

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF OCTOBER 20, 2015

Item 3, Report No. 37, of the Committee of the Whole (Public Hearing), which was adopted without amendment by the Council of the City of Vaughan on October 20, 2015.

3 COMMUNITY IMPROVEMENT PLAN FOR THE VAUGHAN METROPOLITAN CENTRE AND WESTON ROAD & HIGHWAY 7 PRIMARY CENTRE

The Committee of the Whole (Public Hearing) recommends:

- 1) That the recommendation contained in the following report of the Executive Director, Office of the City Manager; Commissioner of Planning; and the Commissioner of Finance & City Treasurer, dated October 7, 2015, be approved;
- 2) That the presentation by the Director of Economic Development, City of Vaughan, and Mr. John Hughes, Partner, Hemson Consulting Ltd., St. Patrick Street, Toronto, and Communication C8, presentation material titled "*Tools for Encouraging Office Development in the VMC & Weston & Hwy 7 Primary Centre*" dated October 7, 2015, be received;
- 3) That the following deputations be received:
 1. Ms. Paula Bustard, SmartREIT, Applewood Crescent, Vaughan; and
 2. Mr. Michael Uster, Liberty Development Corporation, Steelcase Road West, Markham; and
- 4) That Communication C5 from Marco Filice, Senior Vice-President & General Counsel, Liberty Development Corporation, Steelcase Road West, Markham, dated October 5, 2015, be received.

Recommendation

The Executive Director, Office of the City Manager; Commissioner of Planning; and the Commissioner of Finance & City Treasurer, in consultation with the Interim Commissioner of Legal and Administrative Services/City Solicitor, the Director of Economic Development and Director of Development Finance & Investments recommend:

1. THAT the presentation and study for the Community Improvement Plan (CIP) for the Vaughan Metropolitan Centre and Weston Road & Highway 7 Primary Centre community improvement project areas BE RECEIVED;
2. THAT the draft Community Improvement Plan By-law BE RECEIVED;
3. THAT input from the public and Vaughan Council at the Statutory Public Meeting on October 7, 2015, BE RECEIVED; and
4. THAT any issues identified be addressed by Staff in a comprehensive technical report to Committee of the Whole.

Contribution to Sustainability

Green Directions Vaughan embraces a Sustainability First principle and states that sustainability means we make decisions and take actions that ensure a healthy environment, vibrant communities and economic vitality for current and future generations. The VMC, primary centres and other intensification corridors are fundamental building blocks of the City's growth management strategy and are essential to the long-term economic vibrancy of the City as an office employment centre.

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A CIP will facilitate a collaborative approach between the City and development stakeholders in bringing vital office development as an employment cornerstone to the overall growth plan.

Economic Impact

All costs associated with developing the Community Improvement Plan (CIP) have been budgeted within the Economic Development Department's Capital Budget EB-9535-14.

Future financial implications resulting from the approval of the CIP will be addressed through future budget cycles

The financial exposure resulting from the enactment of the CIP has been estimated and is discussed within the body of the report. Upon enactment of the by-law to adopt the CIP, Council will also be approving an order of magnitude amount that will be invested into the program in accordance with the Plan.

Staff will report back annually on the program to provide information on the uptake of the CIP and associated investment by the City. Forgone revenues related to development charges not be made up by charging future development; as such arrangements must be made to fund this shortfall through an alternative funding source such as property tax. There is no requirement to fund the total investment immediately and if Council wishes to do so, the investment could be amortized over a longer term such as 25 years. These commitments will be addressed through future budget cycles and will be subject to Council approval. Unlike development charges, CIL Parkland and property tax discounts are not required to be funded from other sources and are simply treated as forgone revenue.

Communications Plan

Legislative Communication Requirements

The Planning Act has mandatory communication requirements that require the advertising of at least one public hearing and the Clerk is mandated to carry out such advertising at least 20 days in advance of the meeting date. The Public Statutory hearing was scheduled for October 7, 2015 and was advertised using a number of channels to optimize public awareness. This included advertising in the Vaughan Citizen and Vaughan Liberal on September 10, 2015. An email broadcast was also sent to all landowners in the identified community improvement project areas. Other methods of notification employed in the Statutory Public Meeting are set out below:

- Vaughan TV
- *City Update*, the City of Vaughan's e-Newsletter
- City's electronic newsletter, *Vaughan e-Business Link*
- City Page Online
- City of Vaughan's Twitter and Facebook accounts
- City's website, www.vaughan.ca/vmc
- Notification was also sent out through the Local Councillors Ward Newsletters.

Both advertising of the hearing as well as pertinent information such as the draft proposed CIP study and by-law was also made available on September 10, 2015 on the City's website, www.vaughan.ca/VMC/CIP. As of September 23, 2015, no comments have been received.

Subsequent to Council approval of the CIP Study and the CIP by-law, appropriate notices will be advertised as prescribed by the Planning Act.

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Purpose

The purpose of this report is to provide a summary for Members of Council and members of the public of the proposed CIP plan and CIP by-law (Attachments 1 and 2) for the purposes of hearing public input on October 7, 2015. The intent of both documents is to establish provisions allowing for the CIP and authorization to bring forward for enactment a by-law designating the VMC and Weston Road and Highway 7 Primary Centre as the Community Improvement Project areas.

