

June 28, 2019

Ms. Kimberley Kitteringham
City Clerk
City of Markham
101 Town Centre Boulevard
Markham, ON L3R 9W3

Dear Ms. Kitteringham:

Re: Potential Financial Incentives for Office Buildings

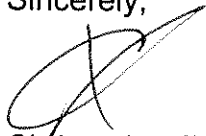
On June 27, 2019 Regional Council adopted the following recommendations:

1. Council authorize staff to consult with stakeholders on potential financial incentives to help promote major office development in the Region's Centres and Corridors.
2. Staff report back to Council in the Fall of 2019 on the results of the consultation and propose recommendations.
3. The Regional Clerk circulate this report to the local municipalities and industry stakeholders including the Building Industry and Land Development Association – York Chapter (BILD).

The staff report is enclosed for your information.

Please contact Doug Lindeblom, Director, Economic Strategy at 1-877-464-9675 ext. 71503 or Edward Hankins, Director, Treasury Office at 1-877-464-9675 ext. 71644 if you have any questions with respect to this matter.

Sincerely,



Christopher Raynor
Regional Clerk

Attachment

The Regional Municipality of York

Committee of the Whole
Planning and Economic Development
June 13, 2019

Report of the Commissioner of Corporate Services, the Commissioner of Finance
and the Chief Planner

Potential Financial Incentives for Office Buildings

1. Recommendations

1. Council authorize staff to consult with stakeholders on potential financial incentives to help promote major office development in the Region's Centres and Corridors.
2. Staff report back to Council in the Fall of 2019 on the results of the consultation and propose recommendations.
3. The Regional Clerk circulate this report to the local municipalities and industry stakeholders including the Building Industry and Land Development Association – York Chapter (BILD).

2. Summary

This report updates Council on the state of office development in the Region, focusing on the changing nature of office development and financial incentives at the Region's local and neighboring municipalities. This report also provides key principles to consult with stakeholders on potential office incentives.

Key Points:

- Office development, particularly in Centres and Corridors, is important to the Region's competitiveness, city building initiatives, and financial sustainability
- While the Region is gaining major office employment, this is not translating into new office development particularly in Centres and Corridors where the greatest infrastructure investments have been made
- Trends and recent changes in the office market have prompted reconsideration of the use of financial incentives to spur new office development in key locations
- Development charge deferrals could be used to incent larger office buildings in Regional Centres and Corridors, where the Region has made significant higher order transit investments

3. Background

Office development, particularly in Centres and Corridors, is important to the Region's competitiveness and city building initiatives

Office space is an important element of the real estate market that supports economic prosperity. Office buildings house knowledge and service based employers, an increasingly important part of the economy. They provide a built form that allows intensification of workers in transit supportive locations, and are an integral part of developing vibrant, accessible, multi-use downtowns, such as the Centres and Corridors in York Region. Larger office buildings often serve as headquarters and research centres for domestic and global corporations and demonstrate the success and attractiveness of a location. Office development is also a major contributor to the property tax base and to development charges that are necessary to pay for the infrastructure such as transit needed to support growth and city building.

The Region has offered various office development incentives since the inception of the development charge bylaw in 1998

Beginning in 1998 and continuing through the 2007 Development Charge Bylaw and Background Study, Regional Council decided to offer a discount to the non-residential rates that would have otherwise been payable at full cost recovery to attract non-residential development in the Region. During this time, the average discounted rate to the non-retail portion (e.g., office) was 40 per cent, which was phased in through each of the bylaws during different timelines. The 2007 Development Charge Bylaw discontinued the reduction to the percentage of the incentives until they were completely phased out by mid-2010. The Region saw close to 6.8 million square feet of office space built in the twelve years from 1998 to 2010 that would have benefitted from some level of development charge discounts. This equates to approximately 567,000 square feet of space per year.

Following the phase out of the non-residential development charge discounts, the Region in 2010 introduced an 18 month development charge deferral for office buildings that were a minimum of 4 storeys. This incentive, available throughout the Region, requires that the developer provide a letter of credit. Since first being introduced, two offices totaling nearly 760,000 square feet have taken advantage of this incentive. During this period since 2010, less than 2.5 million square feet of office space in total was built in the Region. This equates to just over 300,000 square feet of space built per year, well below the rate of construction while the development charge discount was in place.

The Region last reviewed the need for office incentives in 2015 and none were recommended at that time

Between 2013 and 2015 staff reviewed the state of office development in the Region and the potential for financial incentives which culminated with the York Region Office Attraction Review (report to Council in April 2015). The review was prompted by the diminishing relative share of new office development being built in the Region versus Toronto and the rest of the 905 Regions.

This report concluded that the Region was competitive with neighboring jurisdictions on overall cost of office development (including property taxes and development charges). The Review also found that there was not a strong correlation between offering financial incentives and generating new demand. As a result, while incentives were not recommended at that time, an office attraction marketing program was proposed to raise awareness of the opportunities in the Region's Centres and Corridors. The resulting York Link marketing program was approved by Council and launched in 2016.

While the Region was conducting the office attraction review, the City of Vaughan requested that the Region consider office incentives. The City of Vaughan subsequently introduced an office incentive package. At the time, staff reviewed this request and determined that office incentives were not required as the Region was competitive.

