CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF MAY 27, 2014

Item 4, Report No. 2, of the Priorities and Key Initiatives Committee, which was adopted, as amended, by the Council of the City of Vaughan on May 27, 2014, as follows:

By approving that Communication C3 from the Commissioner of Finance & City Treasurer and Director of Development Finance & Investments, dated May 23, 2014, be received.

4 COMMUNITY IMPROVEMENT PLAN: A STRATEGIC TOOL TO SUPPORT AND ACCELERATE OFFICE DEVELOPMENT

The Priorities and Key Initiatives Committee recommends:

1) That the recommendation contained in the following report of the Executive Director, Office of the City Manager, and the Commissioner of Planning, dated May 12, 2014, be approved;

2) That Communication C2, presentation material titled "Vaughan Metropolitan Centre Office Development Pro-Forma Scenario Study", dated May 12, 2014, be received; and

3) That the following deputations be received:

1. Mr. Marco Filice, Liberty Development, Steelcase Road, Markham; and
2. Ms. Paula Bustard, SmartCentres, Applewood Crescent, Vaughan.

Recommendation

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

1) That the presentation from Altus Group be received;

2) That staff be directed to initiate a Community Improvement Plan (CIP) Study for the primary purpose of promoting major office development in the intensification corridors and the Vaughan Metropolitan Centre (VMC);

3) That staff be authorized to prepare and release a Request For Proposal (RFP) to retain a consultant to develop the CIP Study and draft CIP by-law in accordance with the provisions of the Planning Act;

4) That the CIP Study and related draft CIP by-law use the following incentive tools as detailed further in this report to foster major office development equal to or greater than 100,000 sq. ft. of office space:

   a. A Development Charge (DC) "freeze" for office spaces greater than 100,000 sq.ft., whereby City DCs are frozen at the August 2013 rate ($20.35/sq. m.) for a five year period beginning on the date on which the CIP by-law is enacted;
   b. A Tax Increment Equivalent Grant (TIEG) starting at 70% (de-escalating over a ten year period in equal annual increments to 0%) of the City's portion of the Property Taxes;
   c. A 100% Cash-in-Lieu (CIL) of Parkland exemption apply to all major office developments;
   d. A CIL of Parkland reduction apply to mixed-use developments, whereby for every 750 sq. ft. of major office space developed, one unit of high density residential located on the same development site is charged CIL Parkland at the rate of $4,100 per unit;

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e. The above noted tools be limited to the first 1,500,000 Sq. ft. of major office development to apply and qualify under the CIP or five years after the CIP by-law is enacted, whichever comes sooner;
f. The tools under the final approved CIP be retroactively applied to all office and mixed-use office developments that achieved building permit issuance on or after January 1, 2014 to support first office development initiators; and
g. After the five year period following enactment of the CIP by-law or achievement of 1,500,000 sq. ft. of major office development, whichever comes sooner, that Council will have the option to renew, modify or terminate the CIP;

5) That in recognition of the time required to complete a CIP study and enact a CIP by-law and to illustrate Council's intent to bring incentive tools to fruition, that the City Clerk be authorized to execute Deferral Agreements in a form acceptable to the Commissioner of Legal & Administrative Services/City Solicitor and with content acceptable to the Commissioner of Finance & City Treasurer, to defer the cost differential between the full DC rate and CIL Parkland rates and the intended incentive discounts as outlined in this report, until such time as Council has considered and/or enacted the CIP by-law containing such incentives;

6) That staff be directed to engage with representatives from the Region of York and the Province of Ontario to advocate the expansion of the potential TIEG to regional and education property taxes; and

7) That staff be directed to report back to Council with the results of the CIP study, status of discussions with the Region and Province and with a draft CIP by-law for enactment, by March 2015.

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 Vaughan Metropolitan Centre (VMC) and other intensification corridors are a fundamental building block of the City's growth management strategy and are essential to the long-term economic vibrancy of the City as a major employment centre.

A Community Improvement Plan (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

Currently, there has been no economic impact to the City as a result of studies conducted in preparation for this report as the studies were funded from the Economic Development's Department budget.

Should Council endorse the initiation of a CIP study, the economic impact could be approximately $100,000. Funding is available from Capital Project EB-9535-14 (Community Improvement Plan Study) in the amount of $103,000 (funded 90% by DCs and 10% tax), which was approved as a part of the 2014 Budget.

Future impact resulting from potential approval of a CIP

The majority of the tools envisioned in the proposed CIP would require financial investment on the City's part. These investments could take the form of grants or foregone municipal revenue and would be quantified in more detail upon completion of the CIP study. These commitments would be subject to Council approval in future budget years and could range from hundreds of thousands to several million dollars depending on the suite of office incentive tools that Council decides to implement. The initial investment should be weighed together with the long term effects of encouraging office developments, which will improve job development, employment diversification, quality of life, self-sufficiency and potentially increase the tax base. Major office uses traditionally help to attract other denser forms of development like mixed-use and high rise residential that supports urban community growth.

Should Council approve a future CIP by-law that is consistent with the minimum recommendations of this report, then the 5-year total property tax requirement could equate to approximately $6.8M. There is no requirement, however to fund the total investment immediately. For example, should Council wish to do so, the investment could be amortized over a longer term and could impact the tax rate by as little as a one-time 0.20% increase in 2015. For example a 0.20% tax increase in 2015 would result in additional funds of $272K to the base budget and this collection over 25 years would equate to approximately $6.8M. This would act as dedicated program funding for the next 25 years. The potential tools presented in this report, if approved through a future CIP by-law, would also result in forgone Cash-in-Lieu of Parkland revenue of $9.0M. Unlike Development Charge (DC) and Property Tax discounts, CIL Parkland discounts are not required to be funded from other sources, but rather are simply treated as revenue forgone.

Communications Plan

Through the course of developing a CIP, staff and the CIP consultant would undertake a public and stakeholder consultation process, including current and prospective office development proponents,.

The Planning Act also has requirements to hold public meetings with regard to development and adoption of the Community Improvement Plan, in accordance with the requirements of the Planning Act. The retained consultant will be required to undertake the public and stakeholder consultation process, subject to an approved workplan.

Purpose

This report seeks direction to initiate the CIP process by retaining a consultant to complete the necessary studies, by-laws and implementation plan to bring a CIP to fruition by mid-2015. The final and associated funding requirements would be subject to final approval by Council. It is anticipated that a CIP consultant would be retained in Q3/2014 and the study, along with the implementation recommendations, would be brought back to Council in early 2015.

Background

Proposed programs must be targeted and effective

Both prior to and during the 2013 DC review process, Council expressed a desire to be presented with a comprehensive strategy to address incentive issues with regard to office development city-wide and in particular in the VMC area.

In order to formulate a comprehensive strategy staff worked to gain an understanding of the need for, and magnitude required, of any proposed office incentive programs. This would assist in ensuring that the incentive programs are targeted, mindful of the limitations of existing tax-based funding sources, and are effective in its implementation. To this end, staff divided the approach in to three phases:

1. Conduct a “Pro Forma” study to understand the financial challenges facing developers of office buildings;
2. Examine the current incentive tools available to the municipality and explore those implemented in other municipalities; and
3. Provide Council with a formal method that allows activation of financial and planning incentive tools that will respond to the City of Vaughan’s unique office development pressures.

Phase one and a majority of phase two have been achieved through the retention of the Altus Group Limited to conduct a project cost and market analysis of office development in VMC and competing areas; and the provision of recommendations on the potential incentive tools available to the City. The completion of the remainder of phase two and phase three would be addressed through the creation and implementation of a CIP as outlined further in this report.

Office development is a critical factor in spurring well-balanced growth in the VMC and other intensification corridors

As identified in the Provincial Growth Plan for the Greater Golden Horseshoe (Places to Grow), the York Region Official Plan and the Vaughan Official Plan 2010; and supported in the City’s Economic Development Strategy *Building a Gateway to Tomorrow’s Econom*y, the VMC has been planned to be the focal point of Vaughan. It will function as the City’s “downtown”, being an Urban Growth Centre, an Anchor Mobility Hub under the Metrolinx *Big Move* Plan, a cultural and entertainment hub and a higher order employment centre, where head offices, the technology sector, and the emerging creative and knowledge economy can thrive.

Supported by extensive capital investment from the Federal, Provincial, Regional and Local governments in transportation and servicing infrastructure, including a $2.6 billion extension of the Toronto York Spadina Subway and the construction of the VivaNext bus rapidways, the VMC is one of the most ambitious projects in Vaughan’s history.

With a minimum of 1.5 million sq. ft. of office, office development planned for the VMC, ensuring that this objective is met will play a critical role in realizing this vision for the VMC as well as other intensification corridors in the City. This will lead to a balanced mix of uses, economic growth, result in an increased tax base and help in generating a more diverse job economy. Developing office space within the urban context, as envisioned for the VMC and other intensification corridors, creates a specific set of development implications for both the public and private sector that must be carefully considered in order to maximize the potential of the VMC.

Transit investment will not be enough to overcome market disadvantages to office development in Vaughan

In September 2012, the City completed the VMC Office Market Study to assist staff in understanding the opportunities and challenges in attracting office tenants in an urban downtown. The Study determined the key competitor markets, outside the City of Vaughan, which potential office users would identify as locations to consolidate or expand into; and examined the role that the subway extension may play in attracting office tenants.

Key findings of the VMC Office Market Study include:

- The VMC’s key competitors include North York Centre, Mississauga Airport Corporate Centre (ACC), and Downtown Markham.
- VMC differs from its competitors in its scale, having a target of 1.5 million sq. ft. of office space, relative to the 3.4 million sq. ft. in Downtown Markham, 4.9 million sq. ft. of ACC and 8.9 million sq. ft. of North York Centre.

