

VAUGHAN METROPOLITAN CENTRE SUB-COMMITTEE - SEPTEMBER 13, 2012**BUILDING THE VAUGHAN METROPOLITAN CENTRE – OFFICE MARKET STUDY****Recommendation**

The Executive Director, in consultation with the City Manager, recommends:

THAT the verbal presentation and final report: *"Building the Vaughan Metropolitan Centre: Office Market Study"* by Live Work Learn Play be received.

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. Under this definition, activities related to economic development contribute to the sustainability of the City.

Economic Impact

There are no costs associated with the approval of this report.

Communications Plan

The Vaughan Metropolitan Centre Office Market Study Report and the presentation materials will be available in hard copy format and distributed to Mayor, Members of Council and Senior Management. Additional "hard" copies will be available upon request. An electronic copy in a PDF format will be posted to Key Projects under the Business Section of the City's website.

Purpose

To provide the members of the VMC Sub-Committee with an overview of the Office Market Study for the Vaughan Metropolitan Centre.

Background - Analysis and Options

In order to effectively undertake this study, the Department is beginning with the notion, as outlined in the Vaughan OP 2010 and supported in the Economic Development Strategy, that the VMC has the potential to be the focal point of Vaughan and an example in best practices for the development of a 21st century urban core. The VMC will showcase Vaughan's leadership in incubating culture, design, and sustainable building practices to create a place of vibrancy and culture. It is a place that promotes diversity, innovation and opportunity for all citizens, fostering a vibrant community life that is inclusive, progressive, environmentally responsible, and sustainable, representing the vision in 'Vaughan 20/20'.

Vaughan's Vision, Knowledge Economy and the GTA Office Market

All of the ideals identified through the Vaughan OP 2010 are key considerations in the site selection process for those employed in knowledge based sectors and the creative economy. Nurturing of ideas and innovation in today's knowledge-based work begins with the 'Place', being a collection of tangible and intangible elements which are more important than a building, parking convenience or a hub for transit. The attraction of people employed in knowledge-based sectors such as: financial services, engineering, architecture, and legal services to name but a few, requires a holistic approach to create the 'Place' while maintaining focus on the realities of the marketplace.

Knowledge-based sectors generally 'Live' in an office type space. Office development will play a critical role in this vision for the VMC, leading to a balanced mix of uses, economic growth, and

increased tax assessment. Developing office space within the urban context envisioned for the VMC does create a specific set of development implications for both the public and private sector that must be carefully considered in order to maximize the impact on the VMC.

Key Consideration – Toronto York Spadina Subway Extension

One of the key elements of the new VMC will be the planned subway Station at Highway 7 and Millway Avenue, which will link the City to downtown Toronto and York University. This linkage will open up transit routes for thousands of residents, employees, and visitors to Vaughan every day. The subway will give Vaughan a unique advantage to the other municipalities in the '905' while ensuring appropriate transit connections to the GTA. Moreover, a subway connection, albeit critical to the long-term success of the VMC, cannot ensure the success of office development or the delivery Vaughan's vision of a vibrant urban development.

An Understanding of the Office Market In The GTA

Vaughan is a dynamic market, with a significant portion of the GTA's industrial and manufacturing inventory and is a net importer of jobs. However, its emergence as a regional office node is still in its earliest stages and as the study identifies, is an 'unknown' across the marketplace.

The office model envisioned for the VMC is a more urban form of office development than the traditional suburban development in the GTA. Urban format office is differentiated from its suburban counterpart by the elimination of surface parking, generally taller building heights and shared amenities, for example, path systems, public square, and shared parking (structured or below grade), all of which has significant implications for the look, experience and financial model of the development.

Based on the sectors that the Economic Development Strategy highlights as important for the VMC, Economic Development retained the firm Live Work Learn Play (LWLP) to assist staff with preparing an office market study focused on:

- Establishing the primary opportunities and challenges in attracting office tenants and creating a commercial node.
- Identifying and examining the commercial environments competitive to the VMC.
- Highlighting examples of successful TOD projects and lessons learned from these areas.
- Assessing the impact of the subway will have on commercial development within the VMC, and test the assumption that a subway is sufficient for attracting office development.
- Providing strategic recommendations and direction for implementing the VMC vision.

About the Consultants

LWLP is an international real estate advisory and development firm on the cutting edge of planning, development and implementation of dynamic mixed-use real estate projects. LWLP's strength lies with understanding how to implement mixed-use developments that deliver 'places' within today's highly competitive real estate sector. An important outcome of these developments is the ability to attract quality office projects to these places.

LWLP has extensive experience in the integration of universities, colleges and entertainment uses into creating vibrant downtowns, not just solely as work places or residences, but which offer experiential values that engage people.

LWLP's goals are focused on developing places, with personality and performance. Its multidisciplinary team includes implementation and activation experts, who provide a value added perspective.

