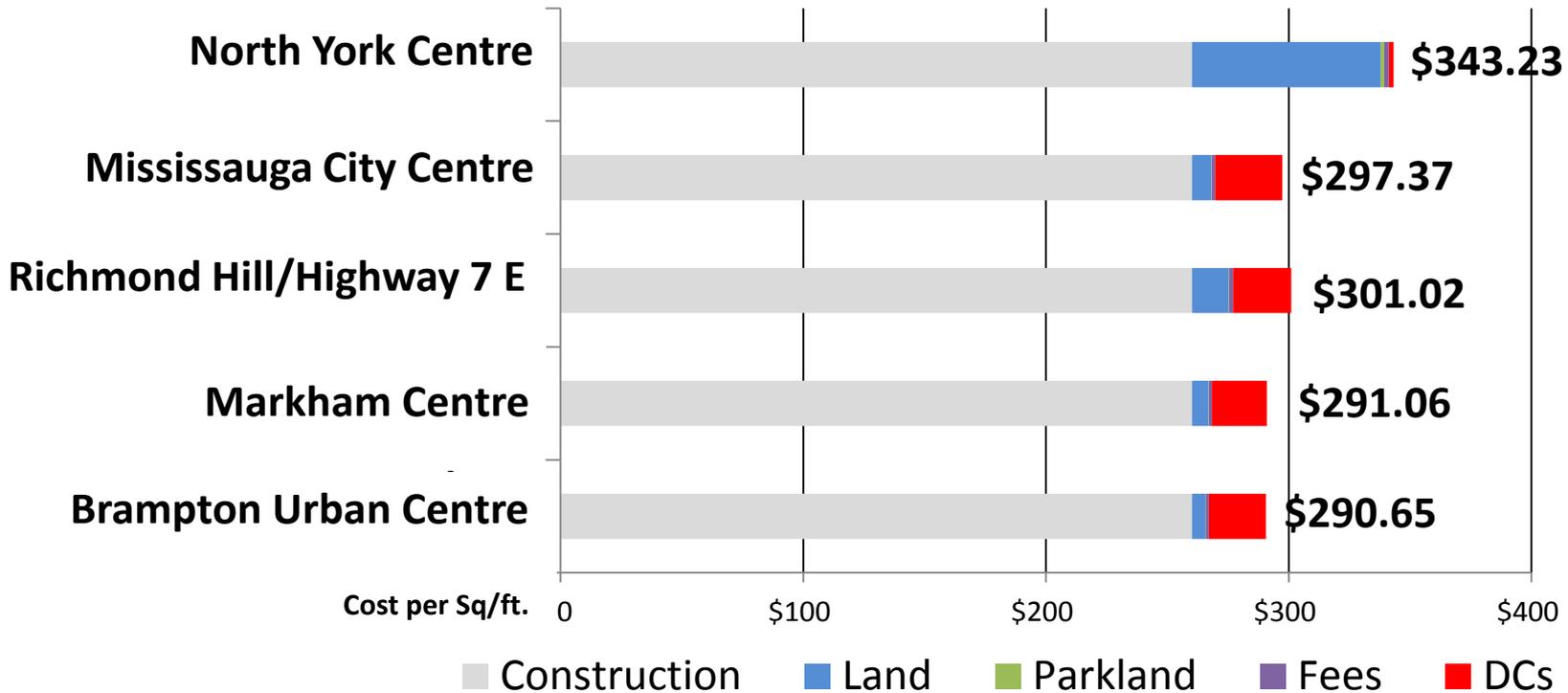
Source: York Region Planning and Economic Development, 2014

York Region is on the Right Track

Attracting Office	What we've done
Office Supportive Policy	✓
Investment in Infrastructure	✓
Promoting Live-Work mix of uses	✓
Promoting university campus in Downtown Markham	✓

Regional Council has been diligent in laying the ground work to ensure economic success