- Gross rents based on the urban format of the VMC are anticipated to be higher than the competing areas. The VMC may face a cost disadvantage in both existing and new-construction Class A space.
- Costs associated with structured parking and increased construction costs related to water table contribute to driving the required rent premiums in the VMC beyond marketability
- The subway, while an unequivocally strong value-added amenity for prospective office users, must be considered in the context of rent premiums. As well, despite the promise of subway convenience, office tenants still seek a site that offers transit and road connectivity. The arrival of the subway will not be an automatic trigger for office/ mixed-use investment or an orderly development pattern that emanates from the subway terminal.

Vaughan is competing on a near level playing field for NEW office construction

The Altus research was conducted in early 2013 for the preparation of this report. The Altus Group identified through its work that office land values are an integral part of evaluating the feasibility of new office construction. The number of sales have been very limited in all markets, and particularly so, in North York. Across the GTA, land sales range from the $800,000 to $1.2 million per acre, averaging $1 million per acre. In the VMC, expected land value in today's market is in the range of $1.2 million per acre or more. The subway and amenity space to be completed is also expected to add significant value.

The cumulative effect of current rents, high land values, and increasing vacancy rates across the GTA and in the VMC competitive market set, has made development of new urban-format office space a challenging proposition.

Altus Group prepared costing scenarios to derive pro formas for hypothetical new office developments in the VMC and the three previously identified competitive markets. Hard and soft construction costs, municipal levies, land acquisition costs, developer profit and capitalization rates formed a part of the analysis. The analysis revealed that only a $1.73 per sq. ft. spread existed between forecasted economic net rents within the four office markets. Vaughan was the highest at $40.89 per sq. ft. and North York City Centre the lowest at $39.16 per sq.ft.

Potential office tenants assessing their leasing needs are comparing new construction and existing office product, and the differential in rental rates is considerable. In considering the Vaughan market, the choice of offerings is limited to new-builds whereas elsewhere in the GTA, there are options for both existing and new-build space. This may be further exacerbated by the 3.3 million sq. ft. of office that is currently under construction, and not yet committed.

A Community Improvement Plan will assist Vaughan's Vision for the Vaughan Metropolitan Centre.

The competition to attract office tenancy is intense and ongoing. As under-construction projects elsewhere in the GTA are completed, resulting in more office space, the VMC will be competing against projects that were developed under differing financial and development circumstances. How quickly office development in the VMC comes on-stream, i.e. momentum with which projects get off the ground, will determine how the market perceives the VMC's offerings. Investment confidence may rise or fall quickly depending on the momentum displayed by the first several projects. As well, economic conditions may fluctuate, leaving the VMC vulnerable to market downturns such as; rising interest rates and rising commodity and labour rates, etc. The combination of some or all of these market and economic factors provides the impetus for office space development in the short-term since there is no certainty when the conditions will be favourable again. Furthermore, the fiscal impact of accelerating "urbanization" has the following positive effects:

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- Better utilization of infrastructure investments
- Improves ability to attract a younger demographic of workers - alignment to knowledge industries
- Strengthens ability to attract cultural and educational institutions

The City of Vaughan is not the only municipality considering programs to support and spur office development in key areas. The following is a list of other municipalities in the GTA that have either already implemented a CIP or are in the midst of considering implementation of a CIP or other incentive type programs:

Cities with Implemented CIPs	Cities Reviewing CIPs
Toronto	Markham
Hamilton	Richmond Hill
Brampton	Mississauga
Newmarket	Oakville
Oshawa	Burlington

According to the findings of the Altus Group analysis, there are only a few variables where incentives could be applied to assist in giving the developers a more competitive opportunity when considering when to construct an building office.

Typically these are:

- Development Charges
- CIL of Parkland (particularly in mixed-use office/high density residenital developments)
- Property taxes
- Parking requirements

DCs have a direct effect on the soft capital costs of an office development and can inflate rents due to the capitalization of these costs. Similarly, CIL of Parkland can be high when viewed in a mixed-use development scenario. It is a commonly held view that high density residential mixed with office development is necessary in order for the residential portion to “cross subsidize” the office development to render it financially viable. The high cost of CIL of Parkland on the high density residential tends to further weaken the viability of the associated office development in terms of the overall soft capital costs of the mixed-use development. Parking requirements also factor in to the hard capital costs of an office development are also capitalized in to the rents and these can be especially onerous in lands such as the VMC where water table issues increase the capital costs of underground parking dramatically therefore resulting in even higher economic rents necessary to make an office project financially viable. Finally, property taxes factor in to the operating costs of the office development and can directly impact the economic rents necessary to compete in the GTA market.

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 os 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 the 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 by by-law designate the whole or any part of the municipality covered by the Official Plan as a Community Improvement Project Area.

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

What Areas will Constitute the Community Improvement Project Areas

It is envisioned that the CIP support the attraction of office uses to the VMC and other intensification areas in the City that will support the planned City/Region structure plans and the emerging transit network, with special focus on higher order transit stations. For these reasons, it is recommended that the following structural elements, identified on Schedule 1 of VOP 2010 “Structure Plan”, (ATTACHMENT 1) as the areas subject to the Community Improvement Project Area by-law.

- The Vaughan Metropolitan Centre;
- The Regional Corridors (Highway 7 to Centre Street, Bathurst Street);
- The Primary Centres.

The Approval of Community Improvement Plans

In addition to any City initiated requirements for public consultation, the approval process for the Community Improvement Plan requires that it follow the same procedures as those for an Official Plan amendment (Section 17 of the *Planning Act*). This includes: the requirement for a Public Open House and having the draft CIP available to the public 20 days in advance of the Public Meeting, the holding of a Public Meeting before Council on the draft plan to obtain further public input; revise the Plan accordingly and submit to Council for adoption; and give written notice of Council’s adoption of the CIP. The appeal period lasts 20 days, after which the plan comes into effect if there are no appeals and, if there are appeals, they are forwarded to the Ontario Municipal Board for adjudication.

Community Improvement Policies in the Vaughan Official Plan 20|20

The City's policies pertaining to CIPs are found in Policy 10.1.2.13., which has been approved by the Ontario Municipal Board. It provides that Community Improvement Project Areas may be designated by by-law for a range of reasons, in addition to any other reason as may be set out in the *Planning Act*. This gives Council substantial flexibility in responding to conditions that may challenge an environmental, social or community economic development priority of the City. The reasons include:

- Inadequate municipal infrastructure, including piped services, streets and streetscapes, public parking facilities and/or stormwater management facilities;
- Inadequate community services such as public recreational/cultural facilities, public open space and/or community services including affordable housing;
- Building and or property deterioration, including façade treatment; to the extent it has a negative effect on the overall image of the community;
- Faulty arrangement of lands;
- Encroachment of incompatible land uses;
- Poor overall streetscape and urban design;
- Existing or potential Business Improvement Areas;
- Vacant lots with infill potential to achieve Urban Structure;
- Underdeveloped properties which have potential for redevelopment or expansion to better utilize the land base to achieve the desired Urban Structure;
- Development at densities that are too low to support planned transit facilities;
- Barriers to the improvement or development of vacant or underutilized lands or buildings such as lots that are brownfields, contaminated soil, fragmented ownership or financial disincentive to private investment;
- Conservation of heritage resources through restoration, rehabilitation and adaptive reuse.

A Potential Role for the Region of York in Promoting Office Uses

York Region is one of four Regional Municipalities authorized to develop Community Improvement Plans. However, the scope of matters the Regional CIPs may address is prescribed by Ontario Regulation. They can cover:

- Infrastructure that is within the upper-tier municipality's jurisdiction;
- Land and buildings within and adjacent to existing or planned transit corridors that have the potential to provide a focus for higher density mixed-use development and redevelopment; and
- Affordable housing.

There are policies in the York Region Official Plan respecting Regional CIPs. Policy 8.3.5.7 references the *Planning Act* language set out above. In addition, Policy 8.3.5.6 provides that it is policy of Regional Council that the Region may:

- Designate any part of the Region as a Community Improvement Project Area;
- Enact a Regional Community Improvement Plan that utilizes incentive programs including making grants or loans within the Community Improvement Plan Area either to registered property owners or to local municipalities; and
- Participate in a Community Improvement Plan of a local municipality.

It is noted that the Act provides for Councils of Local and Regional municipalities to make loans or grants to each other for the purpose of carrying out a Community Improvement Plan that has come into effect.

As supporting higher density mixed-use development in transit corridor is a Regional objective, a York-Vaughan partnership in this regard should be pursued.

The Basis for Grants or Loans and Eligible Costs

Section 28(7) of the *Planning Act* authorizes municipalities to make grants and loans, in conformity with the CIP, to registered owners, assessed owners and tenants of lands and buildings within the Community Improvement Project Area to pay for all or part of the eligible costs of the CIP.

Eligible costs may include: costs related to environmental site assessment; environmental remediation; development; redevelopment; construction and reconstruction of lands and buildings for rehabilitation purposes or for the provision energy efficient uses, buildings, structures, works, improvements or facilities.

One method permitted under the Act is a Tax Increment Equivalent Grant program (TIEG). A TIEG is a grant equal to the full amount or a portion of the amount of the estimated property tax increase after the property is redeveloped. The lands in the VMC are considered to be a prime redevelopment opportunity. The increase in taxes or the tax increment may be calculated by subtracting the municipal portion of the property taxes prior to the reassessment from the municipal portion of the property taxes after reassessment.

The application of this tool, among others, will provide the basis for overcoming some of the financial challenges faced by developers in developing offices uses in the VMC and the City's other intensification areas.