Major Findings

LWLP was able to identify market rents, trends and patterns for office occupancy and motivators and drivers for office development projects, through a series of interviews with members of the VMC Sub-Committee, landowners, developers, and the brokerage community.

Competitive Set

Based on its location (within the GTA), physical characteristics, similar tenancies, anticipated land use composition and its transit-oriented development patterns, the VMC is more aligned with North York Centre, Mississauga Airport Corporate Centre and Downtown Markham. The office brokerage community confirmed that the VMC serves as a centralized 'northern office' which could consolidate an East/West end office that functions as a company's secondary or regional offices. Downtown Markham with its vision as a mixed-use satellite city centre is arguably the most significant competition. Airport Corporate offers the prestigious business parks, coupled with superior accessibility that bring it within VMC's competitive set. Whereas, North York Centre offers subway access and urbanity, and similar underground parking infrastructure to VMC.

Critical Mass

VMC differs from its competitors in its scale – having a target of 1.5 million sq. ft. of office, relative to the 3.4 million sq. ft. in Downtown Markham, 4.9 million sq. ft. of Airport Corporate and 8.9 million square feet of North York Centre. This scale of office development may not align with stakeholder expectations or the ambitions of the VMC.

Achievable Rent

The urban development format proposed for the VMC, with structured or underground parking, taller buildings and high quality urban amenities, will necessitate significantly higher rents. The study has identified that gross rents required to profitably develop the office space envisioned for the VMC will be the range of \$50/sq.ft. Therefore, office development in the VMC faces a cost disadvantage to both existing and new-construction Class A space across the '905'. Although office development within the VMC may well be achievable, the spread in required rents between the VMC and competing areas, could limit the pace of development.

Regional Transit

The subway, while an unequivocally strong value-added amenity for prospective office users, must be considered in the context of the significant rent premium. As well, despite the promise of transit convenience, office tenants still seek a site that offers transit and road connectivity. Therefore, the arrival of the subway is not an automatic trigger for office mixed-use investment or an orderly development pattern that emanates from the subway terminal.

Next Steps

Notwithstanding the City's studies that are nearing completion, solving the office development equation through a strategic approach begins with a shared understanding of what the City of Vaughan and landowners envision its downtown to become.

Traditional approaches to municipal marketing focuses on being 'business friendly' to companies. However, with the emergence of the new knowledge-based economy, people rather than companies are increasingly the focus of economic development marketing efforts. The new generation of companies want to locate where talented people live. Therefore, the VMC as a cultural hub in addition to its other proposed economic and social functions speak to the quality of place that attract professionals.

Accordingly, the study proposes the following:

- Collaborating extensively with landowners – the City needs to work with developers and landowners to create buy-in from those implementing the vision.
- Creating a consensus-based plan – several City studies are currently running in parallel and they need to come together as an overall master plan that addresses the externalities and adjacencies of each site's development.
- Establishing a new approach to downtown development – attraction of office tenants must continue to be top of mind for Council and City staff. The VMC must be marketed with the appropriate resources and tools.

Relationship to Vaughan Vision 2020/Strategic Plan

This report is consistent with the Vaughan Vision 20|20 Strategic Plan – Goal 1: Plan and Manage Growth and Economic Vitality. The Study 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

A copy of *Building the Vaughan Metropolitan Centre – Office Market Study* will be forwarded to the Region of York. The study identifies the need to work with Regional staff on developing potential tools to narrow the rent gap which may emerge in the VMC relative to competing areas and affect the pace of development.

Conclusion

Office development within the VMC is one area of critical importance to the success of the City’s vision for its new downtown. Although this draft report has focused on the subject of office development, and clear analysis and direction has been provided within – an additional and equally important outcome that has evolved from this report is a clear understanding of the collaborative approach required by; private sector stakeholders, city, regional, provincial and federal bodies of government to ensure the VMC becomes more than a development node, but rather a ‘Place’.

The Study should be used in the following ways:

1. To inform and educate the various departments in the City and the Region of York regarding the attraction of office employment and development in the Vaughan Metropolitan Centre;
2. As direction into the development of the Economic Development Department’s annual workplans and budgets – the activities and resource allocations of the City’s Economic Development Department should demonstrate alignment with the marketing of the Vaughan Metropolitan Centre;
3. As an information resource to any future working group(s) established by the City to implement the VMC, bringing an economic and market realities perspective, and providing a holistic approach to its development;
4. To inform the Region of York’s Economic Development Action Plan and other studies or strategies that are related to the development of regional growth centres.
5. As a source of information for collaboration – involving businesses, institutions, organizations, associations, levels of government and other stakeholders; and

Building the Vaughan Metropolitan Centre – Office Market Study is a first step in economic engagement and market assessment with vested landowners. It is a starting point to developing a shared downtown vision and a collaborative approach to business plan and marketing efforts. Ultimately, a successful VMC pays dividends in maximizing property values, generating high quality jobs and creating a vibrant public space for Vaughan residents.

