



Communication
PK1: May 12/14
Item: 4

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Street Smart. World Wise.

Vaughan Metropolitan Centre Office Development Pro-Forma Scenario Study



Presentation to City of Vaughan
Priorities and Key Initiatives Committee
May 12, 2014

Project Team

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- **Robert Glickman**, MBA, Consultant, Research Valuation and Advisory – Lead Financial and Market Analyst



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Purpose of Report

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“The City of Vaughan engaged Altus Group to evaluate the economics around the financial feasibility of office development within the Vaughan Metropolitan Centre (“VMC”), in particular the required net and gross rental rates to encourage new development”



Scope of Work – Key Tasks

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- Create pro-formas that demonstrate financial feasibility based on different types and sizes of office development within the VMC as well as 3 competitive suburban markets
- Tasks included:
 - Preparing preliminary specifications for 3 suburban office building types (see next slide for details)
 - Selecting 3 competitive office sub-markets (Airport Corporate Centre, Markham/ Richmond Hill and North York City Centre)
 - Estimating hard construction costs
 - Estimating soft construction costs (including municipal levies)
 - Estimating land values
 - Estimating market capitalization rates



Scope of Work – Office Development Specifications

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SUMMARY OF PROJECTS

Description	Project 1	Project 2	Project 3
Building Class	A+	A	AB
LEED Designation	Gold	Silver	Certified
Gross Floor Area incl. MPH* (sq. ft.)	371,000	295,000	127,600
No. of Storeys	14	14	8
Parking Stalls – Underground	460	1,095	-
Parking Stalls – Surface	325	-	74
Parking Stalls – Deck	-	-	378
Parking Total	785	1,095	452
Parking Ratio (stalls per sq. ft.)	2.1/1,000	3.7/1,000	3.75/1,000

*Mechanical Penthouse



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Competitive Office Markets

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- Office sub-markets that compete with VMC:
 - Airport Corporate Centre in Mississauga
 - Hwy 404 & 7 area in Markham/ Richmond Hill
 - North York City Centre

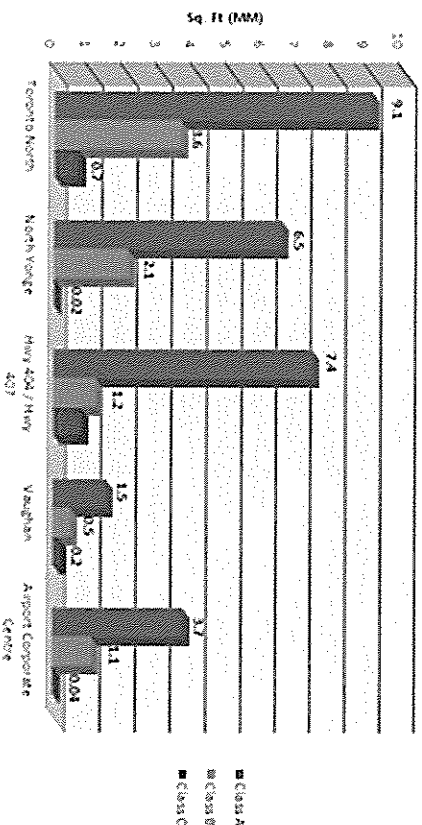


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Competitive Office Markets

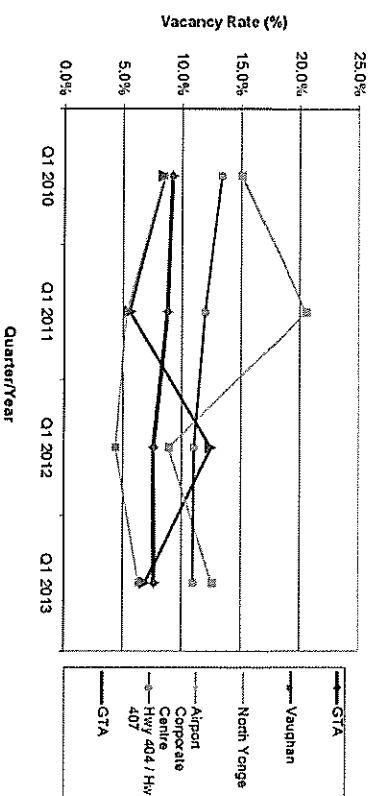
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Submarket Office Space by Class



- Overall, office space within Vaughan and the 3 competitive sub-markets represents 25.1 million s.f. or 14.7% of the GTA office market (170.6 million s.f.)
- At 2.2 million s.f., Vaughan comprises the lowest amount of existing office inventory when compared to the other 3 sub-markets