Over the past five years, the landscape for office development and incentives has changed

Since last reviewing the need for greater incentives, there have been three key changes that have prompted staff to re-examine the efficacy of incentives. These are:

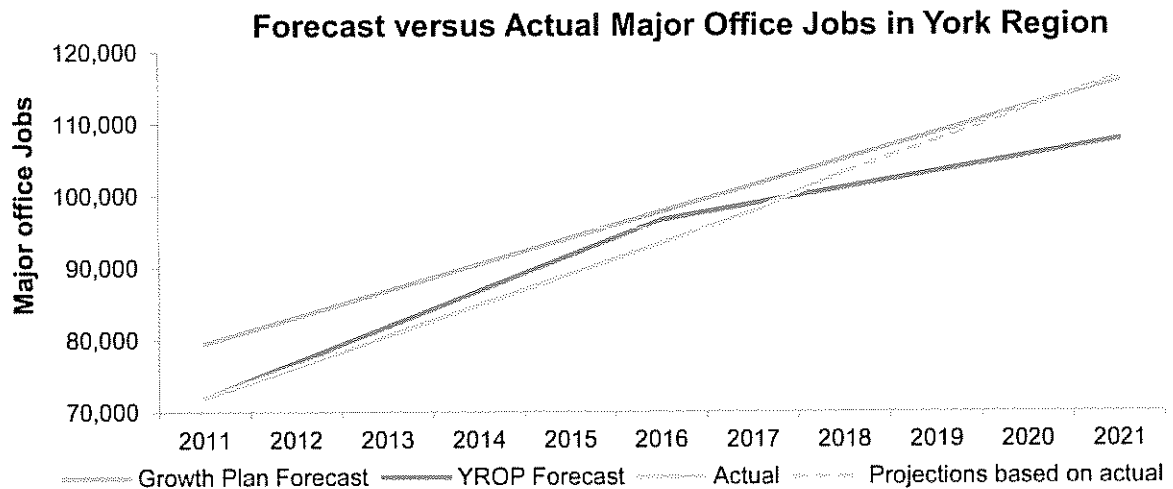
- A growing number of municipalities in the Greater Toronto Area, including three of the Region's local municipalities (Vaughan, Markham and Richmond Hill), have introduced office incentives to try and increase their share of office development activity
- The Region continues to see office employment growth, but this is not translating into the major office built form that is required in order to create dense, multi-use city centres
- While the Region's relative share of Greater Toronto Area office development has risen since 2015, Toronto and particularly Downtown Toronto is taking a bigger share, and this appears to be destined to continue. Toronto continues to offer a substantial development charge exemption incentive for major office

4. Analysis

The Region is on track to meet its major office employment growth forecasts

Office space is required to house office workers in a range of knowledge based and service businesses. The Region is experiencing strong office related employment growth, relative to both forecasts in the Growth Plan and the Regional Official Plan. The number of major office jobs exceeded the Region's Official Plan forecast in 2018 and is on track to meet the Provincial Growth Plan targets by 2020-2021, as illustrated in Figure 1 below.

Figure 1



Source: Region of York, Planning and Economic Development

Office employment growth is not translating into office space development

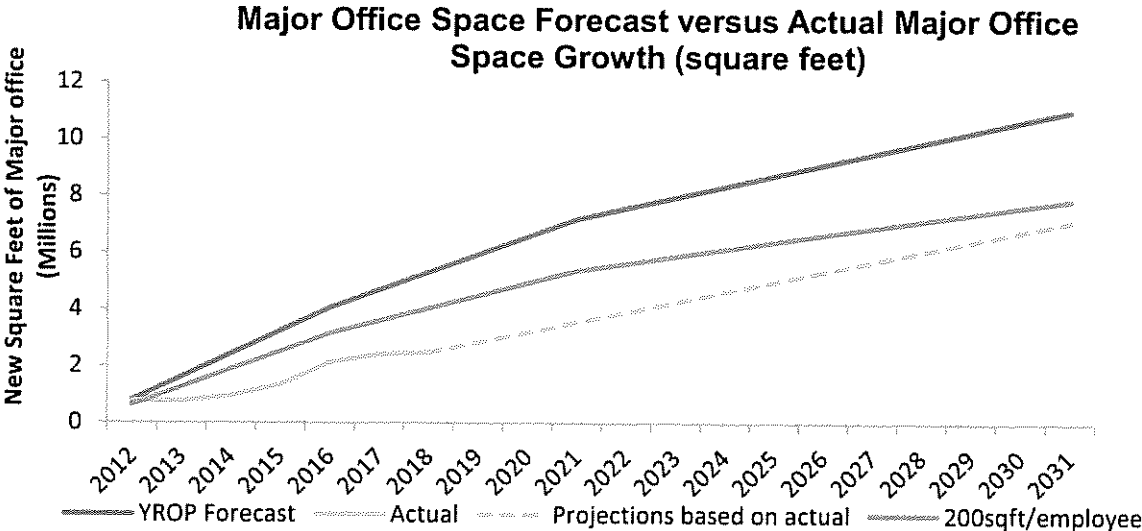
While the Region is achieving its employment forecasts, major office space growth in the Region is below the Region's Official Plan forecast (see Figure 2). Office space growth is important because of the previously noted factors of competitiveness, city building and financial sustainability that new office space supports. This is particularly important in Centres and Corridors where significant transit investments have been made.

The office space forecast in the Regional Official Plan is derived by applying a space per employee factor to the major office employment forecast number. While an industry standard space per employee of 270 square feet has been used in the forecast, recent observations indicate this standard is now likely around 200 square feet per employee.

There are a number of trends in the market that are leading to employers allocating less space per employee, the most notable trends include business cost reductions/efficiencies, an increase in remote work/telecommuting, and a shift from permanent full time jobs to temporary and contract work. All of these factors are contributing to a typical space per employee factor closer to 200 square feet per employee. This means that less new major office space is required to accommodate office employment growth.

As illustrated in Figure 2, even when the 200 square feet per employee factor is applied to the employment forecast (as opposed to the 270 square feet used in the Official Plan), office space projections based on actual space built since 2011 would still be below forecast. This would suggest that some employment growth does not generate new major office space growth (e.g., due to office intensification – employees taking up less space, hoteling – workplaces are shared, etc.).

Figure 2



Source: Region of York, Planning and Economic Development

The City of Toronto is realizing most of the new major office development in the Greater Toronto Area

Among GTA municipalities, York Region’s share of office development has increased since 2012 relative to other 905 Regions as illustrated in Table 1, with 32 buildings and close to 2.6 million square feet of space built over this time period. This represents 28 per cent of all new office space built in the GTA, up from just 7 per cent of new space in the previous 5 years.