Background – Analysis and Options

Building the Vaughan Metropolitan Centre – Office Market Study

In September 2012, Staff tabled a report entitled *Building the Vaughan Metropolitan Centre – Office Market Study* at the Vaughan Metropolitan Centre Sub-Committee. The Study completed by Live Work Learn Play (LWLP) provided an initial assessment of the competitiveness of the Office Market within the VMC relative to other Greater Toronto Area (GTA) office nodes. The Study found that the urban office forms envisioned for the VMC placed it at a competitive disadvantage, notwithstanding the presence of a subway. While the subway was a 'nice to have' amenity, it was not sufficient enough to attract office tenants who still sought parking amenities. The office rents required in the VMC placed it above those in Markham/Richmond Hill, North York and Mississauga Airport Corporate Centre. These competitor locations provided options with existing and greenfield office products compared to only greenfield projects in the VMC. Successfully attracting office tenants requires a narrowing of the rent gap, either through reducing costs or increasing the real or perceived value of an office location in the VMC.

Comprehensive strategy and study structure to achieve Vaughan Official Plan policies

In order to compete within this complex office market Council tasked staff with creating a comprehensive strategy to address incentive issues with regard to office development city-wide and in particular in the VMC area as a method to narrow the identified rent gap. The goal of this strategy is to fulfill Council's request to achieve a mix of non-residential uses in the VMC that will serve the greater population of the City and to develop densities supportive of high-order transit.

Staff wanted to further understand the need for, and magnitude of any office incentive programs that would be required. Staff retained the Altus Group Limited to conduct an Office Development Pro Forma Scenario Study in order to understand the financial challenges being faced by developers of office buildings. This report compared the VMC to several other competitive office sub-markets and estimated the rental rates that would be required in order to make the VMC competitive in the office market. A cursory examination was also completed on incentive tools that are available to the municipality to give the developers a competitive edge when considering when and where to construct an office building.

Transit investment alone is not enough to overcome market disadvantages in Vaughan

The Altus study found that despite the significant transit investment in the VMC area, it would not be enough to trigger office or mixed-used development. It also found that the gross rents in the VMC would most likely be higher than other competing office markets in the GTA and that there may be a cost disadvantage in both existing and new-construction Class A space.

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It was also apparent that although Vaughan is competing on a near level playing field for new office development when compared with other competitive markets, the cumulative effect of current rents, high land values, and increasing vacancy rates for office across the GTA all cause the new office development that will be available in the VMC to become less enticing to potential office tenants, when it is compared to the existing office product that is available in the GTA. As a result of these findings Altus identified a series of CIP tools that are available to municipalities that would assist in reducing the gap between current market rents and rents required to justify new construction.

The results of the study were brought forward in a staff report entitled “*Community Improvement Plan: A Strategic Tool to Support and Accelerate Office Development*” (Item 4, Report No. 2 of the Priorities and Key Initiatives Committee) and adopted by Council on May 27, 2014. It directed City staff to initiate a Community Improvement Plan Study to support and accelerate office development in the VMC and other intensification areas. Staff issued a Request for Proposal (RFP) in September 2014, and through a competitive bid process, the successful proponent was retained the services of Hemson Consulting Ltd. and Urban Strategies Inc. (RFP # 14-286).

CIP Study Methodology

The methodology for constructing the CIP comprised of three main phases: background research and consultation, the development of the CIP program, and implementation and action planning. The actions in each phase are explained below:

Phase 1: Background research and consultation

- The first phase of the CIP study consisted of data collection, analysis and identifying the CIP boundary area. The purpose of phase one was to identify specific issues that the CIP would aim to address, review current policy and best practices in other jurisdictions, and gain insight from City of Vaughan staff, public sector stakeholders and private landowners on how a CIP could best serve all parties.

Phase 2: Development of the CIP program

- Based on the results of research and stakeholder consultation in phase one, a draft community improvement project area was selected and CIP incentives were established. Phase two exercises included determining the rationale for incentive programs, establishing where incentives should apply, selecting the appropriate financial and policy-related incentive tools, and determining CIP program parameters and eligibility criteria that would target the specific issues related to office development, while still being mindful of the limitations on existing tax based funding sources. Following this work, the consulting team prepared a draft CIP and CIP By-law and circulated it to stakeholders for further review and consultation through the public meeting process.

Phase 3: Implementation and action planning

- Bringing together the work completed in phases one and two, the third phase of the project is currently underway and is comprised of the preparation of internal process maps, agreement and application templates and the development of a program for marketing and monitoring after implementation.

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Phase 1: Background Research and Consultation

Further to the previous studies conducted, Staff worked with Hemson to develop a more fulsome economic picture of the current office conditions in Vaughan. This analysis coupled with extensive consultation with the development industry was undertaken to provide further rationale for a CIP and to assist in identifying the specific issues that could be used to develop the CIP in order to support office development in key areas.

The CIP as a tool for transformational shift from a large industrial centre to a regional office node

With more than 71 million square feet of industrial inventory, Vaughan is the fourth largest industrial market in the GTA after Toronto, Mississauga and Brampton. Comparatively, Vaughan's office market contributed approximately 2.6 million square feet of space (of which Class A accounts for only 1.49 million square feet).