The City DC rate "freeze"

Through the 2013 DC review it was noted that the DC by-law itself was not the appropriate vehicle to provide DC incentives for offices, but rather an approach under a potential CIP may be the preferred method. This approach allows specified criteria regarding geographic location, size and other factors to be set to qualify for the program. 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, major offices equal to or (greater than 100,000 sq.ft.) would pay $20.35/sq.m. or $1.89/sq.ft. in City DCs, while other forms of non-residential development would pay according to the phased in rates identified in the new by-laws (peaking at $52.21/sq.m. or $4.85/sq.ft. in March 2015). The "freeze" would only apply to the office portion of a mixed use development and residential/commercial portions would continue to pay the normal DC rates per the by-law.

It's important to note that the City's portion of the total DC is small compared to that of the Regional Municipality of York. The Region's DC is currently $208.95/sq.m. or $19.41/sq.ft. for office space. However, given the competitive pressures facing office development the avoidance of new City DC rates will still provide a partial offset of capital costs that the developer needs to capitalize.

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Tax Increment Equivalent Grant (TIEG)

A TIEG is a financial incentive, only available through a CIP, designed to offset the increase in property taxes experienced as a property is redeveloped. Generally, the Municipal Act does not provide the authority for municipalities to freeze, redirect or write off property taxes on specific properties for development purposes. An exception to this is a TIEG program implemented through a CIP and authorized under Section 107(1) of the Municipal Act.

As a part of a TIEG program, a municipality may provide a grant equal to the full amount, or a portion of the full amount, of the estimated property tax increase (or “increment”) that a property experiences after it is developed or redeveloped. This grant takes place in installments over a certain period, typically 10 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% and would last for a 10 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 portion of the tax assessment. The City’s portion of the tax bill for typical office development is approximately 14 percent - 16 percent.

The following table illustrates the effect of a TIEG on a hypothetical 100,000 sq.ft. office building. The sample assumes that the grant begins at 70% and lasts 10 years. The property tax data is based on a sampling of an actual office development built in recent years in Vaughan. It should be noted that the value of both the city taxes and the grant is subject to fluctuation based on the size of the development and the increase in assessment value over the period.

TIEG Sample Program on 100,000 Sq.Ft. Office

Year	Grant %	City Taxes*	Grant Value	City Taxes Paid
2015	70%	$ 40,304	$ 28,213	$ 12,091
2016	63%	$ 41,110	$ 25,899	$ 15,211
2017	56%	$ 41,932	$ 23,482	$ 18,450
2018	49%	$ 42,771	$ 20,958	$ 21,813
2019	42%	$ 43,626	$ 18,323	$ 25,303
2020	35%	$ 44,499	$ 15,575	$ 28,924
2021	28%	$ 45,389	$ 12,709	$ 32,680
2022	21%	$ 46,296	$ 9,722	$ 36,574
2023	14%	$ 47,222	$ 6,611	$ 40,611
2024	7%	$ 48,167	$ 3,372	$ 44,795
Total:		$ 441,315	$ 164,863	$ 276,452

**Taxes in the VMC are assumed to grow at a higher rate than the rest of Vaughan and therefore there is an increase in value of the taxes over time.*

As noted earlier, the City’s portion of the tax bill is quite small in comparison to that of the Region of York and the Education tax rates. Staff believe that a collaborative effort is required by the lower and upper tier municipality as well as the Province to bring the intensification of Vaughan to fruition. Staff are therefore requesting direction from Council to approach both the Region and Province to come on as partners in the TIEG program so that a more fulsome incentive approach can be taken to help facilitate major office development in Vaughan. Given the large investment in transportation being made in Vaughan staff are hopeful that Regional and Provincial representatives will also see the benefit of ensuring that high quality office employment strategically co-located with these higher order transportation systems will benefit the local, regional and provincial economy.

CIL of Parkland Exemption / Reduction

CIL Parkland for major office space is not overly onerous on its own as CIL Parkland for these types of development is calculated at 2% of the land value, however given that office spaces greater than 100,000 sq.ft. in intensification areas are usually a higher density built form, the actual acreage associated with the development is small. For example, for 100,000 sq.ft. of office space that is built in a multi-storey format, the CIL Parkland may only be approximately $15K. However, as a signal to the office development industry, a full exemption on this contribution to parkland is proposed to be waived. This would not have a significant impact on the City's ability achieve a desired parkland service level.

The larger effect of CIL of Parkland is felt on mixed-use developments wherein high density residential is mixed with major office development of spaces greater than 100,000 sq.ft. The combination of these types of developments is desirable from an urban development perspective where both employment and residential (places to live and places to work) can be integrated to produce an environment that promotes less use of roadways and other services and increases the quality and density uses of smaller parcels of land. The development industry has also indicated that combining these uses is one of the only viable ways to develop major office spaces. It allows the cross subsidization of residential revenues to help offset the capital and operating costs of major office spaces.

One of the tools being proposed attempts recognize this key linkage and provides an incentive that is proportional to the size of the major office space. 750 sq.ft. is a commonly held threshold between small and large apartments and was used as an assumed "average" apartment size in Vaughan's intensification areas for a high density residential unit. Using this average it was assumed that by using that 750 sq.ft. space for office, rather than residential, should be incented by providing a proportional discount to any associated high density residential use. This incentive equates to providing 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 for every 750 sq.ft. of major office development built on the same development site. The intent is to promote office development by providing assistance through the cross subsidization of the mixed-use development as a whole (e.g. the capital cost of the whole project is reduced as the major office component of the development increases). The CIL of Parkland revenue of such a program is easy to calculate as the program is limited to 1,500,000 sq.ft. of major office space so the program is "capped" at 2,000 high density residential units (1,500,000 sq.ft. / 750 sq.ft. = 2,000 units). Forecasted revenue foregone equates to $8.8M (($8,500/unit - $4,100/units) X 2000 units). While this foregone revenue may have a very slight impact on the City's ability to achieve its Parkland service level goals, staff believe these service levels will still be achievable based on strategic acquisitions and potentially alternate forms of parkland provision.

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

In order to fund the CIP program it should be understood that the City is not permitted to increase DCs paid by other types of development to compensate for any foregone revenue from a TIEG. The programs, however, should be viewed as an economic development investment strategy that should encourage office development to build, which will improve job development, employment diversification, quality of life, self-sufficiency and potentially increase the tax base..

The full investment cost of such a program is difficult to determine as the magnitude of major office developments over the next five years is difficult to pinpoint exactly, however if an assumption is made that 1.5 million sq. ft. of major office space is developed over this period then the investment over the next 10 years will be approximately $15.9 million, however this investment can be funded over the next 25 years.

It should be further noted that major office development tends to have the effect of spurring other types of development surrounding it which will attract more wealth in to the community. The economic multiplier effect, whereby employees and associated businesses input value to the local economy also provides the broader economic justification to seeing major office space as a desirable component of the VMC and other intensification corridors. Furthermore, the previous VMC Office Market Study (September 2012) demonstrate that the three common typologies (i.e. suburban surfaced-parked / suburban structure-parked / high density urban with below-grade parking) show a revenue factor that range from zero to six to 18, increasing with density and intensified uses.

Other programs will be considered through the CIP Study process

Other types of incentives will also be considered through the CIP Study process. Some of these factors may not be seen as having a large enough impact on the economic rent formula, but other factors such as parking related considerations certainly deserve an in-depth examination. Some of these incentive tools may also be more appropriately directed at smaller office developments that are less than 100,000 sq. ft. in size, but that may still form an integral part of the VMC and other intensification corridor development. The following items will also be considered through the development of the CIP Study and the financial implications associated with any recommended tools will be reported to Council with the final CIP report:

- Brownfield assistance
- Tax increment financing
- Reduction/exemption to various City planning/building fees
- Parking requirement reductions
- Establishment of a Parking Authority
- Parkland dedication reductions/exemptions
- Section 37 exemptions
- DC deferral programs

A CIP is only one element to assist in the overall vision of the VMC

The VMC vision is larger than just the office development component and it should be noted that there are several parts to this vision and many other avenues to attract development (office and other forms) to the area. Transit, road, water, wastewater, stormwater, parks, recreation, library and several other public investments may be required in the area to bring the full vision to fruition and to work in collaboration with the development industry, York Region, the Province and other stakeholders to that end. Investment in a branding strategy and marketing plan is also a critical component to raising the awareness and driving investments into the VMC. Depending on the reach that the City and landowners want to achieve, a marketing plan could have annual funding investments that range from $100,000 to more than $500,000 as identified in a recent report to the April 9, 2014 VMC Sub-Committee titled, “Vaughan Metropolitan Centre Marketing Plan”.

There certainly exists other creative methods and ideas of attracting partnerships, promoting the VMC brand, simplifying the development process and forming alliances to reduce overall costs that all may need to be considered either as a part of the CIP or outside the CIP in the ongoing efforts to help materialize the vision. These ideas will continue to be shared between staff, the development industry and other partners as the proposed CIP is developed and future initiatives, outside the CIP, are formed.

Relationship to Vaughan Vision 2020/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

As mentioned in several parts of this report, the City's financial impact on office development is only contained to the City's portion of DCs and Property Tax. It is therefore recommended that City staff work with the Region to explore incentive tools in connection with the Centres and Corridors strategy to help ensure that Vaughan, as a major urban growth centre in York Region, be supported by its upper-tier government in the pursuit of an economically viable VMC area and other intensified corridors.

Conclusion

Office development within the VMC is of critical importance to achieving the City's vision for its new downtown. The VMC and other intensification corridors need to include a healthy proportion of office and commercial uses that lend vibrancy throughout the day, and provide employment opportunities for residents.

Vaughan faces challenges in competing for tenancies with other office centres in the GTA. New office construction across the GTA is competitive and through establishing a CIP the City of Vaughan will be well positioned to remain competitive and put tools in place to assist in accelerating major office development in the VMC and other intensification corridors.