GTA Office Vacancy Trend - Class "A" Space



- GTA vacancy rates peaked in 2010 at 9.2%. Since that time, vacancy rates have been on a downward trend, and currently sit at 7.7%
- By comparison, vacancy rates in Vaughan peaked in 2012, reaching 12.5% but have since fallen back to 6.9% in Q1 2013

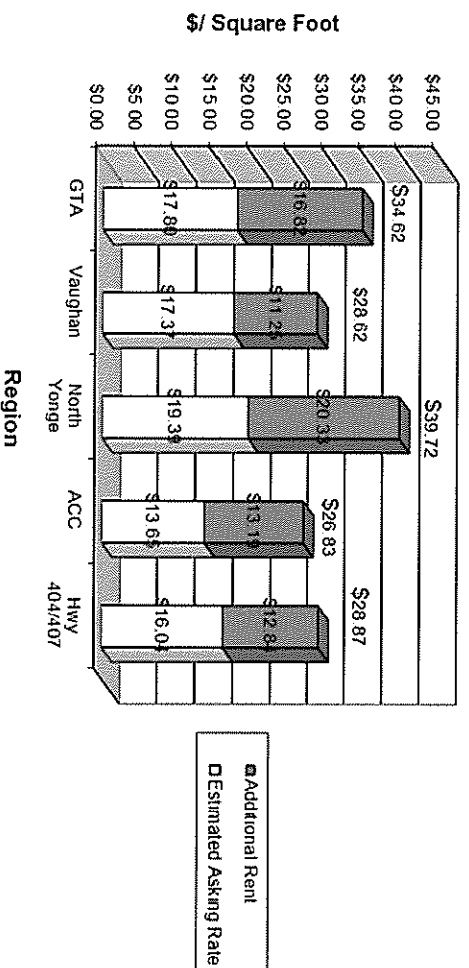


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Competitive Office Markets

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Current GTA Class 'A' Office Occupancy Costs



- Total asking gross rents in Vaughan for Class A office space presently approx. \$29.00 psf
– 17% below the GTA average, net rents average \$17.00 psf
- Lower rates in Vaughan largely the result of lower additional rent, which averages approx. \$11.25 psf. By comparison, average additional rent in GTA is just under \$17.00 psf
- The most expensive sub-market of those surveyed is the North Yonge market, with a total estimated gross rent of approximately \$40.00 psf



Construction Costing

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ORDER OF MAGNITUDE CONSTRUCTION COST ESTIMATE

Component	Project 1		Project 2		Project 3	
	Total	\$/Sq. Ft.	Total	\$/Sq. Ft.	Total	\$/Sq. Ft.
Estimated Hard Construction Costs ¹	\$116,902,400	\$315.10	\$103,520,210	\$350.92	\$31,104,200	\$243.76
Estimated Soft Construction Costs	\$21,438,753	\$57.79	\$18,878,242	\$63.99	\$6,148,096	\$48.18
Municipal Levies ²	\$10,652,195	\$28.71	\$8,192,899	\$27.77	\$3,602,188	\$28.23
Land Acquisition Costs	\$2,597,515		\$3,673,883		\$3,903,600	
Developer Profit (@ 15%)	\$22,349,002		\$19,588,703		\$6,128,173	
Total Construction Cost (Excluding HST)	\$173,939,865	\$468.84	\$153,853,937	\$521.54	\$50,886,257	\$398.80

¹ Potential additional premium for underground parking costs due to high water table (\$1.6 million for Project 1 and \$2.2 million for Project 2) included in estimates.

² Detailed breakdown of municipal levies is included on slides 11 to 13.

- Per sq. ft. hard construction costs are highest for Project 2 due to underground parking costs (3 levels for 1,095 stalls).
- Land costs are highest for Project 3 as land requirement is higher to accommodate surface-only parking.



Municipal Levies

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- Municipal levies comprise development charges, building permit fees, parkland contributions and municipal land transfer taxes. They were estimated as follows for each of the 3 scenarios:

TOTAL DEVELOPMENT CHARGES BY PROJECT AND MUNICIPALITY			
	Project 1	Project 2	Project 3
VAUGHAN METROPOLITAN CENTRE	\$10,244,252	\$7,835,387	\$3,403,109
North York City Centre	\$1,369,012	\$760,490	\$248,881
Airport Corporate Centre (Mississauga)	\$8,167,111	\$6,429,446	\$2,762,510
Highway 404/7 (Markham/R. Hill)	\$9,546,344	\$7,147,788	\$3,065,173
BUILDING PERMIT FEES BY PROJECT AND MUNICIPALITY			
	Project 1	Project 2	Project 3
VAUGHAN METROPOLITAN CENTRE	\$355,993	\$284,035	\$121,006
North York City Centre	\$669,563	\$533,954	\$227,417
Airport Corporate Centre (Mississauga)	\$480,132	\$379,992	\$161,187
Highway 404/7 (Markham/R. Hill)	\$408,670	\$325,718	\$138,686

Note: Vaughan's share of total development charges is approximately 19% (\$1,956,258) for Project 1, 21% (\$1,620,720) for Project 2 and 25% (\$845,433) for Project 3. The balance of the total development charges are associated with York Region development charges (79%, 77%, and 73% respectively) and Education levies.