During this period, the City of Toronto has become more dominant with respect to new office construction. As Table 1 below indicates, the City of Toronto accounts for 54 per cent of office space built in the GTA since 2012. More importantly, when looking at office buildings under construction, Toronto’s share of new space increases to 76 per cent of the GTA total.

Table 1
Commercial office development projects, 20,000 square feet or larger, in the Greater Toronto Area (2012 – present)

	City of Toronto	York Region	Peel Region	Halton Region	Durham Region	GTA 905 Total	Toronto share of GTA Total (%)
Buildings built since 2012	42	32	29	34	4	99	30
Space created (square feet) since 2012	9,243,964	2,590,473	3,080,170	1,995,093	266,027	7,931,763	54
Space Under Construction (square feet)	5,499,016	655,779	459,620	602,007	0	1,717,406	76

Source: CoStar, February 2019

Within mid-sized buildings constructed in the 100,000-250,000 square foot range since 2012, the 905 Regions dominate this segment, as indicated in Table 2. Toronto only accounts for 22% of the space built and 36% of the space under construction. Peel Region has seen the largest share of buildings and space in this size range primarily due to construction activity in the Airport Corporate Centre and Meadowvale. York Region ranks only fourth in the Toronto Region in the 100,000-250,000 square foot range, despite seeing the overall share of office development increase during this time period.

Table 2
Commercial office development projects, 100,000 square feet – 250,000 square feet, in the Greater Toronto Area (2012 – present)

	City of Toronto	York Region	Peel Region	Halton Region	Durham Region	GTA 905 Total	Toronto share of GTA Total (%)
Existing Buildings	7	4	11*	6	1	22	24
Existing square feet	912,923	697,695	1,676,769	803,909	126,929	3,305,302	22
Under Construction square feet	475,716	327,600	129,620	371,691	0	828,911	36

Source: CoStar, February 2019

Toronto's share of office development is most pronounced when looking at those buildings greater than 250,000 square feet (either recently completed or under construction). As Table 3 indicates, the 905 municipalities are relatively low compared to Toronto, with only York and Peel seeing any construction in this size range. More importantly, no large buildings are under construction anywhere in the 905 region. Downtown Toronto has 84 per cent of major

office space built since 2012 and 100 per cent of buildings in this size range under construction representing almost 5 million square feet coming on stream.

Table 3
Commercial office development projects, 250,000 square feet or larger, in the Greater Toronto Area (2012 – present)

	City of Toronto	York Region	Peel Region	Halton Region	Durham Region	GTA 905 Total	Toronto share of GTA Total (%)
Existing Buildings	11	2	2	0	0	4	73
Existing square feet	7,204,109	735,000	682,000	0	0	1,417,000	84
Under Construction square feet	4,968,340	0	0	0	0	0	100

Source: CoStar, February 2019

Of the 270 Major office buildings in the Region, most are smaller than 100,000 square feet

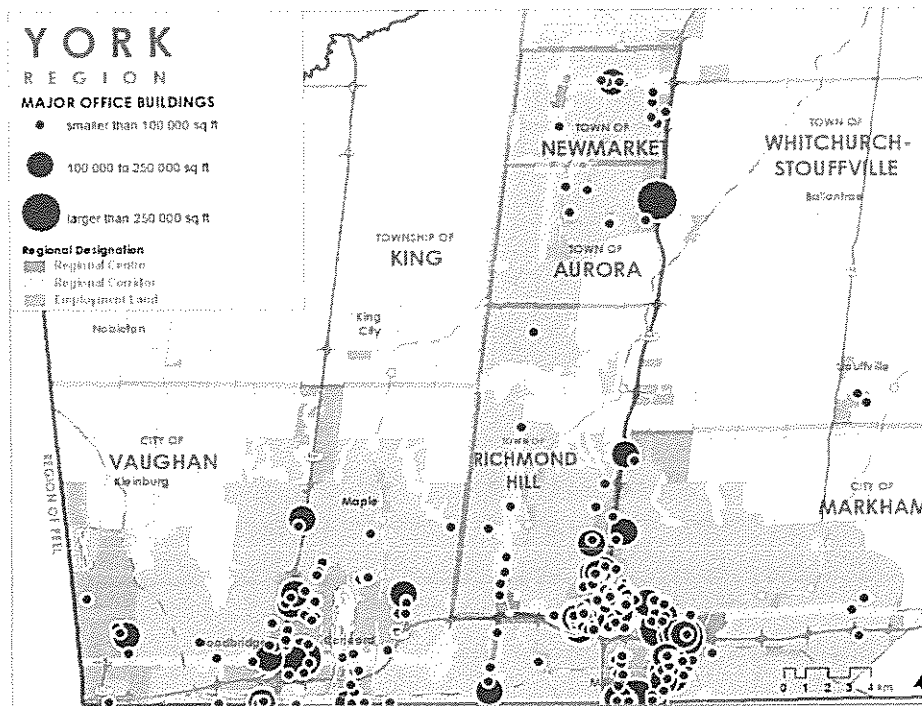
Major office is considered to be office buildings that are 20,000 square feet or larger, excluding institutional buildings such as municipal offices. Since 1975, the Region has seen the construction of 270 major office buildings that are 20,000 square feet or larger. Of those buildings, only 61 were larger than 100,000 square feet with only 7 being larger than 250,000 square feet.

Map 1 provides further detail on the location and size of existing office buildings across the Region. The majority of the offices are concentrated in a few areas:

- Vaughan Metropolitan Centre and north along Highway 400
- Highway 404/Hwy 7 area extending south along Warden Avenue to Steeles Avenue in Markham
- North along Highway 404
- Smaller concentrations in Aurora and Newmarket, and along Yonge Street from Steeles Avenue to 16th Avenue

Map 1

York Region major office buildings



Note: Figure does not include federal, provincial or municipal buildings (classified as institutional development).