Development of the VMC is a highly complex project, from planning and engineering challenges, to transit accommodation, community facilities, open space realms and financing strategies. All of these factors play a role in the VMC's attractiveness as a place to live, but as importantly, as a place of commerce. In order to compete with established centres throughout the GTA and the country, and to maximize the investments that have already been made, the City needs to utilize all the tools and resources at its disposal to ensure that Vaughan is competitive and attracts the desired employers and economic sectors. This report sets the stage for re-aligning the financial and planning tools to crystallize the VMC vision.

Attachments

None.

Report prepared by:

Roy McQuillin, Manager of Policy Planning
Shirley Kam, Senior Manager of Economic Development
Jennifer Ladouceur, Director of Economic Development
Lloyd Noronha, Director of Development Finance and Investments
Tim Simmonds, Executive Director, Office of the City Manager

VAUGHAN

C 3
Item # 4
Report No. 2 (PKI)
Council - May 27/14

memorandum

May 23, 2013

To: Honourable Maurizio Bevilacqua, Mayor and Members of Council

Re: Community Improvement Plan: A Strategic Tool to Support and Accelerate Office Development
Priority & Key Initiatives Committee, Item 4, May 12, 2014

This communication is being provided in response to a request from a Member of Committee for additional information on the financial implications of a potential Community Improvement Plan (CIP) to support office development in the Vaughan Metropolitan Centre (VMC) and other intensification corridors.

Economic benefits on the investment are high

The long terms effects of encouraging office developments, which will improve job development, employment diversification, quality of life, self-sufficiency with a well-balanced local economy are the primary returns on this investment. The economic multiplier effect, whereby employees and associated businesses input value to the local economy also provides the broader economic justification to seeing major office space as a desirable component of the VMC and other intensification corridors and will be the realized benefits of such an investment by the City.

The initial mode of investment by the City is achieved through moderate financial impacts realized over a fifteen year period. While the actual payback in "financial" terms to the City as a corporate entity is relatively low, there may be some minor positive financial effects on the community such as increasing the office related property tax base at an earlier point in time than originally forecasted and encouraging more cost efficient denser forms of office to develop. As mentioned above, the overall impacts should be viewed as an investment in economic development.

Staff have recommended the future activation of various financial incentive tools

Development Charge (DC) "Freeze"

A freeze on DCs applying to major offices has been proposed, which would see all major office developments qualifying under the CIP paying their City DCs at the rate previous to the 2013 update of the DC by-laws. This lesser rate would help to lower the capital costs of the project and will translate in to lower net economic rents going forward. The approximate cost of this investment is anticipated to be $4.4M spread over a 5 year period.

Cash-in-Lieu (CIL) of Parkland - 100% on Office

It has been proposed that the major offices, as well as the major office component of a mixed-use development, be fully exempt from CIL of Parkland. This will also contribute to a lower capital cost and therefore lower economic rents. Given that CIL of Parkland is based on land area and major offices in the VMC and other intensification corridors are expected to be built in denser forms, this exemption does not equate in to a large investment. It is anticipated that this investment will be approximately $0.3M spread over a 5 year period.

CIL of Parkland - Mixed Use Office / High Density Residential Discount

A discount on CIL parkland applying to the high density residential component of a mixed used development has been proposed. The discount would see one unit of residential be provided with the "old" CIL of Parkland rate ($4,100 vs. $8,500) for every 750 sq.ft. of major office included in the same development. In consultation with the development industry and industry experts, it is acknowledged that to ensure major office is viable it is quite often necessary to combine it with high density residential. The total capital cost of the project as a whole must be considered and therefore providing a discount on the residential portion should translate in to a lower capital cost overall and therefore provide for lower economic rents related to the office component. The anticipated investment will be approximately $8.7M spread over a 5 year period.

Tax Increment Equivalent Grant (TIEG)

A TIEG has been proposed that provides a grant for 70% of the City's Property Taxes in the first year of the office development's operation. The grant would decline in equal annual increments over the proceeding 10 years until the development is paying the full City taxes. This grant is targeted towards lowering the operating costs of a major office development thereby lowering the net economic rent rates required. Based on estimates, this will equate to an investment of $2.4M over a fifteen year period. *(While the individual TIEGs will only last for 10 years, it is expected that office buildings will be added over a 5 year period and therefore each property will begin a ten year cycle at different times, hence the spread over a fifteen year period).*

Investments are spread over a 15 year period; however they may be funded over an even longer period

The DC freeze and the TIEG tools are required to be funded. Their combined funding requirement is approximately $6.8M. There are several strategies available to Council to fund this economic development investment. One such strategy might be to increase property taxes by 0.25% in 2016 and this would fund the program over a 25 year period. Other options may exist as well, where smaller tax increases occur over a few years (e.g. 0.08% increase over three years). These strategies would be considered through the City's normal budgeting process and upon passing of the CIL By-law.

The CIL Parkland discounts are treated as foregone revenue and as stated in the PKI report, in consultation with Parks Development, staff believe that the City's ability to achieve a desired parkland level of service will not be adversely effected by this foregone revenue. The City's CIL of Parkland is currently in a healthy state and is able to absorb any short and medium term impacts of implementing the CIP investments. In the longer term, staff will continue to monitor the reserve, land market prices and its land acquisition strategy to ensure minimal impact on the land service levels.

Investing to bring the Vision to fruition

Office development within the VMC and other intensification corridors is of critical importance to achieving the City's vision for its new downtown and other urban areas. They need to include a healthy proportion of office and commercial uses that lend vibrancy throughout the day, and provide employment opportunities for residents.

In order to compete with established centres throughout the GTA and the country, and to maximize the investments that have already been made, the City needs to utilize all the tools and resources at its disposal to ensure that Vaughan is competitive and attracts the desired employees and economic sectors. The report to which this communication is related sets the stage for re-aligning the financial and planning tools to crystallize the VMC vision.

Sincerely,

John Henry

John Henry, CPA, CMA
Commissioner of Finance & City Treasurer

Lloyd Noronha, CPA, CMA
Director of Development Finance & Investments

Copy: John MacKenzie, Commissioner of Planning
Tim Simmonds, Executive Director, City Manager's Office
Heather Wilson, Director of Legal Services
Jennifer Ladouceur, Director of Economic Development

C 2
Communication
PKI : May 12/14
Item: 4

Altus Group

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

- **Philip Smith**, FRICS, AACI, PLE, Executive VP, Research Valuation and Advisory – Project Team Lead
- **Marlon Bray**, BSc. (Hons), MRICS, PQS, Director, Cost Consulting & Project Management – Lead Cost Consultant
- **Daryl Keleher**, B.A., BURPl, Associate Director, Economic Consulting – Lead Consultant Municipal Finance and Incentives
- **Robert Glickman**, MBA, Consultant, Research Valuation and Advisory – Lead Financial and Market Analyst

Purpose of Report

"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"

Altus Group

Scope of Work – Key Tasks

- 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

Altus Group

Scope of Work – Office Development Specifications

SUMMARY OF PROJECTS

Description	Project 1	Project 2	Project 3
Building Class	A+	A	A/B
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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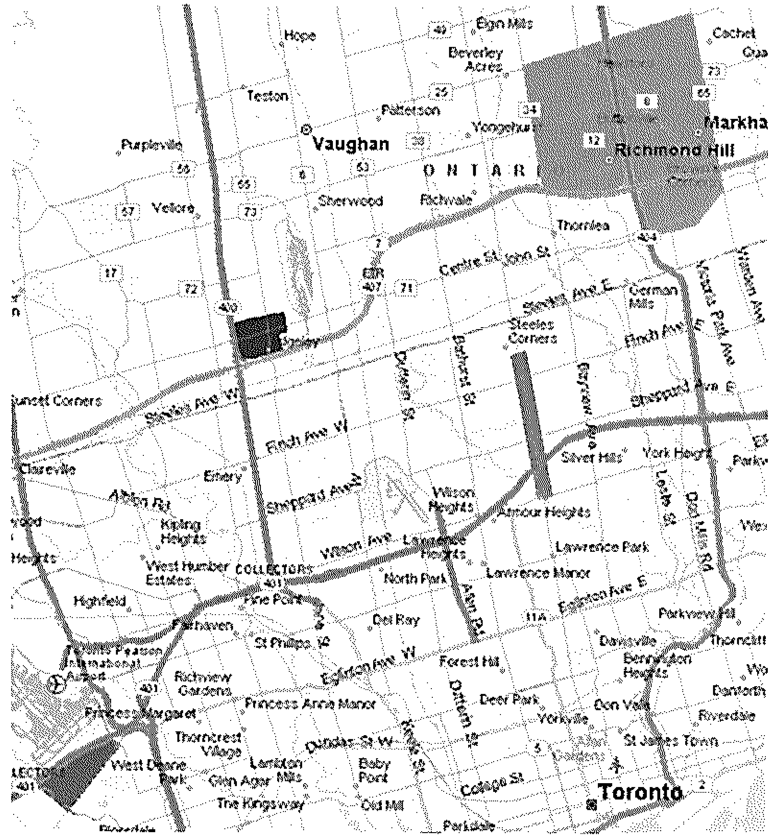
Competitive Office Markets