Municipal Levies (cont.)

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CASH IN LIEU OF PARCLAND CONTRIBUTIONS BY PROJECT AND MUNICIPALITY

	Project 1	Project 2	Project 3
VAUGHAN METROPOLITAN CENTRE	\$51,950	\$73,477	\$78,073
North York City Centre	\$187,397	\$149,224	\$63,785
Airport Corporate Centre (Mississauga)	\$43,291	\$61,231	\$65,061
Highway 404/7 (Markham/R. Hill)	\$43,291	\$61,231	\$65,061

MUNICIPAL LAND TRANSFER TAXES BY PROJECT AND MUNICIPALITY

	Project 1	Project 2	Project 3
VAUGHAN METROPOLITAN CENTRE	\$0	\$0	\$0
North York City Centre	\$142,667	\$112,186	\$46,220
Airport Corporate Centre (Mississauga)	\$0	\$0	\$0
Highway 404/7 (Markham/R. Hill)	\$0	\$0	\$0



Municipal Levies (cont.)

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- As indicated below municipal levies can vary widely by municipality, and when totalled, **the VMC has the highest municipal levies for Project 1, 2 and 3** as shown on the following summary chart

TOTAL MUNICIPAL FEES BY PROJECT AND MUNICIPALITY			
	Project 1	Project 2	Project 3
VAUGHAN METROPOLITAN CENTRE	\$10,652,195	\$8,192,899	\$3,602,188
North York City Centre	\$2,368,639	\$1,555,854	\$586,303
Airport Corporate Centre (Mississauga)	\$8,690,534	\$6,870,669	\$2,988,758
Highway 404/7 (Markham/R. Hill)	\$9,998,305	\$7,534,737	\$3,268,920



Office Development Pro-forma Findings

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- All 3 scenarios require net rents to justify new office development which considerably exceed current achievable net rents for Class “A” buildings
- Project 3 has the lowest required rents, mainly due to the lower costs associated with surface parking
- Economic rents don’t vary much between similar suburban locations due to similar land costs (except for North York)

REQUIRED NET RENTS BY OFFICE SUB-MARKET (\$/SQ. FT.)			
	Project 1	Project 2	Project 3
Vaughan	\$37.12	\$40.89	\$31.88
Airport Corporate Centre (Mississauga)	\$36.16	\$39.68	\$31.03
Highway 404/7 (Markham/R. Hill)	\$36.48	\$39.88	\$31.23
North York City Centre	-	\$39.16	-



Recommendations to “Close the Gap”

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- In order to reduce the gap between current market rents and rents required to justify new construction the City may want to consider the following:
 - Reducing or eliminating development charges
 - Reducing the parking requirements and providing municipal parking
 - Providing a realty tax “holiday” or subsidy



Office Development “Incentives”

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Purpose of Study

- Ways to “Close the Gap”

Study Approach

- Review of Legislation and Tools Available
- Environmental Scan – GTA and Beyond
- Short List



Legislative Framework

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Principle

- Municipalities are prohibited from directly or indirectly assisting businesses or commercial enterprises through the granting of bonuses

Governing Legislation

Vehicle

- Municipal Act
- Planning Act
- Community Improvement Plans



Key “Incentives”

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Within a CIP

- Tax Incrementment Equivalent Grant (TIEG)

Other

- Brownfield (Incentives and/or Tax Assistance)
- Development Chart Exemption / Rebates
- Planning Fees, Parkland Ded. (Reduction, Exemption, etc.)
- Parking Exemptions