Source: Region of York, Planning and Economic Development

Larger office buildings like those recently completed for KPMG in Vaughan and Aviva in Markham serve as corporate anchors of the Region's key business clusters and downtown areas. They signal the Region as a viable, attractive business investment location, and create the critical mass of space and employment necessary to leverage the transit investments made or committed, and attract the support services and workforce that make up vibrant downtown areas. It is this scale of office development that the Region needs to see built, particularly in Centres and Corridors.

There is a lack of supply of large 'Class A' office space in the Region

'Class A' office space typically locates around major infrastructure investments such as the subway or transportation hubs. Currently, there is a lack of immediately available 'Class A' office, greater than 100,000 square feet in the Region to attract or retain major tenants. If a prospective, or expanding tenant, looked at the Region for 'Class A' space of that size in the next 12 to 18 months, they could not be accommodated with the current stock or buildings in the construction pipeline.

These tenants would have to look elsewhere, and more than likely go to downtown Toronto which, through the use of financial incentives, has a significant pipeline of 'Class A' office, greater than 100,000 square feet, under construction. The fact that recently completed office buildings in the Region fill up quickly, and the Region's industrial space vacancy rate is now

at 1.2 per cent, in part through office 'conversions', suggests the supply issue in the Region is not related to a lack of demand from office tenants for space.

The current scale and location of proposed office development may not satisfy the competitiveness and city building objectives of the Region

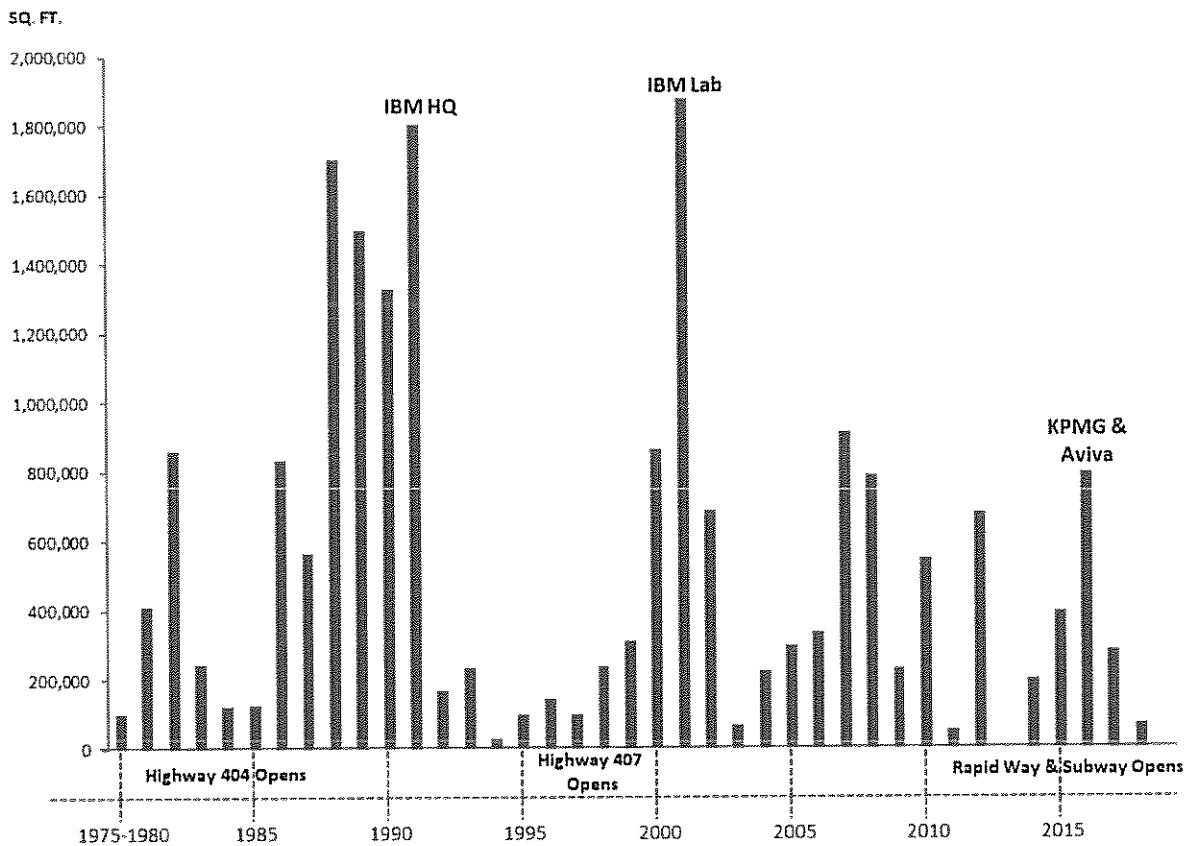
Looking at formal office proposal applications currently under review across the Region, there are 29 office buildings at some stage of the development process. These buildings total just over 2.8 million square feet of new space. Of those buildings, almost three quarters of them are not located in the Centres and Corridors, and none are over 250,000 square feet in size. The location and scale of these proposals, while necessary to help satisfy overall office space demand, will not contribute significantly to creating the vibrant downtown areas the Region is trying to attract and create.

Transportation infrastructure has driven office development in varying degrees

Staff analysed office development in the Region since 1975, illustrated on Map 1, relative to major transportation infrastructure investments. As Figure 3 illustrates, the largest peaks in office development occurred around 1990 and 2000. Both of these peaks were preceded by the opening of Highway 404 and Highway 407 respectively. The highways helped spur major office suburbanization, demonstrated in the significant office business parks anchored by major technology companies like IBM.