- 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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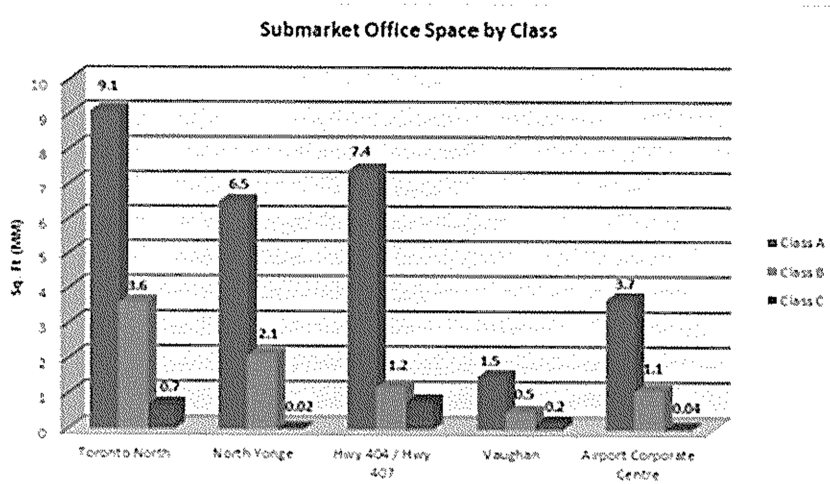
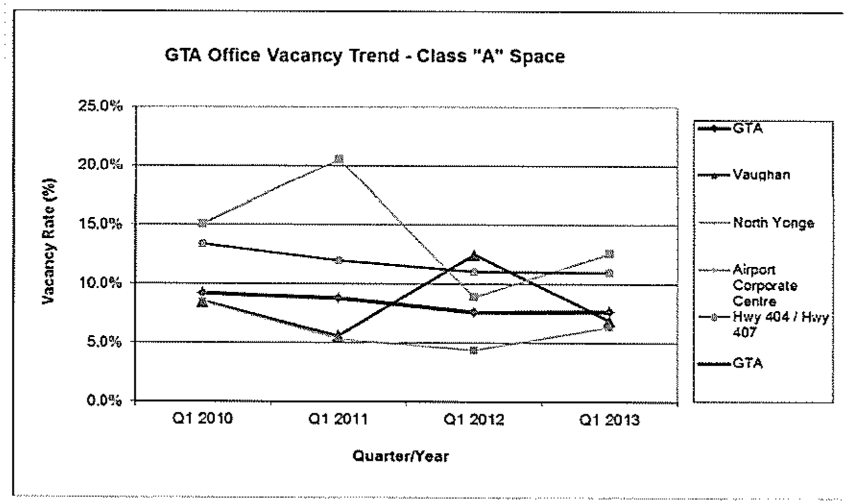
Competitive Office Markets



- 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 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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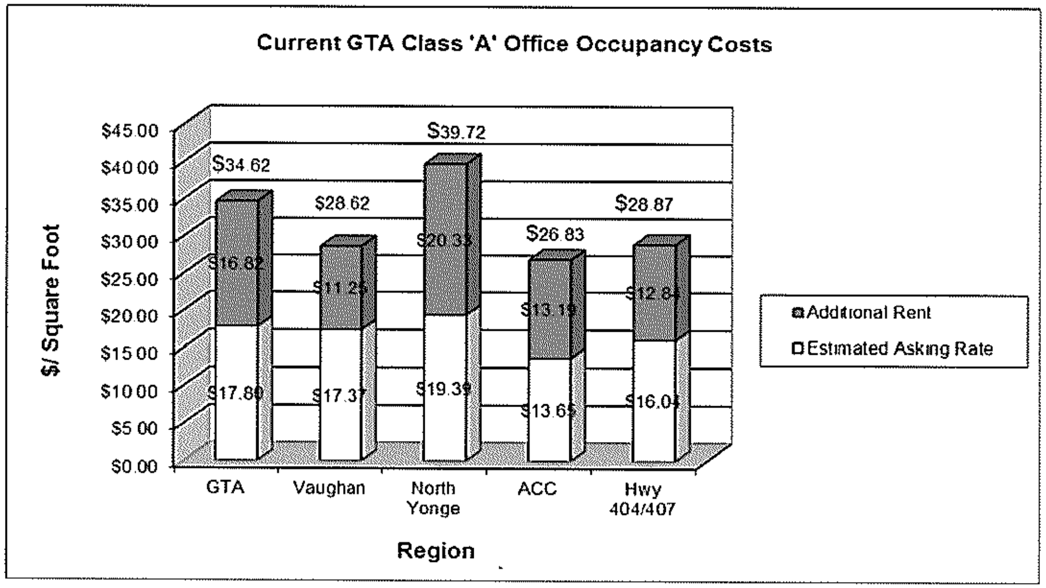
Competitive Office Markets



- 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

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Construction Costing

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

- 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

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.

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

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Municipal Levies (cont.)

CASH IN LIEU OF PARKLAND 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.)

- 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

- 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	-

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Recommendations to "Close the Gap"

- 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"

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

Principle

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

Governing Legislation

- Municipal Act
- Planning Act

Vehicle

- Community Improvement Plans

Key "Incentives"

Within a CIP

- Tax Increment Equivalent Grant (TIEG)

Other

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

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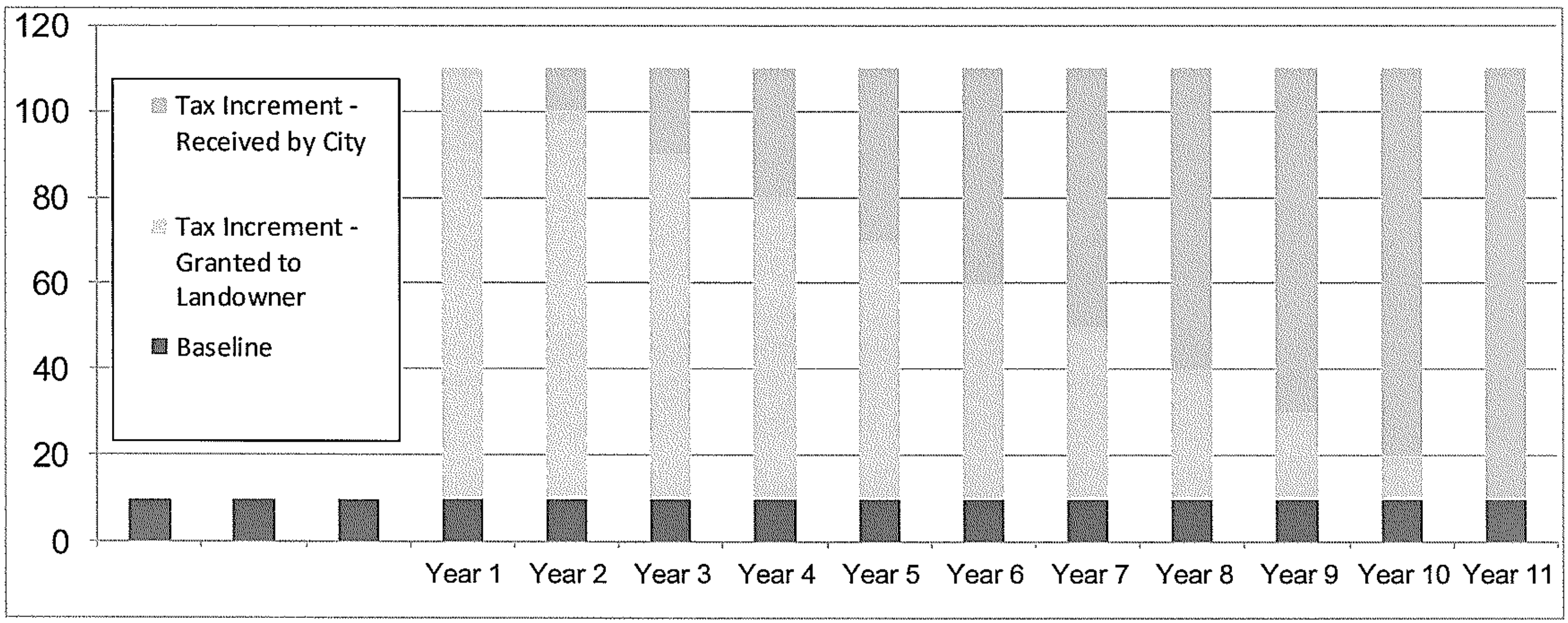
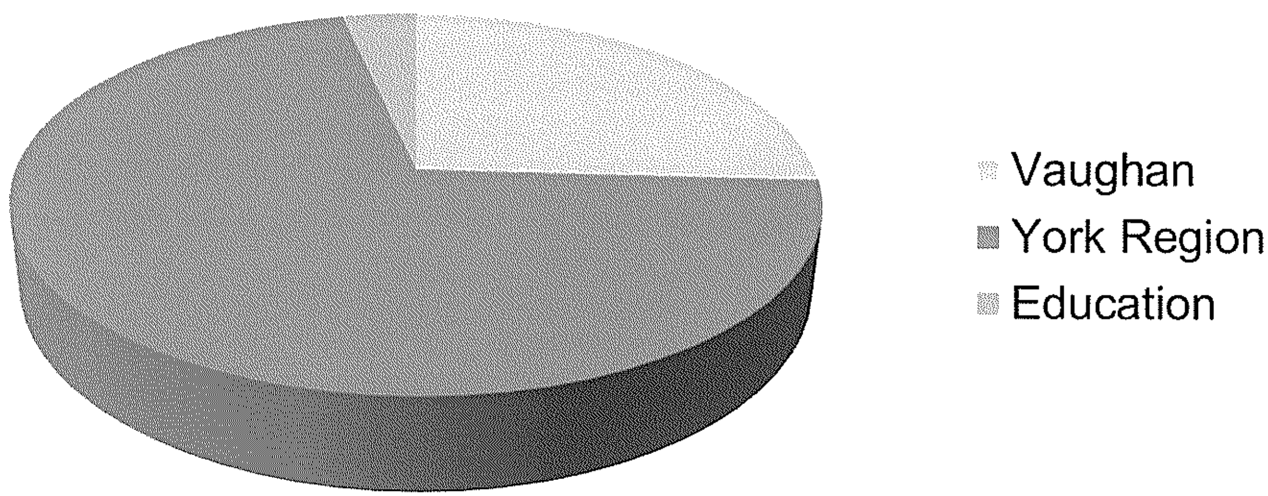
The Office Incentives Toolbox

- 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

- 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.