While Vaughan's industrial strengths have served it well in the past; current and future economic trends point to a declining manufacturing sector as more production and jobs shifts to lower cost locations in other parts of North America and Asia. Manufacturing is slowly giving way to distribution uses, as well as the retail sector. To mitigate these macroeconomic changes, the City must consider attracting businesses that will attract emerging industries such as professional, scientific and technical services, life sciences, educational services, head offices, creative and knowledge industries. Furthermore their business operations require an office setting that is transit accessible, and within amenity-rich, dense urban environments as envisioned for the VMC.

Vaughan requires a competitive edge to surpass its competition

According to Cushman & Wakefield's media release (July 17, 2015), the office market in Toronto Downtown South area (around Union Station) saw vacancy run out (at 1.7% vacancy), at the expense of older office stock elsewhere. Toronto's Financial Core is expected to still see strong market interest, but the office markets in the 905 areas are not expected to fare as well. The Q2 2015 Colliers Office Market report shows that Vaughan's vacancy rate for Class A office space is significantly higher (12.6%) compared with Markham Centre (5.8%) or Highway 404/Highway 407 (6.7%). The Mississauga Airport Corporate area leads with a 17.9% office vacancy rate. In the coming quarters, Vaughan's statistics may reflect a slightly lower vacancy rate as several recent office transactions at Applewood and Keele Street may not be reflected in the statistics.

LWLP's report, *Vaughan Metropolitan Centre Reconnaissance & Strategic Assessment, May 2015*, provides some insight into the 905 office market. Brokers have cited that there is a large supply of GTA office sites relative to demand, a condition exacerbated by conversions and adaptive reuse of industrial space for office functions. Furthermore, the 905 areas have a higher cost to build relative to other markets and Downtown Toronto has enjoyed renewed appeal as an office market as employers are increasingly using higher quality of life as attractors of talent: easy commute; close proximity to amenities and services; extracurricular offerings and housing options.

In comparison, the 905 areas are built around office clusters in specific sectors. For example, Mississauga's office clusters are associated with financial services and biotechnology and Markham's cluster is focused on information and communications technologies (ICT).

Vaughan's office market is not well understood

To date, Vaughan has a weak office cluster affiliation which combined with low awareness as an office node, makes it a difficult task to raise its level of competitiveness. This is supported by LWLP's findings:

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- Vaughan is underperforming relative to the wider 905 for total office leasing market.
- Vaughan has a lower number of transactions in the last three years (Vaughan: 122; Markham: 172; Mississauga: 199) and a lower total square footage of leased office space (Vaughan: 209,364 square feet; Markham: 392,742 square feet; Mississauga: 414,764 square feet).
- Vaughan's inventory of 2.6 million square feet is the lowest among its competition.

Notwithstanding this pattern, Vaughan has started to experience a tightening of its office market with recent lease transactions: Holcim, Golf Town and Mattamy Homes. However with the softening Canadian economy, it is difficult to predict the longevity of continued office investment; nevertheless this is the point in time that the VMC must either start its development or risk being postponed to the next upward economic cycle. The beginning of office investment produces employment and economic benefits, increased local spending and generation of taxable assessment.

Major office development is a pillar of Provincial Growth Plans

Referencing one of the primary goals of the Province's Growth Plan for the Greater Golden Horseshoe: to create 'complete communities'; building large scale office spaces in the VMC, generates local employment opportunities for residents which in turn reduces automobile dependence. According to Statistics Canada, there are more than 13,900 office sector employees living in Vaughan, whereas only 12,000 of these employees also work in Vaughan resulting in a net out-commuting scenario. Using a conservative estimate of 27 square metres per employee, the 139,355 square metres (1.5 million square feet) of anticipated office space in the VMC, would correspond to 5,160 jobs. Diversifying Vaughan's business base to include more office employers could help alleviate transportation and traffic issues associated with commuting, and support public transit infrastructure investments.

Broadening Vaughan's industry sectors benefits residents and existing businesses

In addition to matching Vaughan residents' skill sets, training and development to office employers, there are other economic development goals that can be accomplished with more office growth. More office opportunities will allow the City to attract those business-to-business (B2B) support services that are vital to a vibrant economy. The City's Economic Development Strategy speaks to attracting financial institutions, real estate, insurance, technical, business and professional practices and creative industries. This tertiary sector provides 'soft' services or activities where people offer their knowledge and time to improve productivity, performance potential and sustainability bolstering business competitiveness and growth. Limited local capacity in the tertiary sector presents an opportunity for incoming firms. The attraction of 'Bay Street' firms such as KPMG and Deloitte, with their international expertise and reach, draws other ancillary service providers and creates demand for hospitality, entertainment and retail services.

Office construction benefits the provincial and local economy

Based on Statistics Canada's Input-Output Multiplier, the development of 139,355 square metres (1.5 million square feet) of office space would lead to \$540 million in direct, indirect and induced Gross Domestic Product (GDP) and 6,400 construction sector jobs. At the local level, the construction and building sector is one of Vaughan's most important industries, employing more than 18,000 people. From land development; building product manufacturing; training; construction trades; furniture and fixtures to associated retail sales; the construction industry influences the provincial and national economy with direct, indirect and induced spending, sales and jobs. The following table illustrates the breadth of construction-related industries in Vaughan and the well-paying, highly skilled jobs they provide.