Office development has been slower over the past decade, which aligns with the introduction of the bus rapid transit ways beginning in 2011 and the Vaughan subway opening in 2017. There appears to be a direct correlation between office development and investment in highway infrastructure. Staff are monitoring this relationship with transit infrastructure (e.g., the major office buildings at the Vaughan Metropolitan Centre adjacent to the subway line).

Figure 3
Major Office development in York Region – 1975-2018



Source: Region of York, Planning & Economic Development

While there are a number of factors influencing office location decisions, the only factor the Region can immediately impact is government charges

Staff identified a number of factors that influence the choice of location for office development. Key considerations include vacancy rates and rents per square foot, land costs, proximity to complimentary industry, transit proximity, access to talent and government charges. Of these factors, the only one that the Region has immediate and direct influence over are the portion of construction costs related to government charges. Government charges under the Region’s influence include property taxes, development charges and planning fees. Other government charges that the Region cannot impact are building permit fees, the Harmonized Sales Tax (HST), cash-in-lieu (parkland dedication) and the land transfer tax.

There is a stronger correlation between incentives and development in Toronto

As previously noted, the Region had a development charge discount for non-residential construction in its first development charge bylaw in 1998. These discounts were phased out over the next decade and in 2010 the Region's 18 month development charge deferral was introduced. The average office space development per year dropped from 567,000 square feet per year to 303,000 square feet per year between these two periods, a decrease of 45 per cent. Since office incentives were first introduced in the Region in 1998, development was more robust during the period when Regional office incentives were higher.

Toronto has seen a large increase in its share of Greater Toronto Area office development over the past decade in line with their introduction of significant incentives for office development in 2008, described in more detail below. As noted previously, the City of Toronto also has almost 5 million square feet of office development under construction which includes 100 per cent of buildings over 250,000 square feet in the Greater Toronto Area.

In 2015, the Region's largest local municipalities began to incentivize office development

Since the Region last considered office incentives, Vaughan, Markham and Richmond Hill introduced financial incentives for office development. In 2015, the City of Vaughan passed a Community Improvement Plan that includes a number of incentives, such as:

- A development charge rate freeze at August 2013 levels
- 10 Year Tax Increment Equivalent Grant (TIEG)
- 18 month development charge deferral (only available in the Vaughan Metropolitan Centre (VMC) - deferral period intended to match the Region)

These incentives have been used by four significant office developments, consisting of approximately 724,000 square feet. The City has secured some notable tenants within these buildings, including: KPMG, Miller Thomson, GFL Environmental, Harley-Davidson and FM Global.

In 2017, the City of Markham passed a new development charge bylaw and introduced a development charge discount for offices greater than 100,000 square feet. The discount provides that offices only pay 25 per cent of the applicable rate for the gross floor area in excess of 100,000 square feet.

In 2018, the City of Richmond Hill, by way of a Community Improvement Plan, began to offer a 10 Year Tax Increment Equivalent Grant for office buildings¹. Thus far there has been no take-up on the local municipal incentives in Markham or Richmond Hill; however the

¹ Note: The maximum time period for the Tax Increment Equivalent Grant (TIEG) in the City of Richmond Hill is 10 years.

programs are still in their infancy. Preliminary feedback from the municipalities indicates that take-up could increase if the incentives were not limited to the local municipal level.

Some of the Region's neighboring municipalities also offer financial incentives for office

Staff also conducted an inter-jurisdictional scan of neighbouring municipalities and found that many are providing incentives to attract office development. The City of Toronto offers the greatest incentives, exempting all development charges for non-residential gross floor area above the ground floor and providing a 10 Year Tax Increment Equivalent Grant (applies to employment districts and designated employment areas). The Tax Increment Equivalent Grant, in place for over ten years, has been taken advantage by 12 Major office projects, totalling 5.65 million square feet (as of December 2017).

Other municipalities that offer incentives for office include Mississauga, Brampton, Hamilton, Niagara Region and Windsor. Of note, the City of Mississauga introduced a suite of financial incentives in 2018 that included a Tax Increment Equivalent Grant (Table 4 below summarizes the incentives provided in neighboring municipalities). Thus far, take-up on these incentives has been limited in these municipalities for reasons that include:

- Incentive program is relatively new (e.g., Mississauga) or still proposed (i.e., Hamilton development charge incentive)
- Local municipal incentives may not be enough²
- Incentive program was not directly targeting office (e.g., Hamilton tax incentives)

Finally, York Region also competes with other jurisdictions further afield. Municipalities such as New York, Boston and Chicago (Cook County) all have different incentive programs in place for office development.

² Source: Novae Res Urbis: Greater Toronto and Hamilton Area, Peel Regional Governance: City Status, March 20, 2019, page 7.

Table 4
Interjurisdictional scan of neighboring municipal office incentives

Municipality	Incentives provided	
	Property Taxes	Development Charges
Toronto	✓	✓
Halton Region	x	✓
Mississauga	✓	x
Brampton	x	✓
Hamilton	✓	✓*
Niagara Region	✓	x
Windsor	✓	x

*Note: Proposed development charge exemptions under 2019 Development Charge Bylaw
Source: Municipal Development Charge Bylaws, Municipal Community Improvements Plans and Imagination, Manufacturing, Innovation, Technology (IMIT) Program Review: Findings and Recommendations, Hemson Consulting Inc.

It is an appropriate time to consider incentives to help encourage major office development in Regional Centres and Corridors

The analysis shows that office job growth and demand in the Region is not translating into new office supply, and there is little indication this will change in the short to medium term based on current trends in the market and examining development prospects across the GTA. There are many factors that influence the scale and development of office space, and it is difficult to determine the impact incentives have had on office development patterns.