Considerations to accelerate office development in VMC

- 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?

COMMUNITY IMPROVEMENT PLAN: A STRATEGIC TOOL TO SUPPORT AND ACCELERATE OFFICE DEVELOPMENT

Recommendations

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

1) That the presentation from Altus Group be received;

2) That staff be directed to initiate a Community Improvement Plan (CIP) Study for the primary purpose of promoting major office development in the intensification corridors and the Vaughan Metropolitan Centre (VMC);

3) That staff be authorized to prepare and release a Request For Proposal (RFP) to retain a consultant to develop the CIP Study and draft CIP by-law in accordance with the provisions of the Planning Act;

4) That the CIP Study and related draft CIP by-law use the following incentive tools as detailed further in this report to foster major office development equal to or greater than 100,000 sq. ft. of office space:

    a. A Development Charge (DC) “freeze” for office spaces greater than 100,000 sq.ft., whereby City DCs are frozen at the August 2013 rate ($20.35/sq. m.) for a five year period beginning on the date on which the CIP by-law is enacted;
    b. A Tax Increment Equivalent Grant (TIEG) starting at 70% (de-escalating over a ten year period in equal annual increments to 0%) of the City’s portion of the Property Taxes;
    c. A 100% Cash-in-Lieu (CIL) of Parkland exemption apply to all major office developments;
    d. A CIL of Parkland reduction apply to mixed-use developments, whereby for every 750 sq. ft. of major office space developed, one unit of high density residential located on the same development site is charged CIL Parkland at the rate of $4,100 per unit;
    e. The above noted tools be limited to the first 1,500,000 Sq. ft. of major office development to apply and qualify under the CIP or five years after the CIP by-law is enacted, whichever comes sooner;
    f. The tools under the final approved CIP be retroactively applied to all office and mixed-use office developments that achieved building permit issuance on or after January 1, 2014 to support first office development initiators; and
    g. After the five year period following enactment of the CIP by-law or achievement of 1,500,000 sq. ft. of major office development, whichever comes sooner, that Council will have the option to renew, modify or terminate the CIP;

5) That in recognition of the time required to complete a CIP study and enact a CIP by-law and to illustrate Council’s intent to bring incentive tools to fruition, that the City Clerk be authorized to execute Deferral Agreements in a form acceptable to the Commissioner of Legal & Administrative Services/City Solicitor and with content acceptable to the Commissioner of Finance & City Treasurer, to defer the cost differential between the full DC rate and CIL Parkland rates and the intended incentive discounts as outlined in this report, until such time as Council has considered and/or enacted the CIP by-law containing such incentives;

6) That staff be directed to engage with representatives from the Region of York and the Province of Ontario to advocate the expansion of the potential TIEG to regional and education property taxes; and

7) That staff be directed to report back to Council with the results of the CIP study, status of discussions with the Region and Province and with a draft CIP by-law for enactment, by March 2015.

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 Vaughan Metropolitan Centre (VMC) and other intensification corridors are a fundamental building block of the City's growth management strategy and are essential to the long-term economic vibrancy of the City as a major employment centre.

A Community Improvement Plan (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

Currently, there has been no economic impact to the City as a result of studies conducted in preparation for this report as the studies were funded from the Economic Development's Department budget.

Should Council endorse the initiation of a CIP study, the economic impact could be approximately $100,000. Funding is available from Capital Project EB-9535-14 (Community Improvement Plan Study) in the amount of $103,000 (funded 90% by DCs and 10% tax), which was approved as a part of the 2014 Budget.

Future impact resulting from potential approval of a CIP

The majority of the tools envisioned in the proposed CIP would require financial investment on the City's part. These investments could take the form of grants or foregone municipal revenue and would be quantified in more detail upon completion of the CIP study. These commitments would be subject to Council approval in future budget years and could range from hundreds of thousands to several million dollars depending on the suite of office incentive tools that Council decides to implement. The initial investment should be weighed together with the long term effects of encouraging office developments, which will improve job development, employment diversification, quality of life, self-sufficiency and potentially increase the tax base.. Major office uses traditionally help to attract other denser forms of development like mixed-use and high rise residential that supports urban community growth.

Should Council approve a future CIP by-law that is consistent with the minimum recommendations of this report, then the 5-year total property tax requirement could equate to approximately $6.8M. There is no requirement, however to fund the total investment immediately. For example, should Council wish to do so, the investment could be amortized over a longer term and could impact the tax rate by as little as a one-time 0.20% increase in 2015. For example a 0.20% tax increase in 2015 would result in additional funds of $272K to the base budget and this collection over 25 years would equate to approximately $6.8M. This would act as dedicated program funding for the next 25 years. The potential tools presented in this report, if approved through a future CIP by-law, would also result in forgone Cash-in-Lieu of Parkland revenue of $9.0M.. Unlike Development Charge (DC) and Property Tax discounts, CIL Parkland discounts are not required to be funded from other sources, but rather are simply treated as revenue forgone.

Communications Plan

Through the course of developing a CIP, staff and the CIP consultant would undertake a public and stakeholder consultation process, including current and prospective office development proponents,.

The Planning Act also has requirements to hold public meetings with regard to development and adoption of the Community Improvement Plan, in accordance with the requirements of the Planning Act. The retained consultant will be required to undertake the public and stakeholder consultation process, subject to an approved workplan.

Purpose

This report seeks direction to initiate the CIP process by retaining a consultant to complete the necessary studies, by-laws and implementation plan to bring a CIP to fruition by mid-2015. The final and associated funding requirements would be subject to final approval by Council. It is anticipated that a CIP consultant would be retained in Q3/2014 and the study, along with the implementation recommendations, would be brought back to Council in early 2015.

Background

Proposed programs must be targeted and effective

Both prior to and during the 2013 DC review process, Council expressed a desire to be presented with a comprehensive strategy to address incentive issues with regard to office development city-wide and in particular in the VMC area.

In order to formulate a comprehensive strategy staff worked to gain an understanding of the need for, and magnitude required, of any proposed office incentive programs. This would assist in ensuring that the incentive programs are targeted, mindful of the limitations of existing tax-based funding sources, and are effective in its implementation. To this end, staff divided the approach in to three phases:

1. Conduct a “Pro Forma” study to understand the financial challenges facing developers of office buildings;
2. Examine the current incentive tools available to the municipality and explore those implemented in other municipalities; and
3. Provide Council with a formal method that allows activation of financial and planning incentive tools that will respond to the City of Vaughan’s unique office development pressures.

Phase one and a majority of phase two have been achieved through the retention of the Altus Group Limited to conduct a project cost and market analysis of office development in VMC and competing areas; and the provision of recommendations on the potential incentive tools available to the City. The completion of the remainder of phase two and phase three would be addressed through the creation and implementation of a CIP as outlined further in this report.

Office development is a critical factor in spurring well-balanced growth in the VMC and other intensification corridors

As identified in the Provincial Growth Plan for the Greater Golden Horseshoe (Places to Grow), the York Region Official Plan and the Vaughan Official Plan 2010; and supported in the City’s Economic Development Strategy *Building a Gateway to Tomorrow’s Econom*y, the VMC has been planned to be the focal point of Vaughan. It will function as the City’s “downtown”, being an Urban Growth Centre, an Anchor Mobility Hub under the Metrolinx *Big Move* Plan, a cultural and entertainment hub and a higher order employment centre, where head offices, the technology sector, and the emerging creative and knowledge economy can thrive.

Supported by extensive capital investment from the Federal, Provincial, Regional and Local governments in transportation and servicing infrastructure, including a $2.6 billion extension of the Toronto York Spadina Subway and the construction of the VivaNext bus rapidways, the VMC is one of the most ambitious projects in Vaughan's history.

With a minimum of 1.5 million sq. ft. of office, office development planned for the VMC, ensuring that this objective is met will play a critical role in realizing this vision for the VMC as well as other intensification corridors in the City. This will lead to a balanced mix of uses, economic growth, result in an increased tax base and help in generating a more diverse job economy. Developing office space within the urban context, as envisioned for the VMC and other intensification corridors, creates a specific set of development implications for both the public and private sector that must be carefully considered in order to maximize the potential of the VMC.

Transit investment will not be enough to overcome market disadvantages to office development in Vaughan

In September 2012, the City completed the VMC Office Market Study to assist staff in understanding the opportunities and challenges in attracting office tenants in an urban downtown. The Study determined the key competitor markets, outside the City of Vaughan, which potential office users would identify as locations to consolidate or expand into; and examined the role that the subway extension may play in attracting office tenants.

Key findings of the VMC Office Market Study include:

- The VMC's key competitors include North York Centre, Mississauga Airport Corporate Centre (ACC), and Downtown Markham.
- VMC differs from its competitors in its scale, having a target of 1.5 million sq. ft. of office space, relative to the 3.4 million sq. ft. in Downtown Markham, 4.9 million sq. ft. of ACC and 8.9 million sq. ft. of North York Centre.
- Gross rents based on the urban format of the VMC are anticipated to be higher than the competing areas. The VMC may face a cost disadvantage in both existing and new-construction Class A space.
- Costs associated with structured parking and increased construction costs related to water table contribute to driving the required rent premiums in the VMC beyond marketability
- The subway, while an unequivocally strong value-added amenity for prospective office users, must be considered in the context of rent premiums. As well, despite the promise of subway convenience, office tenants still seek a site that offers transit and road connectivity. The arrival of the subway will not be an automatic trigger for office/ mixed-use investment or an orderly development pattern that emanates from the subway terminal.