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Sample of the Employment Associated with Construction in Vaughan, 2014

North American Industrial Classification Code	Industry Sector	Industry Sub-sector Product/Service Description	Number of Businesses in Vaughan	Total Employment in Vaughan
23	Construction	Non-residential building contractors and land development services	710	18,459
32	Manufacturing	Manufacture of building products including windows, doors, concrete, brick, millwork, etc.	216	6,952
33	Primary Metal Industries	Steel structures, plumbing fixtures, welding services	325	9,736
41	Wholesale Trade – Structure	Building materials distribution including lumber, plastics, electrical, HVAC	223	3,715
TOTAL			1,474	38,862

The KPMG Tower, currently under construction, provides a more concrete example of localized spending. With four possible levels of certification (i.e. certified, Silver, Gold and Platinum) under the LEED® (Leadership in Energy & Environmental Design) rating system, an international mark of excellence for green building, the KPMG Tower will be built to LEED® Gold rating. In order to achieve this rating, there are certification points that can be accumulated from regional content, i.e. use of locally sourced materials from within 800 kilometres of the project site. A sample of the materials sourced locally include curtain wall, concrete and cement, vapour and waterproofing membranes, stone and tile. In addition, many of the subtrades are from companies within the local area.

Driven by tenant demands and planning policies, such as the VMC Secondary Plan, new office development projects coming on stream will be required to meet green building standards, which usually include a portion of local materials and labour. While the initial faces of these office development projects begin with the developer or landowner, it quickly transforms to become one that is about people – people who develop and manufacture the thousands of building products; skilled tradespeople whose craft is transform blueprint drawings into reality; and office tenants whose daily operations provides jobs, pay cheques and spending.

Assessment of Financial Incentives throughout the Greater Toronto Area

An examination of the current CIPs in place across the GTA reveal that the City of Toronto is the only municipality with an operational CIP program that bears similarity with what is being contemplated by Vaughan. The City of Toronto enacted a city-wide CIP in 2008 (updated in 2012) providing development charge exemptions (office and retail – all gross floor area above the first floor is exempt); a Tax Increment Equivalent Grant (TIEG) and Brownfield TIEG and sector-specific financial incentives, under the Imagination, Manufacturing Innovation and Technology (IMIT) program.

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Within York Region's larger urban municipalities, Richmond Hill is proposing a TIEG incentive program, but the CIP has not been completed, nor does Markham have a CIP implemented. In Peel Region, Mississauga is developing a CIP for the Mississauga Exchange District, targeting office development. Brampton employs development charge incentive programs to support its Downtown Core.

Public and Stakeholder Consultations

From the outset, the Hemson Consulting and City of Vaughan staff recognized the importance of a comprehensive public consultation strategy to ensure successful implementation of the Community Improvement Plan. Under staff direction, Hemson Consulting Ltd. designed an extensive public consultation strategy to engage and solicit feedback from the public, as well as the individual land owners who will be directly impacted by the CIP. This strategy included group consultation sessions, through which all landowners in the geographic area identified in the community improvement project area were invited to review the draft CIP and provide feedback, as well as one-on-one meetings with VMC and Weston & Highway 7 area landowners to engage stakeholders in a more intimate setting.

The second part of consultation strategy, included the engagement of other levels of government to solicit feedback on the draft CIP report and to seek participation in the Community Improvement Plan by offering incentives for office development within the community improvement project area. York Region and the Ontario Ministry of Municipal Affairs and Housing were identified as the key public sector stakeholders.

As a part of the development of the CIP, consultation has taken place between the City, development industry stakeholders and community to inform the CIP plan development process. In addition to the staff meetings with the City's working group, CIP Steering Committee, and Senior Management Team, Hemson Consulting Ltd. and Urban Strategies Inc. has engaged with the development stakeholders at the VMC Working Group sessions.

a. **The Kick-Off Meeting** – the initial CIP landowner consultation meeting took place as an agenda item at the VMC Working Group session held by LWLP on March 4, 2015. Located at the Monte Carlo Inn in Concord, it was attended by approximately 18 people representing the VMC landowners, the Region of York, and City Staff.

b. **Landowners One-on-One Consultations** – Hemson Consulting Ltd. and Urban Strategies Inc. contacted all of the major landowners within the VMC and the Weston Road and Highway 7 Primary Centre to request one-on-one consultations. Each landowner group was provided with a copy of the presentation delivered to the VMC Sub-Committee meeting on June 11, 2015. Five groups accepted the invitation: SmartReit, Liberty Development, Omega Holdings, Bentall Kennedy and Royal Centre. Several attempts were made to consult with RioCan in the Weston and Highway 7 Primary Centre, but no response was received.

c. **Landowners Meeting** – Following the one-on-one consultations with VMC landowners, the consultants regrouped with stakeholders at the VMC Working Group session on July 16, 2015. At this meeting, Hemson presented the group with the findings from their stakeholder consultations.

Input Received Through the Consultation Process

The following chart presents a list of the comments and questions raised during the landowners' consultations, and the responses drafted by the City in consultation with Hemson and Urban Strategies.