Comparative GTA Office Development Costs Per Square Foot



Municipal charges are a small component of overall development costs

Source: Watson & Associates Inc., March 2015

Comparative GTA Pro forma Analysis

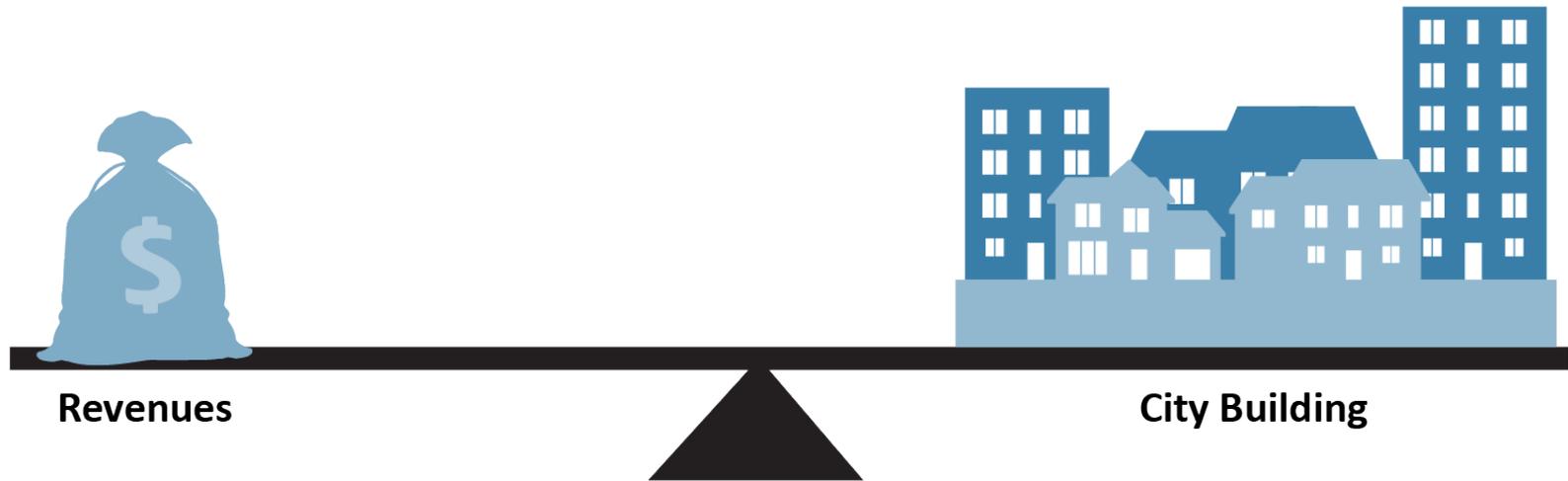
Annualized Office Costs including taxes (per square foot)



The analysis shows York Region is competitive within the GTA office market

Source: Watson & Associates Inc., March 2015

Financial Incentives Have Limited Effect on Where Office Users Locate



A continuing focus on city building and infrastructure investments creates locations where office users want to locate

Source: Watson & Associates Inc., March, 2015; Strategic Regional Research Associates, 2014

Future Opportunities

Opportunities Going Forward	What we will do
Official Plan Review	Refine office supportive policies
Continue Investment in Infrastructure	Build cities
Communication and Marketing (creating awareness)	Get the message out

Opportunities remain to advance York Region's ability to attract office employers

Summary

- The Region is well-positioned to attract office growth due to:
 - A strong business base and key growth clusters
 - A variety of urban and business park locations
 - Supportive policies
 - Significant and on-going infrastructure investment
 - A compelling marketing story to tell



Recommendations

- Council receive the York Region Office Space Financial/Market Analysis and Marketing Plan Study.
- The proposed Work Plan for the Development of an Office Attraction Marketing and Communications Plan be endorsed.
- This report and the York Region Office Space Financial/Market Analysis and Marketing Plan Study be circulated by the Regional Clerk to the local municipalities in the Region.



April 8, 2015

Mr. Denis Kelly
Regional Clerk
Regional Corporate Services Department
Administrative Centre
17250 Yonge Street, 4th Floor
Newmarket, Ontario
L3Y 6Z1

Dear Mr. Kelly:

The City of Vaughan wishes to advise that preliminary work to develop criteria for a Community Improvement Plan (CIP) for the Vaughan Metropolitan Centre and other intensifications areas has begun. In order to move forward with a Community Improvement Plan, the City of Vaughan has retained Hemson Consulting Ltd. and Urban Strategies Inc. to carry out a study on how the City can develop and implement a CIP. The attached memorandum serves to provide you with an outline of the work that has been completed to date on the City of Vaughan's CIP study, and to seek participation from York Region through a similar CIP framework.

I would like to encourage you to consider the information in the attached memorandum as part of your deliberations on improving the competitiveness of office markets within the Region's Centres and Corridors.

Sincerely,

Jennifer Ladouceur
Director of Economic Development

Attachment

C Barbara Cribbett, Interim City Manager
 Tim Simmonds, Executive Director, Office of the City Manager
 John Henry, Commissioner of Finance & City Treasurer
 John MacKenzie, Commissioner of Planning
 Paul Jankowski, Commissioner of Engineering & Public Works

HEMSON

Consulting Ltd.