Vaughan is competing on a near level playing field for NEW office construction

The Altus research was conducted in early 2013 for the preparation of this report. The Altus Group identified through its work that office land values are an integral part of evaluating the feasibility of new office construction. The number of sales have been very limited in all markets, and particularly so, in North York. Across the GTA, land sales range from the $800,000 to $1.2 million per acre, averaging $1 million per acre. In the VMC, expected land value in today's market is in the range of $1.2 million per acre or more. The subway and amenity space to be completed is also expected to add significant value.

The cumulative effect of current rents, high land values, and increasing vacancy rates across the GTA and in the VMC competitive market set, has made development of new urban-format office space a challenging proposition.

Altus Group prepared costing scenarios to derive pro formas for hypothetical new office developments in the VMC and the three previously identified competitive markets. Hard and soft construction costs, municipal levies, land acquisition costs, developer profit and capitalization rates formed a part of the analysis. The analysis revealed that only a $1.73 per sq. ft. spread existed between forecasted economic net rents within the four office markets. Vaughan was the highest at $40.89 per sq. ft. and North York City Centre the lowest at $39.16 per sq.ft.

Potential office tenants assessing their leasing needs are comparing new construction and existing office product, and the differential in rental rates is considerable. In considering the Vaughan market, the choice of offerings is limited to new-builds whereas elsewhere in the GTA, there are options for both existing and new-build space. This may be further exacerbated by the 3.3 million sq. ft. of office that is currently under construction, and not yet committed.

A Community Improvement Plan will assist Vaughan's Vision for the Vaughan Metropolitan Centre.

The competition to attract office tenancy is intense and ongoing. As under-construction projects elsewhere in the GTA are completed, resulting in more office space, the VMC will be competing against projects that were developed under differing financial and development circumstances. How quickly office development in the VMC comes on-stream, i.e. momentum with which projects get off the ground, will determine how the market perceives the VMC's offerings. Investment confidence may rise or fall quickly depending on the momentum displayed by the first several projects. As well, economic conditions may fluctuate, leaving the VMC vulnerable to market downturns such as; rising interest rates and rising commodity and labour rates, etc. The combination of some or all of these market and economic factors provides the impetus for office space development in the short-term since there is no certainty when the conditions will be favourable again. Furthermore, the fiscal impact of accelerating "urbanization" has the following positive effects:

- Better utilization of infrastructure investments
- Improves ability to attract a younger demographic of workers - alignment to knowledge industries
- Strengthens ability to attract cultural and educational institutions

The City of Vaughan is not the only municipality considering programs to support and spur office development in key areas. The following is a list of other municipalities in the GTA that have either already implemented a CIP or are in the midst of considering implementation of a CIP or other incentive type programs:

Cities with Implemented CIPs	Cities Reviewing CIPs
Toronto	Markham
Hamilton	Richmond Hill
Brampton	Mississauga
Newmarket	Oakville
Oshawa	Burlington

According to the findings of the Altus Group analysis, there are only a few variables where incentives could be applied to assist in giving the developers a more competitive opportunity when considering when to construct an building office.

Typically these are:

- Development Charges
- CIL of Parkland (particularly in mixed-use office/high density residenital developments)
- Property taxes
- Parking requirements

DCs have a direct effect on the soft capital costs of an office development and can inflate rents due to the capitalization of these costs. Similarly, CIL of Parkland can be high when viewed in a mixed-use development scenario. It is a commonly held view that high density residential mixed with office development is necessary in order for the residential portion to "cross subsidize" the office development to render it financially viable. The high cost of CIL of Parkland on the high density residential tends to further weaken the viability of the associated office development in terms of the overall soft capital costs of the mixed-use development. Parking requirements also factor in to the hard capital costs of an office development are also capitalized in to the rents and these can be especially onerous in lands such as the VMC where water table issues increase the capital costs of underground parking dramatically therefore resulting in even higher economic rents necessary to make an office project financially viable. Finally, property taxes factor in to the operating costs of the office development and can directly impact the economic rents necessary to compete in the GTA market.

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 os 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 the 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 by by-law designate the whole or any part of the municipality covered by the Official Plan as a Community Improvement Project Area.

Once the by-law designating the Community Improvement Project Area has been passed, the Council may provide for the preparation of a plan "suitable for adoption as a community improvement plan for the community improvement project area".

What Areas will Constitute the Community Improvement Project Areas

It is envisioned that the CIP support the attraction of office uses to the VMC and other intensification areas in the City that will support the planned City/Region structure plans and the emerging transit network, with special focus on higher order transit stations. For these reasons, it is recommended that the following structural elements, identified on Schedule 1 of VOP 2010 "Structure Plan", (ATTACHMENT 1) as the areas subject to the Community Improvement Project Area by-law.

- The Vaughan Metropolitan Centre;
- The Regional Corridors (Highway 7 to Centre Street, Bathurst Street);
- The Primary Centres.

The Approval of Community Improvement Plans

In addition to any City initiated requirements for public consultation, the approval process for the Community Improvement Plan requires that it follow the same procedures as those for an Official Plan amendment (Section 17 of the *Planning Act*). This includes: the requirement for a Public Open House and having the draft CIP available to the public 20 days in advance of the Public Meeting, the holding of a Public Meeting before Council on the draft plan to obtain further public input; revise the Plan accordingly and submit to Council for adoption; and give written notice of Council's adoption of the CIP. The appeal period lasts 20 days, after which the plan comes into effect if there are no appeals and, if there are appeals, they are forwarded to the Ontario Municipal Board for adjudication.

Community Improvement Policies in the Vaughan Official Plan 20|20

The City's policies pertaining to CIPs are found in Policy 10.1.2.13., which has been approved by the Ontario Municipal Board. It provides that Community Improvement Project Areas may be designated by by-law for a range of reasons, in addition to any other reason as may be set out in the *Planning Act*. This gives Council substantial flexibility in responding to conditions that may challenge an environmental, social or community economic development priority of the City. The reasons include:

- Inadequate municipal infrastructure, including piped services, streets and streetscapes, public parking facilities and/or stormwater management facilities;

- Inadequate community services such as public recreational/cultural facilities, public open space and/or community services including affordable housing;

- Building and or property deterioration, including façade treatment; to the extent it has a negative effect on the overall image of the community;

- Faulty arrangement of lands;

- Encroachment of incompatible land uses;

- Poor overall streetscape and urban design;

- Existing or potential Business Improvement Areas;

- Vacant lots with infill potential to achieve Urban Structure;

- Underdeveloped properties which have potential for redevelopment or expansion to better utilize the land base to achieve the desired Urban Structure;

- Development at densities that are too low to support planned transit facilities;

- Barriers to the improvement or development of vacant or underutilized lands or buildings such as lots that are brownfields, contaminated soil, fragmented ownership or financial disincentive to private investment;

- Conservation of heritage resources through restoration, rehabilitation and adaptive reuse.

A Potential Role for the Region of York in Promoting Office Uses

York Region is one of four Regional Municipalities authorized to develop Community Improvement Plans. However, the scope of matters the Regional CIPs may address is prescribed by Ontario Regulation. They can cover:

- Infrastructure that is within the upper-tier municipality's jurisdiction;

- Land and buildings within and adjacent to existing or planned transit corridors that have the potential to provide a focus for higher density mixed-use development and redevelopment; and

- Affordable housing.

There are policies in the York Region Official Plan respecting Regional CIPs. Policy 8.3.5.7 references the *Planning Act* language set out above. In addition, Policy 8.3.5.6 provides that it is policy of Regional Council that the Region may:

- Designate any part of the Region as a Community Improvement Project Area;

- Enact a Regional Community Improvement Plan that utilizes incentive programs including making grants or loans within the Community Improvement Plan Area either to registered property owners or to local municipalities; and

- Participate in a Community Improvement Plan of a local municipality.

It is noted that the Act provides for Councils of Local and Regional municipalities to make loans or grants to each other for the purpose of carrying out a Community Improvement Plan that has come into effect.

As supporting higher density mixed-use development in transit corridor is a Regional objective, a York-Vaughan partnership in this regard should be pursued.

The Basis for Grants or Loans and Eligible Costs

Section 28(7) of the *Planning Act* authorizes municipalities to make grants and loans, in conformity with the CIP, to registered owners, assessed owners and tenants of lands and buildings within the Community Improvement Project Area to pay for all or part of the eligible costs of the CIP.

Eligible costs may include: costs related to environmental site assessment; environmental remediation; development; redevelopment; construction and reconstruction of lands and buildings for rehabilitation purposes or for the provision energy efficient uses, buildings, structures, works, improvements or facilities.

One method permitted under the Act is a Tax Increment Equivalent Grant program (TIEG). A TIEG is a grant equal to the full amount or a portion of the amount of the estimated property tax increase after the property is redeveloped. The lands in the VMC are considered to be a prime redevelopment opportunity. The increase in taxes or the tax increment may be calculated by subtracting the municipal portion of the property taxes prior to the reassessment from the municipal portion of the property taxes after reassessment.

The application of this tool, among others, will provide the basis for overcoming some of the financial challenges faced by developers in developing offices uses in the VMC and the City's other intensification areas.

The City DC rate "freeze"

Through the 2013 DC review it was noted that the DC by-law itself was not the appropriate vehicle to provide DC incentives for offices, but rather an approach under a potential CIP may be the preferred method. This approach allows specified criteria regarding geographic location, size and other factors to be set to qualify for the program. 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, major offices equal to or (greater than 100,000 sq.ft.) would pay $20.35/sq.m. or $1.89/sq.ft. in City DCs, while other forms of non-residential development would pay according to the phased in rates identified in the new by-laws (peaking at $52.21/sq.m. or $4.85/sq.ft. in March 2015). The "freeze" would only apply to the office portion of a mixed use development and residential/commercial portions would continue to pay the normal DC rates per the by-law.