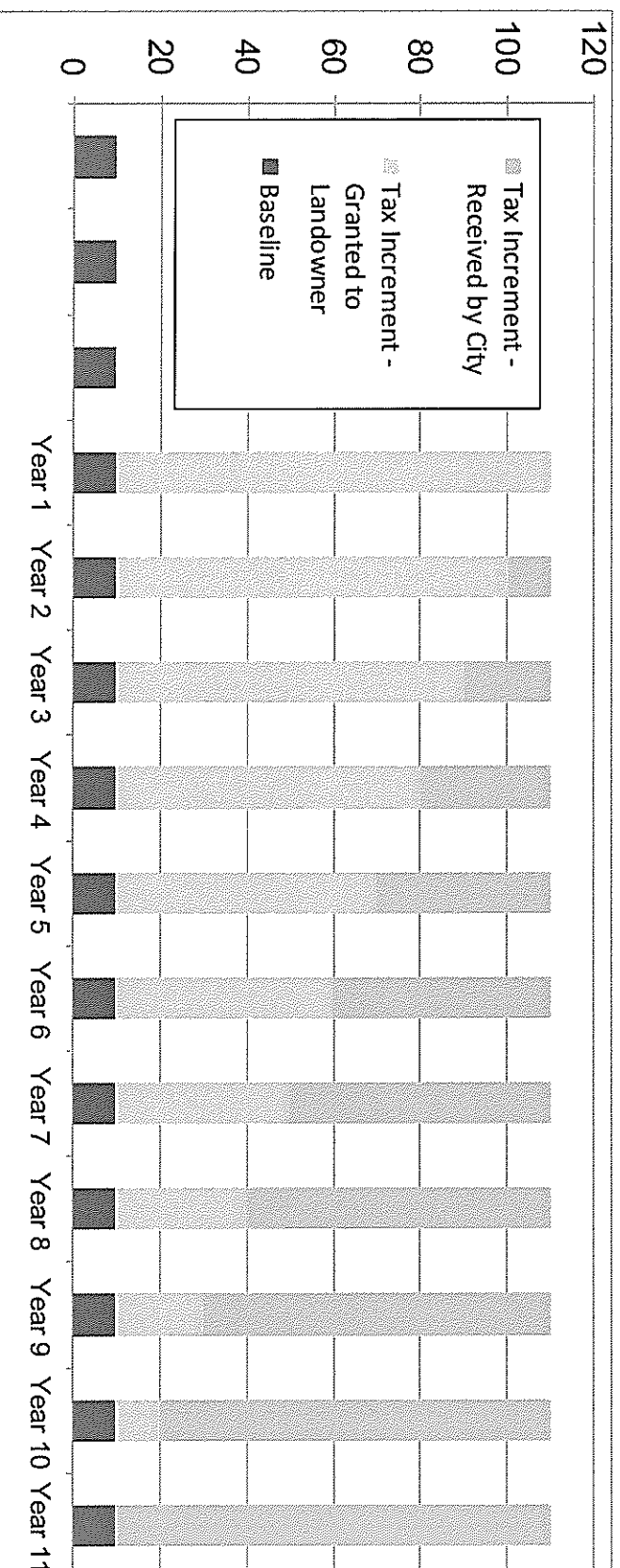


The Office Incentives Toolbox

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■ Tax Increment Equivalent Grants (TIEG)

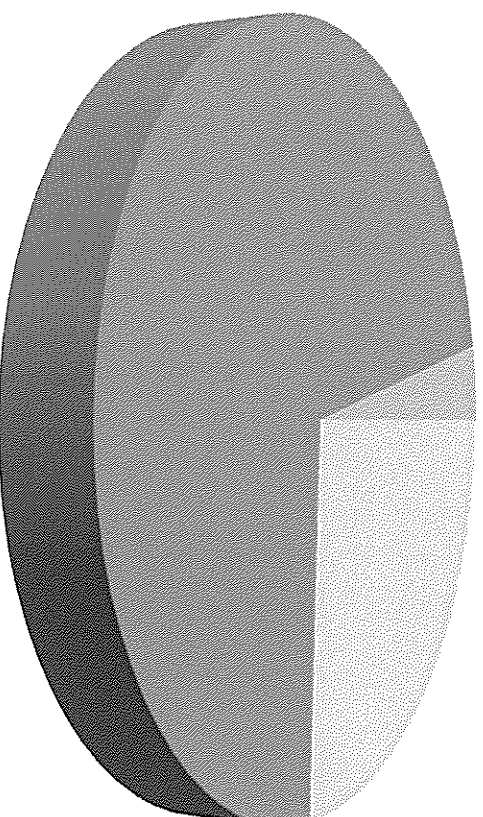
- Grants given to a landowner who improves a property within a CIP area
- Based on the increased amount of tax revenue that the redevelopment generates



The Office Incentives Toolbox

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- Development Charge Exemptions / Rebates
 - *Development Charges Act, 1997*
 - Section 5(6)3 of *DC Act* – cannot make up shortfall due to exemption/rebate through higher DC's on other forms of development
 - Vaughan has a relatively small share (26%) of the total DC's paid by development in the City.



■ Vaughan
■ York Region
■ Education



Considerations to accelerate office development in VMC

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- Relocation and/ or concentration of municipal facilities within the VMC
- Any significant infrastructure improvements would positively accelerate development activity (ie. such as subway extension, BRT etc.)
- Mixed use development – retail, hotel and residential when combined with office may make it more economically viable due to demand, parking, lower risk etc. as witnessed in downtown south in Toronto
- Implement a Community Improvement Plan



Questions?

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