30 St. Patrick Street, Suite 1000, Toronto, Ontario, Canada M5T 3A3
Facsimile (416) 595-7144 Telephone (416) 593-5090
e-mail: hemson@hemson.com

MEMORANDUM

To: City of Vaughan:
Mr. Tim Simmonds, Executive Director
Ms. Jennifer Ladouceur, Director of Economic Development
Mr. Lloyd Noronha, Director, Development Finance & Investments

From: John Hughes and Jason Bevan, Hemson Consulting Ltd.
Pino DiMascio and Mirej Vasic, Urban Strategies Inc.

Date: April 7, 2015

Re: Regional Participation in Office-focused Community Improvement Plan

Starting in 2014 the City of Vaughan began work on developing criteria for a Community Improvement Plan (CIP) focused on attracting major office development in the Vaughan Metropolitan Centre (VMC) and select intensification areas. Hemson Consulting Ltd. and Urban Strategies Inc. were retained to build on the City's draft CIP framework, conduct stakeholder consultation and to prepare the formal documentation required under provincial legislation. Through the course of work already undertaken as part of this study, it is clear Regional participation through a similar CIP framework would make the program more robust and improve the likelihood of attracting more major office uses to the VMC in the short-term.

A. WHY ADOPT A CIP PROGRAM?

Adopting a CIP Program would play an important role in fulfilling the objectives of the York Region Official Plan for its Regional Centres. The York Region Official Plan states that Regional Centres, such as the VMC, should develop into downtowns with the highest concentration and greatest mix of uses in the Region, and a range of employment and housing opportunities oriented towards rapid transit hubs.

According to Section 5.4.20, this diverse mix of uses will create vibrant and complete communities for living, working, shopping and entertainment within the Regional Centre.

It is well understood the Region must balance any short-term revenue losses resulting from incentives, however, if office incentives were ever to be considered for an area of the Region, the VMC may be the most appropriate location. A few of the numerous Regional and Provincial objectives achieved by attracting offices uses to the VMC include:

- Successful urban areas often contain a cluster of major office buildings, attracting several early adopters at the outset will likely in-itself act as an attractant for future development.
- Office employees are an essential component of transit ridership and can allow for two way peak period movement on the York-Spadina subway and VIVA transit lines.
- Advance the mixed-use nature of the VMC creating activity at all times of the day with residential, office and retail uses and high-quality amenities available within walking distance.

The objective for a mix of uses has not yet been achieved as the City has received applications for residential development in the order of 8,500 total units. Calloway REIT and Liberty Developments have planned office developments, but development applications for office uses have not occurred at a sufficient rate to match the residential interest.

Through consultation with stakeholders and a review of the Region's studies, two local financial factors have been identified which impede office development in the VMC. Firstly, VMC land values are comparatively high due to competition with existing uses and greater demand for new residential development. Secondly, the higher cost of structured parking development, water table issues and higher engineering and design costs associated with developing in urban, rather than suburban locations, must be overcome. Additionally, the City of Vaughan is starting with a less established major office base compared to Mississauga, Markham and North York, for example.

B. CITY'S PROPOSED CIP OFFICE PROGRAM IS DESIGNED TO ESTABLISH AN INITIAL BASE OF OFFICES IN THE VMC

The City faces many of the same financial challenges as the Region in that short-term revenue losses from CIP grants or discounts will have to be recovered through other sources. This is why the City has focused its program on attracting early adopters with program cessation when the identified goals of the CIP have been achieved. Key highlights of the City's proposed program for major offices are shown below:

1. Administration

- Major offices are defined as developments with over 100,000 square feet (9,290 square metres) of gross floor area.
- The incentives would be limited to five years or the first 1.5 million square feet (139,400 square metres) of major office development to qualify under the CIP, whichever comes sooner.
- The incentives would also apply retroactively to eligible developments with building permits issued on or after January 1, 2014.