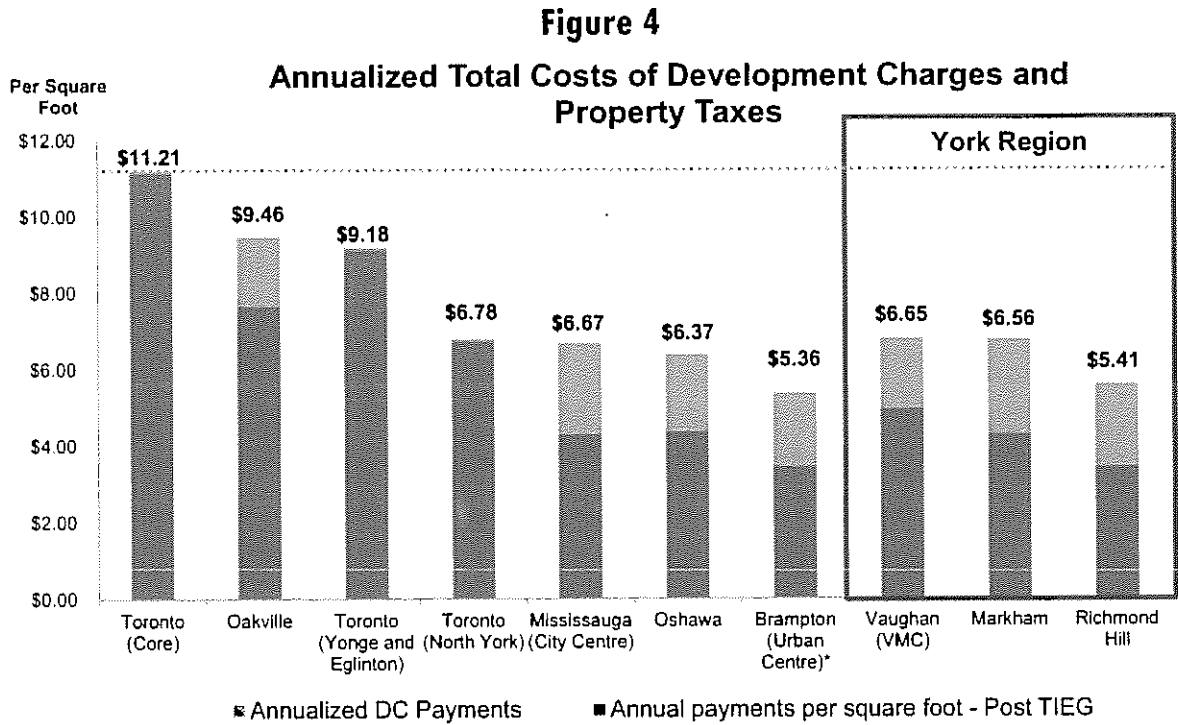
The vast majority of office space completed over the last decade or currently under construction has primarily occurred in downtown Toronto, where the greatest level of office development incentives are applied. While local municipal incentives outside Toronto have not generated significant results, these programs are mostly very new with little time for take-up to evaluate them. In addition, local incentives have a fairly minor impact on total cost of a development, and would have more impact if coupled with incentives at the Regional level.

Given the analysis of all the factors, it is appropriate to now consider Regional office incentives as a means to help stimulate office space supply in Regional Centres and Corridors where the greatest impact on overall Regional objectives around city building, transit usage and live-work connections can be achieved.

Over the 40-year life of a typical office building, combined property taxes and development charges for York Region municipalities are competitive

Staff reviewed the annualized costs of development charges and taxes per square foot for offices in the Region's southern three municipalities and neighboring jurisdictions. The results show that, while the Region's development charges may initially be high, when

combined with property taxes and annualized, the Region's municipalities are competitive over the 40-year life of a typical office building. See Figure 4 for further detail.



Notes: Annualized development payments are based on November 2018 rates spread over assumed office building life of 40 years (using discount rate of 7 per cent per Hemson Consulting Inc.). Development charge payments include Regional, local and education development charges. Annualized tax payments are based on current rates and assessment values of comparable office buildings in select Greater Toronto Area Office centres. Annualized tax payments are based on Regional (where applicable), local and education tax rates.

All annualized costs have factored in local municipal incentives (e.g., development charge discount in Markham and Tax increment Equivalent Grant in Richmond Hill, etc.). Richmond Hill's annualized costs are lower due to the sizes and ages of the buildings sampled which is reflected in their assessed values.

Source: Local municipal Community Improvement Plans, local municipal development charge bylaws, Hemson Consulting Inc. and Region of York, Treasury Office, Finance Department

Targeted financial incentives in Regional Centres and Corridors could help the Region meet its desired goals

Despite the fact that the Region's annualized total cost of development charges and property taxes are competitive, the Region is still not getting larger, speculative office development. Of the office development the Region is getting, the majority of it is not locating in the Region's Centres and Corridors, where the greatest infrastructure investment has been made in transit.

With this in mind, staff reviewed potential incentives with the aim of achieving the following outcomes:

- Encourage 'place-making' in the Regional Centres and Corridors through a mix of uses
- Promote live/work and transit
- Increase the size of proposed office buildings in the current pipeline and promote additional major office building applications
- Generate new speculative space to satisfy demand
- Minimize impact on the Region's tax levy