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Comment/Question	Responses
Consider adding further incentives for mandatory offices in VMC	<ul style="list-style-type: none"> • Mirror Region's 18 month DC deferral policy for office space in VMC only. • This incentive was added to acknowledge the importance that the City places on the VMC.
Why is Weston/7 treated the same as VMC?	<ul style="list-style-type: none"> • This site is adjacent to VMC and shares many characteristics. • Transit access provides an appropriate link to the VMC and is an excellent location for major office.
Why aren't GO stations included in CIP area?	<ul style="list-style-type: none"> • The Metrolinx plans are still being developed. • The planning permissions are less refined (OP). • The expectation is for high density residential in the short term. • These locations can be added at a later date if it is deemed necessary down the road.
The City should continue to advocate for Regional participation	<ul style="list-style-type: none"> • The City will continue to advocate this point through a Council motion. • The Region has the ability to implement a CIP to facilitate development. • The City's Consultants sent a memorandum to the Region to request participation which is attached as an appendix in the CIP report. • A report was tabled by the Region entitled "York Region Office attraction Review" which did not include a recommendation for financial incentives, but rather described the need for a marketing and communications plan for attracting office development. A copy of this report is attached as an appendix to the CIP report prepared by the City's consultants.
The City should continue to advocate for Provincial participation	<ul style="list-style-type: none"> • The City will continue to advocate this point through a Council motion. • The province is able to provide grants and other incentives through section 37 of the Planning Act. A memorandum to the province will be drafted and will be sent through a council resolution.
It may take longer than five years to reach 1.5M sq. ft. threshold	<ul style="list-style-type: none"> • Note that council will have the ability to renew or amend the program if it is deemed appropriate at the end of the five year term. • Currently the program is designed in such a way as to encourage early acceleration of office development and as such it is not recommended that the program be extended beyond the five year horizon at this time.
What is the status of City's establishment of parking authority?	<ul style="list-style-type: none"> • The City anticipates that an external consultant will be retained early next year to facilitate a parking strategy, which will look at several different components including the potential for a parking authority.

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Consider exempting offices from s 37. if all parking is provided underground	<ul style="list-style-type: none"> Staff feel that the program is adequate and balances the objectives of the strategy and the limitations on existing tax-based funding sources. These types of concerns can be addressed through Section 37 guidelines and the VMC Secondary Plan process.
Parking Ratio Requirements are too high; can this be addressed in the CIP?	<ul style="list-style-type: none"> These ratios are driven by tenant demand. The current ratios are believed to be reasonable and can be reassessed once the impact of TTC subway/VIVANext is better understood.
Will lost CIL revenue affect the City's ability to acquire parkland in the VMC?	<ul style="list-style-type: none"> Developing quality parks in the VMC is very much a priority to the City, as they have a positive influence on placemaking. The hope is that the forgone revenue will be mitigated to a certain extent by stand-alone office, which does not contain a residential component.
Provide further emphasis on the macro benefits of the program	<ul style="list-style-type: none"> These benefits are further outlined throughout the body of this report and the draft CIP Study.
Note the amount of qualifying office space under construction to date that will be included in the program retroactively	<ul style="list-style-type: none"> These figures are estimated in the draft CIP Study but further refinement will be required in order to finalize the total GFA to be received into the program retroactively. To reach the office size threshold, the qualifying area must be part of the same building permit.
Provide a note on the experience being leveraged from other municipalities	<ul style="list-style-type: none"> The CIP study contains a survey of CIP policies from various locations throughout the GTA. Pro-forma comparisons between Vaughan and other office markets were done in previous studies to understand how Vaughan fits within the market.
Provide further information on the CIP Implementation and Marketing Plan	<ul style="list-style-type: none"> The CIP Implementation and Marketing Plan is outlined in greater detail within this report.
What are the boundaries of the Community Improvement Project Areas?	<ul style="list-style-type: none"> The community improvement project areas include both the VMC and the Weston Rd & Highway 7 primary centre. The boundaries of these project areas are located on the maps provided in Appendix A of the draft CIP Study.

d. Informed industry associations of the CIP Study

Hemson Consulting Ltd. contacted the Building Industry and Land Development (BILD) Association and NAIOP, the Commercial Real Estate Development Association to inform both groups of the upcoming CIP Study and community improvement project areas. These groups will be included in the email broadcast that is planned to inform them of the release of the draft materials.

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e. Consultation with the Region of York and the Province of Ontario

As part of the overall communication process, staff representatives from the Region of York were invited to participate at the working sessions held by LWLP on March 4, 2015 and July 16, 2015. At these meetings representation from the Region was informed of the City's efforts to establish a CIP. Further to these working session discussions, a formal memorandum was sent by City Staff and Hemson to request Regional participation through the adoption of tax equivalent grants and development charge reductions in the CIP project areas included in the City's draft CIP Study.

In April 2015, the Economic Strategy Branch at York Region tabled a report entitled *York Region Office Attraction Review* in which they have signaled their intentions to embark on the development of a marketing and communications plan for attracting office development rather than providing financial incentives.

The Province of Ontario was also contacted as a part of this process and a memorandum requesting Provincial participation has been drafted. This memorandum can be sent to the Ministry of Municipal Affairs and Housing through a council resolution. Historically the Province has not provided any contributions to local or regional municipality incentives in support of a CIP, which makes Provincial participation very uncertain.

Phase 2: Development of the CIP Program

What is a Community Improvement Plan?

Section 28 of the Planning Act defines a Community Improvement Plan as “a plan for community improvement of a community improvement project area” where the following definitions apply:

Community Improvement means:

The planning or re-planning, design or redesign, re-subdivision, clearance, development or redevelopment, construction, reconstruction and rehabilitation, improvement of energy efficiency, or any of them, of a community improvement project area, and the provision of such residential, commercial, industrial, public, recreational, institutional, religious, charitable or other uses, building, structures, works, improvements or facilities, or spaces therefore, as may be appropriate or necessary; and

Community Improvement Project Area means:

A municipality or an area within a municipality, the community improvement of which in the opinion of council is desirable because of age, dilapidation, overcrowding, faulty arrangement, unsuitability of buildings or for any other environmental, social or community economic development reason.