2. Tax Increment Equivalent Grants (TIEG)

A sampling of recently constructed offices in York Region and North York was used to estimate a value of \$319.5 million in new assessment associated with 1.5 million square feet of gross floor area (the City's cap). The TIEG would start with a 70 per cent grant for the first year declining proportionally over a ten-year period:

Year	1	2	3	4	5	6	7	8	9	10	10-Year
Grant Amount	70%	63%	56%	49%	42%	35%	28%	21%	14%	7%	39%
Net Taxes	30%	37%	44%	51%	58%	65%	72%	79%	86%	93%	61%
Grant Amount	\$0.6M	\$0.5M	\$0.5M	\$0.4M	\$0.4M	\$0.3M	\$0.2M	\$0.2M	\$0.1M	\$0.1M	\$3.3M
Net Taxes	\$0.3M	\$0.3M	\$0.4M	\$0.4M	\$0.5M	\$0.6M	\$0.6M	\$0.7M	\$0.7M	\$0.8M	\$5.3M
Total Taxes	\$0.9M	\$8.7M									

Based on constant 2014 dollars, tax rates and assessment, the City's grant amount would total \$3.3 million for the entirety of the program (based on a maximum of 1.5 million square feet of gross floor area).

3. Development Charges Grant/Reduction

It is proposed that the City-wide development charges rate be frozen at the August 2013 rate of \$20.35 per square metre for a five year period.

Charge	Current Rate (\$/sq. m)	CIP Reduced Rate (\$/sq. m)	Reduction (\$/sq. m)	Reduction (%)	Reduction (\$2015)	Reduction Per Year Over 5 Years (\$2015)
City-Wide Office DC	\$53.04	\$20.35	\$32.69	62%	\$4,556,000	\$911,200

This reduction would lead to lost revenue of approximately \$4.6 million.

4. Cash-in-Lieu of Parkland

For major offices a 100 per cent cash-in-lieu of parkland exemption would apply. For mixed-use developments, with every 750 sq. ft. of major office space developed, one unit of high density residential located on the same land parcel would be subject to a reduced rate of \$4,100 per unit compared to the current rate of \$8,500 per unit.

5. Parking Requirements

It is proposed that major offices with at least two storeys of below grade parking would be allowed to have two storeys of podium, or above grade, parking with no effect on Section 37 contributions for increased height.

C. WHAT IF THE REGION WAS TO MIRROR THE CITY OF VAUGHAN'S POLICIES?

The likelihood of attracting major office development to the VMC in the short-term would undoubtedly improve if the Region (and Province) adopted similar CIP policies. Furthermore, stakeholders have also indicated the perception and marketing of the VMC as a viable office market would also improve through the CIP process.

While Parking and Parkland are City responsibilities, the governing legislation would permit the Region to adopt similar TIEG and development charges policies as the City. Using the City's assumptions, the estimated revenue losses that would be incurred by the Region, based on a similar program, are described below:

1. Tax Increment Equivalent Grants (TIEG)

The financial impact of a Regional TIEG for the VMC has been estimated using the same assumptions as the City's program. Based on 1.5 million square feet of office space and Regional tax rates, the grant amount would total \$5.7 million for the entirety of the program in constant 2014 dollars. However, the Region would still recover a total of \$9.1 million in net taxes after grants are deducted.

Year	1	2	3	4	5	6	7	8	9	10	10-Year
Grant Amount	70%	63%	56%	49%	42%	35%	28%	21%	14%	7%	39%
Net Taxes	30%	37%	44%	51%	58%	65%	72%	79%	86%	93%	61%
Grant Amount	\$1.0M	\$0.9M	\$0.8M	\$0.7M	\$0.6M	\$0.5M	\$0.4M	\$0.3M	\$0.2M	\$0.1M	\$5.7M
Net Taxes	\$0.4M	\$0.6M	\$0.7M	\$0.8M	\$0.9M	\$1.0M	\$1.1M	\$1.2M	\$1.3M	\$1.4M	\$9.1M
Total Taxes	\$1.5M	\$14.9M									

Stated differently, within six years of an office building's construction, net taxes paid will exceed the grant amount issued.

2. Development Charges Grant/Reduction

Two approaches were used to estimate the impact of a Regional reduction to office development charges. If a commensurate percentage-based reduction (62 per cent) was to apply, it would result in lost revenue in the order of \$18.1 million. Alternatively, the Region could match the City's quantum value deduction (\$32.69) which would result in \$4.6 million in lost revenue.

Approach	Current Rate (\$/sq. m)	CIP Reduced Rate (\$/sq. m)	Reduction (\$/sq. m)	Reduction (%)	Reduction (\$2015)	Reduction Per Year Over 5 Years (\$2015)
Regional Office DC Based on % Reduction	\$210.44	\$80.74	\$129.70	62%	\$18,074,000	\$3,614,800
Regional Office DC Based on Value Reduction	\$210.44	\$177.75	\$32.69	16%	\$4,556,000	\$911,200

The percentage-based deduction would obviously have a greater impact on development decisions.

We trust the above is of assistance and we would be pleased to address any questions on the content of the memorandum.