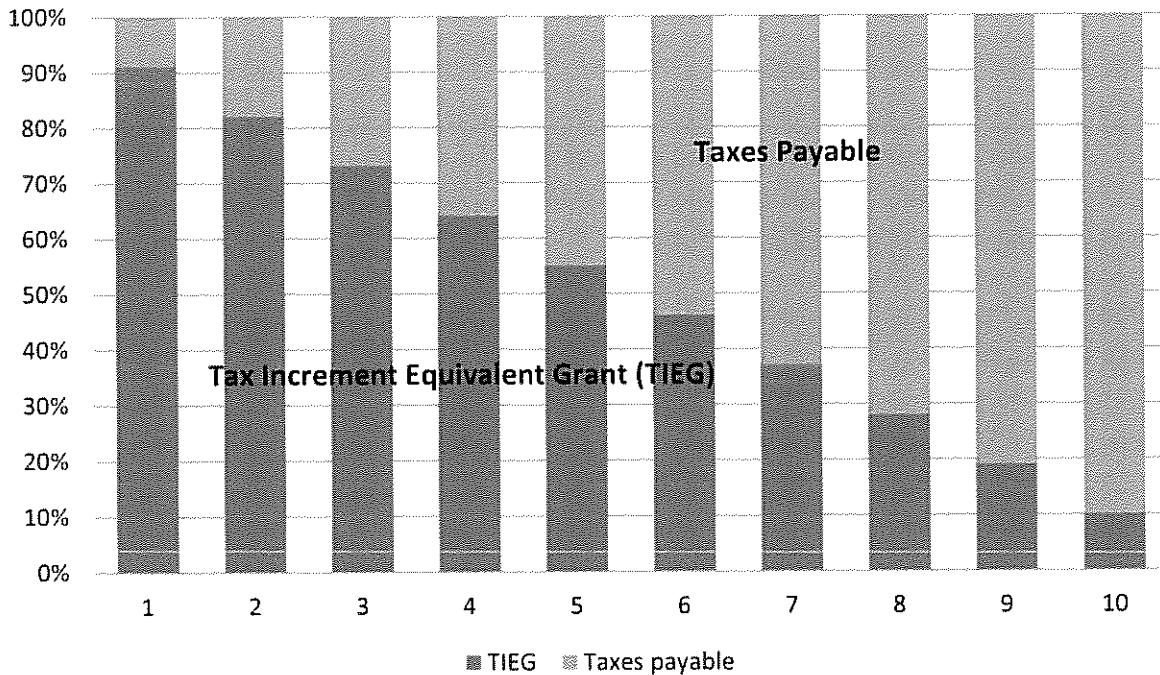
Local and neighboring municipalities provide property tax incentives to promote office development

The cities of Vaughan, Richmond Hill, Toronto, Mississauga and Hamilton all offer property tax relief for office developments through a Tax Increment Equivalent Grant (TIEG)³. A Tax Increment Equivalent Grant refunds a portion of the increase in property tax liability as a result of the new development taking place. The grant declines each year until the 10-years have expired and the property then pays its full taxes (see Figure 5 below for further detail). For the Region, the cost of the grant, if being treated as an operating budget item, would be recovered from the rest of the tax base via the tax levy, with the majority contributed by residential tax payers. If the grant is treated as a write-off, there would be a reduction to the Region's contribution to the debt reduction reserve and asset replacement reserves, which are tax-levy funded.

³ Note: A Tax Increment Equivalent Grant requires a Community Improvement Plan.

Figure 5

Tax Increment Equivalent Grant



Source: Region of York, Treasury Office, Finance Department

Development charge incentives are another tool the Region could use to facilitate office development on its Centres and Corridors

Many of the Region's local and neighboring municipalities use development charge incentives as the preferred tool to promote office development. These incentives can range from a deferral of development charges to a discount or exemption of the development charge due.

A review of the development charge deferrals currently being provided indicates that they are most often for a set timeframe (e.g., 18 or 36 months). The duration of the deferrals does not change to recognize preferred location or to incentivize larger buildings. Development charge deferrals do have the advantage of being an incentive that should not impact the tax levy (e.g., they are financed through development charges as opposed to funded from the tax levy /user rate).

Development charge discounts and/or exemptions are often times structured to incentivize buildings of greater sizes (e.g., the City of Markham's development charge discounts for offices greater than 100,000 square feet). However, these incentives can only be done

though a Community Improvements Plan or a development charge bylaw⁴. Furthermore, any development charge shortfall, which is the result of such an incentive, would have to be funded through the tax levy and user rate.

Staff could develop an incentive program that promotes larger offices, in Regional Centres and Corridors, while not impacting the tax levy

In order to achieve the Region’s objectives of attracting office development to the Centres and Corridors, while ensuring financial prudence, a targeted office incentive program could be developed based on the following principles:

- The program only targets the Region’s Centres and Corridors
- The program only incentivizes significant office development (e.g., greater than 100,000 square feet)
- The program be capped and only be available for a limited time frame
- The program’s structure considers the costs against the economic benefits of office attraction
- The program prioritizes non-tax levy funded incentives

A potential incentive program that adheres to the above principles could be a development charge deferral program. Table 5 below provides an example of a potential structure of a development charge deferral for major office buildings.

Table 5
Potential structure of a development charge deferral for office buildings

Size Threshold*	Applicable location	Duration of deferral
Greater than 400K sq. ft.		Longest
Between 250K sq. ft. and 400K sq. ft.	Regional Centres and Corridors	Intermediate
Between 100K sq. ft. and 250K sq. ft.		Base

*Note: Threshold is on a per building basis (e.g., six buildings of 50,000 square feet would not qualify)

⁴ Note: A Community Improvement Plan, under the *Planning Act, 1990*, is a process that can often take upwards of two years.

Regional incentives to facilitate purpose-built rental development could also help attract major office

Housing has been a key factor in attracting new major office developments, as employers want adequate local housing for their workers. In this regard, in June, 2018, Council endorsed a [Draft Rental Housing Incentives Guideline](#) proposing financial incentives for purpose-built rental developments. A further report on financial incentives for purpose-built rental will be brought forward in the fall and could also help attract new office developments (e.g., more complete communities, more affordable housing options for employees).

Facilitating office development in transit oriented areas is consistent with Provincial policy direction

The Growth Plan for the Greater Golden Horseshow speaks to optimizing Provincial investments in higher order transit (e.g., the Toronto York Spadina Subway extension and the Bus Rapid Transit ways). Encouraging office development along the Region's Centres and Corridors, where the greatest investments in higher order transit have been made, could help achieve the Provincial policy objective. Furthermore, facilitating a mix of uses, both non-residential and residential, provides a fiscal benefit to the Region. Office development, together with the residential development it attracts, will enhance the Region's tax assessment base, resulting in higher tax revenues to support the services the Region provides. In addition, despite the lowest commercial tax ratio in the Region compared to the GTA, office development still has a higher taxing capacity than residential properties.