The Act provides that where there is an official plan in effect in a local municipality that contains provisions relating to community improvement, the Council may, under Section 28(2) of the Planning Act, designate the whole or any part of the municipality covered by the Official Plan as a Community Improvement Project Area. Vaughan Official Plan 2010 contains policies relating to Community Improvement in Section 10. Area-specific policies are also provided at the Secondary Plan level (e.g. the Vaughan Metropolitan Centre Secondary Plan).

Once the by-law designating the Community Improvement Project Area(s) has been enacted, the Council may provide for the preparation of a plan “suitable for adoption as a community improvement plan for the community improvement project area”.

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Establishing the Community Improvement Project Areas within Vaughan

Through the study process, Hemson examined a series of primary centres and priority areas as candidates for designation as a Community Improvement Project Area (CIPA). The areas examined included: the VMC; Weston Road & Highway 7; Yonge & Steeles; Steeles from Keele to Jane (OPA 620); Vaughan Mills Centre; GO Stations (Concord Centre); Bathurst & Centre; and the northwest corner of Jane & Major Mackenzie.

The study took into consideration: alignment with the City's growth objectives; development timing and readiness; and integration with current and future infrastructure investments. Based on these criteria, the two Community Improvement Project Areas (CIPA) selected include: the VMC (Schedule A of By-law xxx-2015, Attachment 2) and the primary centre at Weston Road & Highway 7 (Schedule B of By-law xxx-2015, Attachment 2). There is a strong and strategic rationale for the selected CIPAs. The City needs to place its focus for office development squarely within the City's new downtown, driving investment into an area that is considered to be an Urban Growth Centre, Vaughan's Regional Centre and an Anchor Hub under the Metrolinx's "Big Move" Plan. It is the nucleus of significant public transit infrastructure investment originating from all levels of government.

Although the Weston Road & Highway 7 Primary Centre CIPA is not technically within the 'downtown' or VMC, it shares a number of characteristics: integrated transit infrastructure, high quality design environment, amenity-richness and is relatively close to being investment ready – all factors which made it a strong consideration for a CIPA.

While the other centres are worthy of consideration, implementing a CIP across all the priority areas would dilute the City's efforts to drive office investment into the downtown area. As well there is a limited scope for office development in other primary centres in the shorter term that may be attributed to a lack of infrastructure (including higher order transit), development process timing and availability of funding. These other centres can be revisited as part of a future review of the CIP.

Establishing CIP Eligibility Criteria

The intended goal of this CIP Program is to support the acceleration of office development in the VMC and primary centres by allowing for more competitive office rents. Under the terms set forth, the CIP Program is intended to focus on developing 139,355 square metres (1.5 million square feet) of office space, complementing the residential and commercial developments that are also anticipated in the VMC and Weston and Highway 7 Primary Centre. It is proposed that the CIP program will cease once 139,355 square metres (1.5 million square feet) of office space has been achieved under the CIP or the CIP by-law has been in force for five years, whichever occurs first.

In order to access the CIP Program, developments must meet the following qualifications:

- The development must be located within the Community Improvement Project Areas, as identified in Schedules A and B of By-law xxx-2015;
- Proposed office development must be a minimum of 10,000 square metres (107,639 square feet) or larger as measured at the time of the first above grade Building Permit issuance;
- The qualifying space may be located in multiple buildings to meet the 10,000 square metre requirement as long as it is included on the same building permit; above ground building permits issued on or after January 1, 2014 (will be retroactively applied); and

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- The development must be considered as an Office use under the Municipal Property Assessment Corporation (MPAC) assessment. Tax Increment Equivalent Grants (TIEG) only apply to the office portion of a mixed-use building, other tax classes located in the same land or building that the office use applies, such as commercial, residential or surface parking areas, would not be eligible for TIEG financing; and Residential units must be part of the same Site Plan or Subdivision Agreement in order to qualify for the residential CIL residential discount.

Selection of Financial Incentives and Planning Tools to Spur Office Development

The Planning Act provides a variety of flexible financial tools and other incentives that may be applied to a community improvement project area through a CIP framework. A detailed review of the various tools available resulted in a group of financial incentives that were recommended by Staff on May 27, 2014 to support and accelerate office development in the areas described within this report. Hemson and Urban Strategies reviewed the three categories of incentives selected and deemed them to be relevant for office development in the Community Improvement Project Areas with only minor adjustments. These incentives include: Development Charges (DC) Grants/Reductions; Tax Increment Equivalent Grants; and Cash-in-Lieu of Parkland (CIL) Reductions.

Development Charges Grant/Reduction and DC Deferral

As a part of the CIP, it is proposed that the City provide a DC grant/reduction in the form a DC rate “freeze” to incent the development of office space. The DC discount being proposed would essentially equate to a freezing of DCs at the rates in effect before the enactment of the new 2013 DC by-laws. Through this program, the DC rates would be payable at the rate of \$20.35 per square metre while other forms of non-residential development would pay according to the current rates identified in the new by-laws (currently \$53.68 per square metre). The “Freeze” would only apply to the office use portion of mixed use development and residential/retail commercial portions would continue to pay the normal DC rates in accordance with the by-law.