It's important to note that the City's portion of the total DC is small compared to that of the Regional Municipality of York. The Region's DC is currently $208.95/sq.m. or $19.41/sq.ft. for office space. However, given the competitive pressures facing office development the avoidance of new City DC rates will still provide a partial offset of capital costs that the developer needs to capitalize.

Tax Increment Equivalent Grant (TIEG)

A TIEG is a financial incentive, only available through a CIP, designed to offset the increase in property taxes experienced as a property is redeveloped. Generally, the Municipal Act does not provide the authority for municipalities to freeze, redirect or write off property taxes on specific properties for development purposes. An exception to this is a TIEG program implemented through a CIP and authorized under Section 107(1) of the Municipal Act.

As a part of a TIEG program, a municipality may provide a grant equal to the full amount, or a portion of the full amount, of the estimated property tax increase (or "increment") that a property experiences after it is developed or redeveloped. This grant takes place in installments over a certain period, typically 10 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% and would last for a 10 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 portion of the tax assessment. The City's portion of the tax bill for typical office development is approximately 14 percent - 16 percent.

The following table illustrates the effect of a TIEG on a hypothetical 100,000 sq.ft. office building. The sample assumes that the grant begins at 70% and lasts 10 years. The property tax data is based on a sampling of an actual office development built in recent years in Vaughan. It should be noted that the value of both the city taxes and the grant is subject to fluctuation based on the size of the development and the increase in assessment value over the period.

TIEG Sample Program on 100,000 Sq.Ft. Office

Year	Grant %	City Taxes*	Grant Value	City Taxes Paid
2015	70%	$ 40,304	$ 28,213	$ 12,091
2016	63%	$ 41,110	$ 25,899	$ 15,211
2017	56%	$ 41,932	$ 23,482	$ 18,450
2018	49%	$ 42,771	$ 20,958	$ 21,813
2019	42%	$ 43,626	$ 18,323	$ 25,303
2020	35%	$ 44,499	$ 15,575	$ 28,924
2021	28%	$ 45,389	$ 12,709	$ 32,680
2022	21%	$ 46,296	$ 9,722	$ 36,574
2023	14%	$ 47,222	$ 6,611	$ 40,611
2024	7%	$ 48,167	$ 3,372	$ 44,795
Total:		$ 441,315	$ 164,863	$ 276,452

**Taxes in the VMC are assumed to grow at a higher rate than the rest of Vaughan and therefore there is an increase in value of the taxes over time.*

As noted earlier, the City's portion of the tax bill is quite small in comparison to that of the Region of York and the Education tax rates. Staff believe that a collaborative effort is required by the lower and upper tier municipality as well as the Province to bring the intensification of Vaughan to fruition. Staff are therefore requesting direction from Council to approach both the Region and Province to come on as partners in the TIEG program so that a more fulsome incentive approach can be taken to help facilitate major office development in Vaughan. Given the large investment in transportation being made in Vaughan staff are hopeful that Regional and Provincial representatives will also see the benefit of ensuring that high quality office employment strategically co-located with these higher order transportation systems will benefit the local, regional and provincial economy.

CIL of Parkland Exemption / Reduction

CIL Parkland for major office space is not overly onerous on its own as CIL Parkland for these types of development is calculated at 2% of the land value, however given that office spaces greater than 100,000 sq.ft. in intensification areas are usually a higher density built form, the actual acreage associated with the development is small. For example, for 100,000 sq.ft. of office space that is built in a multi-storey format, the CIL Parkland may only be approximately $15K. However, as a signal to the office development industry, a full exemption on this contribution to parkland is proposed to be waived. This would not have a significant impact on the City's ability achieve a desired parkland service level.

The larger effect of CIL of Parkland is felt on mixed-use developments wherein high density residential is mixed with major office development of spaces greater than 100,000 sq.ft. The combination of these types of developments is desirable from an urban development perspective where both employment and residential (places to live and places to work) can be integrated to produce an environment that promotes less use of roadways and other services and increases the quality and density uses of smaller parcels of land. The development industry has also indicated that combining these uses is one of the only viable ways to develop major office spaces. It allows the cross subsidization of residential revenues to help offset the capital and operating costs of major office spaces.

One of the tools being proposed attempts recognize this key linkage and provides an incentive that is proportional to the size of the major office space. 750 sq.ft. is a commonly held threshold between small and large apartments and was used as an assumed “average” apartment size in Vaughan’s intensification areas for a high density residential unit. Using this average it was assumed that by using that 750 sq.ft. space for office, rather than residential, should be incented by providing a proportional discount to any associated high density residential use. This incentive equates to providing 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 for every 750 sq.ft. of major office development built on the same development site. The intent is to promote office development by providing assistance through the cross subsidization of the mixed-use development as a whole (e.g. the capital cost of the whole project is reduced as the major office component of the development increases). The CIL of Parkland revenue of such a program is easy to calculate as the program is limited to 1,500,000 sq.ft. of major office space so the program is “capped” at 2,000 high density residential units (1,500,000 sq.ft. / 750 sq.ft. = 2,000 units). Forecasted revenue foregone equates to $8.8M (($8,500/unit - $4,100/units) X 2000 units). While this foregone revenue may have a very slight impact on the City’s ability to achieve its Parkland service level goals, staff believe these service levels will still be achievable based on strategic acquisitions and potentially alternate forms of parkland provision.

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

In order to fund the CIP program it should be understood that the City is not permitted to increase DCs paid by other types of development to compensate for any foregone revenue from a TIEG. The programs, however, should be viewed as an economic development investment strategy that should encourage office development to build, which will improve job development, employment diversification, quality of life, self-sufficiency and potentially increase the tax base..

The full investment cost of such a program is difficult to determine as the magnitude of major office developments over the next five years is difficult to pinpoint exactly, however if an assumption is made that 1.5 million sq. ft. of major office space is developed over this period then the investment over the next 10 years will be approximately $15.9 million, however this investment can be funded over the next 25 years.

It should be further noted that major office development tends to have the effect of spurring other types of development surrounding it which will attract more wealth in to the community.. The economic multiplier effect, whereby employees and associated businesses input value to the local economy also provides the broader economic justification to seeing major office space as a desirable component of the VMC and other intensification corridors. Furthermore, the previous VMC Office Market Study (September 2012) demonstrate that the three common typologies (i.e. suburban surfaced-parked / suburban structure-parked / high density urban with below-grade parking) show a revenue factor that range from zero to six to 18, increasing with density and intensified uses.

Other programs will be considered through the CIP Study process

Other types of incentives will also be considered through the CIP Study process. Some of these factors may not be seen as having a large enough impact on the economic rent formula, but other factors such as parking related considerations certainly deserve an in-depth examination. Some of these incentive tools may also be more appropriately directed at smaller office developments that are less than 100,000 sq. ft. in size, but that may still form an integral part of the VMC and other intensification corridor development. The following items will also be considered through the development of the CIP Study and the financial implications associated with any recommended tools will be reported to Council with the final CIP report:

- Brownfield assistance
- Tax increment financing
- Reduction/exemption to various City planning/building fees

- Parking requirement reductions
- Establishment of a Parking Authority
- Parkland dedication reductions/exemptions
- Section 37 exemptions
- DC deferral programs

A CIP is only one element to assist in the overall vision of the VMC

The VMC vision is larger than just the office development component and it should be noted that there are several parts to this vision and many other avenues to attract development (office and other forms) to the area. Transit, road, water, wastewater, stormwater, parks, recreation, library and several other public investments may be required in the area to bring the full vision to fruition and to work in collaboration with the development industry, York Region, the Province and other stakeholders to that end. Investment in a branding strategy and marketing plan is also a critical component to raising the awareness and driving investments into the VMC. Depending on the reach that the City and landowners want to achieve, a marketing plan could have annual funding investments that range from $100,000 to more than $500,000 as identified in a recent report to the April 9, 2014 VMC Sub-Committee titled, "Vaughan Metropolitan Centre Marketing Plan".

There certainly exists other creative methods and ideas of attracting partnerships, promoting the VMC brand, simplifying the development process and forming alliances to reduce overall costs that all may need to be considered either as a part of the CIP or outside the CIP in the ongoing efforts to help materialize the vision. These ideas will continue to be shared between staff, the development industry and other partners as the proposed CIP is developed and future initiatives, outside the CIP, are formed.

Relationship to Vaughan Vision 2020/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

As mentioned in several parts of this report, the City's financial impact on office development is only contained to the City's portion of DCs and Property Tax. It is therefore recommended that City staff work with the Region to explore incentive tools in connection with the Centres and Corridors strategy to help ensure that Vaughan, as a major urban growth centre in York Region, be supported by its upper-tier government in the pursuit of an economically viable VMC area and other intensified corridors.

Conclusion

Office development within the VMC is of critical importance to achieving the City's vision for its new downtown. The VMC and other intensification corridors need to include a healthy proportion of office and commercial uses that lend vibrancy throughout the day, and provide employment opportunities for residents.

Vaughan faces challenges in competing for tenancies with other office centres in the GTA. New office construction across the GTA is competitive and through establishing a CIP the City of Vaughan will be well positioned to remain competitive and put tools in place to assist in accelerating major office development in the VMC and other intensification corridors.

Development of the VMC is a highly complex project, from planning and engineering challenges, to transit accommodation, community facilities, open space realms and financing strategies. All of these factors play a role in the VMC's attractiveness as a place to live, but as importantly, as a place of commerce. In order to compete with established centres throughout the GTA and the country, and to maximize the investments that have already been made, the City needs to utilize all the tools and resources at its disposal to ensure that Vaughan is competitive and attracts the desired employers and economic sectors. This report sets the stage for re-aligning the financial and planning tools to crystallize the VMC vision.

Attachments

None.

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