The Province recently introduced legislation that could change the development charge treatment of office development

Currently development charges are set and paid at building permit for office buildings. Bill 108, *More Homes, More Choice Act, 2019* ("Bill 108"), tabled by the Provincial government on May 2, 2019, could change both the administration of development charges and the timing of payment for office development.

The legislation proposes to allow developers to lock in development charge rates on the day upon which a site plan or zoning application is made. Furthermore, non-residential developments, including offices, would not have to pay development charges until the earlier of occupancy permit or first occupancy of the development, and continue to pay, in equal annual installments, for the ensuing five years. Municipalities may charge interest at a rate to be prescribed by the Province.

Using the KPMG building in the City of Vaughan as an example office building, Table 6 summarizes the timeframe associated with the proposed administration and timing of payment of development charges.

While Bill 108 does introduce a phased payment of development charges for office, these incentives are available throughout Ontario. The provisions within Bill 108 do not target

specific locations, nor do they encourage larger offices. Since Bill 108, when it becomes law, would apply to all municipalities, it is unlikely that it could reverse the draw of major office to the City of Toronto.

Table 6

Summary of changes under Bill 108 as they could apply to office development*

Point in development/development charge payment process	Bill 108 detail	Approximate elapsed time (years)
Site Plan Application or Zoning Approval application	Development charge rates frozen	0.75
Subsequent amendment to applications	Development charge rates are reset	
Site plan approval	N/A	
Building Permit	If more than the prescribed time has elapsed from approval to building permit, rates are reset to building permit date	1
Occupancy permit or first occupancy (earlier of the two)	First payment of development charges	2.75
Payment of development charges	Second payment of development charges	5
Payment of development charges	Third payment of development charges	
Payment of development charges	Fourth payment of development charges	
Payment of development charges	Fifth payment of development charges	
Payment of development charges	Sixth payment of development charges	

9.5

*Note: Using the KPMG building in the City of Vaughan as an example:
 Site plan application – September 18, 2012
 Minor variance application – August 30, 2013
 Site plan approval – June 23, 2013
 Building permit issuance (Foundation Permit) – May 26, 2014
 Date of first occupancy – January 27, 2017
 Source: City of Vaughan, Development Finance, May 22, 2019

Staff propose to consult with stakeholders on potential office incentives and report back to Council in the Fall of 2019

Pending Council approval, staff propose to begin consultations (through meetings) with stakeholders over the summer months and report back to Council in the Fall. This consultation will involve local municipalities, BILD and other industry stakeholders (including office developers), major employers, commercial real estate brokerages, and local chambers of commerce. Some of the key principles that are proposed to be consulted on include:

- Barriers to, and opportunities for, major office development in the Region
- Type of incentive (e.g., property tax relief, development charge relief, combination)
- Qualifying office size threshold
- Duration of pilot project
- Treatment of transit oriented office buildings
- Local municipal participation

Staff will then use the feedback from this consultation process to develop a financial incentives package and propose to report back in early Fall with a recommended option for Council's consideration. Table 7 summarizes the next steps in the process.

Table 7
Proposed timeline

Proposed timeline	Detail
Summer 2019	Consultation with local municipalities, BILD, other industry stakeholders (including office developers)
Fall 2019	Report back to Council on results of consultation with recommended financial incentives for consideration

Targeted office development incentives supports a number of the desired results set out in the '2019 To 2023 Strategic Plan'

Promoting office development through targeted and principled financial incentives, aligns with a number of the Community result areas in the 2019 to 2023 Strategic Plan, including:

- Fostering an environment that attracts businesses, grows employment opportunities and attracts people
- Encouraging growth in Region's Centres and Corridors and built-up urban areas
- Ensuring reliable, responsive, effective, efficient and fiscally responsible service delivery

5. Financial

If the Region provides incentives there are both costs and benefits

Whether the Region provides property tax or development charge relief, there is a financial cost associated. As noted previously, property tax grants and development charge discounts/exemptions are funded through the tax levy and user rate and therefore can create additional pressures. Conversely, development charge deferrals represent a financing cost that is financed through development charges.

Incentivizing office development does also bring with it financial benefits to the Region through the additional property tax revenues from the new office and its new surrounding developments.

6. Local Impact

Local municipal participation will be required

A long standing principle of Regional financial incentives has been that of local municipal participation. In this regard, for any financial incentives package to be successful, the Region will require local participation. This participation shall be similar, if not better, and to the satisfaction of the Region.

Encouraging major office development benefits the economies of the local municipalities and responds to recent changes

Office development and the corresponding employment it creates are of vital importance to the Region's local municipalities. In recent years, the cities of Vaughan, Markham and Richmond Hill introduced financial incentives directly targeting office development. Consideration of office incentives by the Region responds to the City of Vaughan's Council resolution, in 2012, that the Region consider incentivizing office development.

7. Conclusion

Incentives may help stimulate major office in the Region's Centres and Corridors

While the Region is achieving its employment forecast, this has not translated into significant new office gross floor area. The changing nature of employment, combined with the draw to downtown Toronto is making it difficult to attract those larger, more speculative office buildings to the Region. Over the past five years, three of the Region's local municipalities have taken steps to stimulate more office development with incentives that range from development charge deferrals, freezing of development charge rates and Tax Increment Equivalent Grants. Encouraging major office growth in the Region's Centres and Corridors, through the use of financial incentives, is in line with Provincial policy direction in the Growth Plan and leverages the significant transit infrastructure investments the Region has made in these areas.

For more information on this report, please contact Doug Lindeblom, Director, Economic Strategy at 1-877-464-9675 ext. 71503 and/or Edward Hankins, Director, Treasury Office at 1-877-464-9675 ext. 71644. Accessible formats or communication supports are available upon request.

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