It is important to note that the City's portion of the total DC is small compared to that of the Region of York. However, given the competitive pressures facing office development the avoidance on new City DC rates will still provide a partial offset of capital costs.

Furthermore, through consultation with the development industry it was deemed appropriate for projects located with the VMC area (Schedule A of By-law xxx-2015, Attachment 2) to be eligible for an 18-month deferral on DC payment subject to a letter of credit being supplied to the City for the entire deferral amount. The payment will be deducted from the letter of credit in full, 18 months after the building permit is issued. This allowance is consistent with York Region's current DC deferral policy for high rise office development.

Tax Increment Equivalent Grant (TIEG)

A TIEG is a financial incentive that is only available through a CIP, and is designed to offset the increase in property taxes experienced as a property is developed or redeveloped. This grant takes place in installments over a certain period, typically ten years. Each year, the grant declines in value by a set percentage over the prescribed time period. The TIEG program envisioned to form a part of Vaughan's CIP would begin at 70 per cent and would last over a ten year period. The TIEG is meant to directly help offset annual operating costs and therefore economic rents. It should be noted that the City only has purview over the lower-tier municipal portion of the tax assessment.

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It is proposed that only uses defined as Office use under MPAC assessment be applicable for TIEG. Furthermore, TIEG would only apply to the office portion of a mixed-use building, and other tax classes located in the same land or building that the office uses occupy would not be eligible for TIEG financing.

Cash-in-Lieu of Parkland Exemption / Reduction

Another tool available through the CIP is a grant or reduction of CIL Parkland. This tool would waive collection of 2 per cent of the land value for office space is not overly onerous on its own since office spaces greater than 10,000 square metres in intensification areas are usually of a higher density built form.

The larger effect of CIL of Parkland contributions will be experienced by mixed-use developments wherein high density residential is mixed with office development of spaces greater than 10,000 square metres. The combination of these types of developments is desirable from an urban development perspective and the development industry has indicated that combining these uses is an economically viable way to develop office space. It allows the cross-subsidization of residential revenues offsetting the capital and operating costs of office spaces.

The CIL of Parkland tool being proposed for the VMC is a lever that provides one unit of high density residential a discount on CIL of Parkland from the new \$8,500/unit rate to the old (pre-2012 CIL of Parkland by-law) rate of \$4,100/unit which allows for a discount of \$4,400/unit for every 750 square feet of office development built on the same development site. This discounted rate will be maintained regardless of any future changes to the CIL parkland per unit rate.

These three tools constitute the majority of the financial incentives being proposed for adoption in whole, or in part for the VMC and the Weston and Highway 7 Primary Centre. Staff will examine opportunities for expedited development approvals for office uses, which although there are no significant financial implications for this program, may save the developer and tenant(s) time and additional expense. Resource implications for the affected departments (e.g. Development Planning, Engineering) must be assessed prior to implementation.

The implementation of the CIP requires an investment by the City, but will also provide a return on investment

The full investment cost of the CIP program is difficult to determine as the magnitude of office developments over the next five years is difficult to pinpoint. To date, development applications for office projects where a CIP could be applied retroactively, accounts for 34 per cent of the total eligible space signifying that the uptake on the program will likely be successful. On the assumption that the full allowable 139,355 square metres (1.5 million square feet) of office space is developed during this period, the investment over the next fifteen years will be approximately \$17.6 million. The CIL Parkland portion of the grants represents forgone revenues, rather than actual expenditures; however the DC grants and TIEGs will require funding over the long term such as 25 years. This will be determined through future budget processes. Table 1 below illustrates the net financial effect of the proposed incentives.

Table 1 – Proposed CIP Incentives

Incentive Type	Maximum Exposure
DC Grants / Reduction & DC Deferral	\$4.7 million
TIEGs	\$3.3 million
Cash-in-Lieu of Parkland	\$9.6 million
Total Maximum Exposure	\$17.6 million

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By making this early investment to encourage the acceleration of “urbanization” within the community project areas the City attempts to isolate itself from fluctuations in certain economic conditions for office development. Furthermore, momentum may grow following the completion of several early office projects which should improve the investment confidence in Vaughan with regards to these types of developments. Urbanization in these areas would create better utilization of infrastructure investments, improve the ability to attract a younger demographic of workers and would strengthen the City’s ability to attract cultural and educational institutions.

Based on the evaluation of several recent developments it could be assumed that the assessment value would be approximately \$2,293 per square metre. Using this assumption and excluding any consideration towards the incentives and rebates outlined in this report, the 139,355 square metres (1.5 million square feet) of office space approved within the plan would add in the order of \$319.5 million in new assessment to the City. This would result in approximately \$865,000 of additional annual revenue being generated by the City in property tax revenue (based on the 2014 tax rates). The Regional taxation revenues related to this office development would be approximately \$1.49 million per year and the Provincial education component would be approximately \$3.37 million per year.

By narrowing the gap between market rents for office space, the CIP also has an effect on maintaining a balanced assessment ratio. Currently, the majority of development applications in the VMC and Weston and Highway 7 Primary Centre, is skewed toward high rise residential developments. The addition of office developments would help to address this imbalance.

The creation of office employment would also spur other types of investment in the area. Spending by employees would add value to the local community by creating a domino effect for retail and other tertiary employment. This will bring vibrancy and a sense of place to the downtown in the earlier phases of development.

Phase 3: Implementation of the Community Improvement Plan

The enactment of the CIP by-law

Following the Committee of the Whole Public Hearing, staff will consolidate and review the comments received from the public. Once public input has been addressed, a Final CIP Study Report and CIP By-law will be brought forward to the November 3, 2015 meeting of Committee of the Whole for consideration. Should Council approve the CIP program, a by-law to implement the program will be forwarded to Council for enactment on November 17, 2015, the Region and MMAH will be advised, and the By-law is expected to take full effect by the beginning of 2016.

Marketing and communications strategy

The Economic Development Department is in the process of developing a multi-pronged approach to marketing the CIP. In addition to the landowners being aware of the CIP, it is also vital that the brokerage community and potential tenants are aware of the Program and are factoring it in, as part of their site selection process. Staff is preparing a brochure and application package for the CIP which will be posted on the City’s VMC website. In addition, the materials are being included in business proposal packages and presentations at Realtor Roadshow events.

As a part of the communication plan for the CIP there will be a dedicated first point of contact for landowners who wish to participate in the program. As a part of the Pre-Application Consultation (PAC) process the application package will be supplied and pre-approval to the program will be evaluated.

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Administration of the CIP

The CIP is a multi-departmental program requiring the input of the Real Estate Division, Development Finance & Investments, Property Taxation, Policy Planning, Development Planning and Economic Development Departments. Staff has undertaken the development of a process flowchart (see Attachment 4) to guide the review and approval of CIP applications, pre-qualifications and CIP agreements. Tracking of all applications will be coordinated on the SharePoint platform to allow staff to share information and avoid duplication of efforts.

In order to allow staff to report back to Council on the uptake of the program and forgone revenues, landowners will be required to follow certain protocols in order to facilitate the tracking of the program. These requirements will be included in the CIP by-law and in marketing materials that will be provided to eligible Landowners.

Monitoring and reporting on metrics

On an annual basis, Staff will provide Council with a status update on the CIP, reporting on level of uptake, pending applications and estimates on forgone revenues. At the end of the five-year term these results will be consolidated and a revision to the funding/investment strategy will be adopted as necessary through future budget processes.

Future updates to the CIP

The CIP will be fully reviewed upon its five-year expiry date or upon full usage of the 139,350 sq. m. of office space, whichever occurs first. The CIP by-law gives Council the flexibility to accommodate changes; at the end of the five year by-law term, an update, extension or refinement of the CIP will be at the discretion of Council.

Relationship to Vaughan Vision 20|20 Strategic Plan

This report is consistent with Vaughan Vision 20|20 Strategic Plan – Goal 1: Plan and Manage Growth and Economic Well-Being. It is also consistent with Goal 4 of the Economic Development Strategy that states “Grow Vaughan’s dynamic quality of place and creative economy”.

Regional Implications

The Region of York’s Official Plan places tremendous importance on the Centres and Corridors within its local municipalities (of which the VMC is one) as the cornerstone to achieving provincial population and employment growth and intensification targets. The implementation of a CIP by the City of Vaughan, focused on office development and generating office employment, is aligned with Regional objectives.

Despite the various financial incentives being offered as a part of the Community Improvement Plan, the Region continues to collect the lion’s share of DCs and property tax for these types of developments. In order to achieve a more fulsome incentive approach the City will continue to advocate to the Region to consider similar financial incentives to ensure that high quality office employment is strategically positioned with access to high order transit systems, which will benefit the local, regional and provincial economy.

Copies of this report will be forwarded to the Region of York as well as the MMAH.

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Conclusion

To promote development of the VMC and Weston and Highway 7 Primary Centre, there needs to be a balance between residential and employment uses. While residential developments are anticipated to fare well, Vaughan faces challenges in competing for office development against other centres in the GTA.

By establishing a CIP, there will be a strong point of differentiation for the VMC in a marketplace that faces tremendous pressure in terms of office space availability and mounting rental costs. A CIP, as proposed, would allow Vaughan to get out of the gate first amongst its competitors and achieve its economic development goals while balancing the financial exposure of the City.

The set parameters of the proposed CIP place a singular focus on accelerating office development in the VMC and Primary Centre at Weston Road and Highway 7. A term of five years for the CIP Program imposes a time limit, sends a strong signal of the City's commitment and acts as an immediate call for action from the development industry. The Planning Act requires a review of the CIP after the five-year period, and at that time, staff will assess the further need for incentives, including applicability to other primary centres and intensification areas in Vaughan.

Amongst the various asset classes, Class A office development is the most sought-after, and the most difficult to achieve. Generating the highest economic rents, while producing taxable assessment, and high-value jobs, the rewards associated with attracting high-value office tenants plays out in a myriad of perspectives - social, cultural and economic. An investment in the CIP is a constructive investment that will pay back in future prosperity for Vaughan.

Attachments

1. Community Improvement Plan Study – Final Report
2. Draft Community Improvement Plan By-law to designate the Community Improvement Project Areas
3. Draft Community Improvement Plan By-law to adopt the Community Improvement Plan for the Community Improvement Project Area
4. CIP Process Flowchart

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(A copy of the attachments referred to in the foregoing have been forwarded to each Member of Council and a copy thereof is also on file in the office of the City Clerk.)