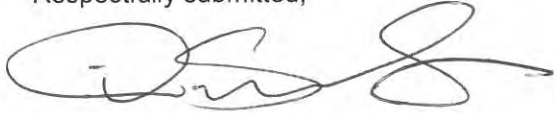
Attachments

1. Building the Vaughan Metropolitan Centre - Office Market Study (to be provided at the meeting)

Report prepared by:

Shirley Kam, Senior Manager of Economic Development
Tim Simmonds, Executive Director

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Tim Simmonds', with a stylized flourish extending to the right.

Tim Simmonds
Executive Director



Vaughan Metropolitan Centre

Presentation to
VMC Sub-Committee

September 13, 2012



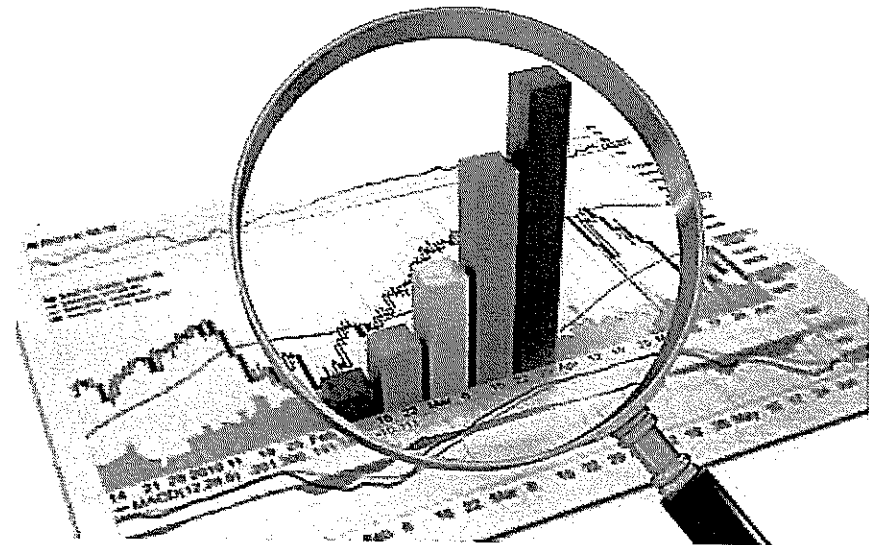
Agenda

- ▣ Goals and Process
- ▣ Regional Overview
- ▣ Competitive Set
- ▣ Key Findings
- ▣ Office Economics
- ▣ Strategic Approach
- ▣ Recommendations and Next Steps

Project Background



Premise: Subway as a catalyst for the development of the VMC, which will offer a product much different than currently exists in Vaughan



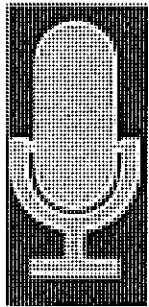
Objective: Test market viability for development potential and examine against VMC growth assumptions

Our Role

60-day mandate to complete an Office Market Study, focused on providing an assessment of office development potential for the VMC, and strategies for implementation.

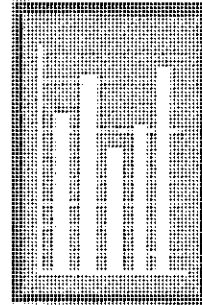


Our Process



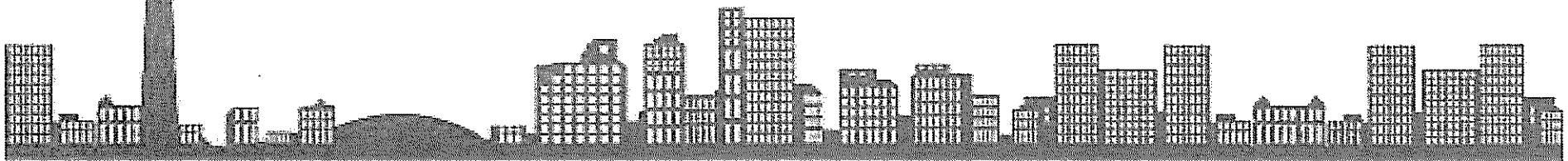
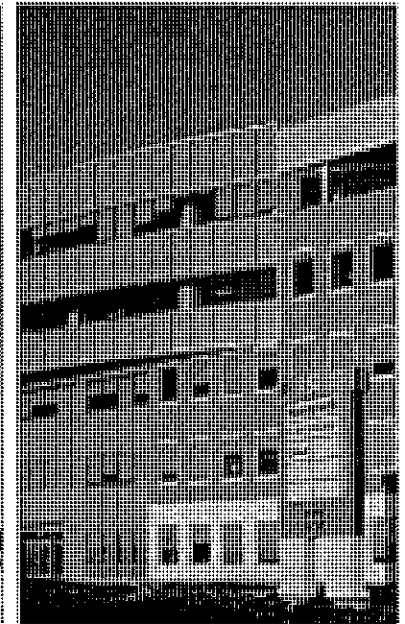
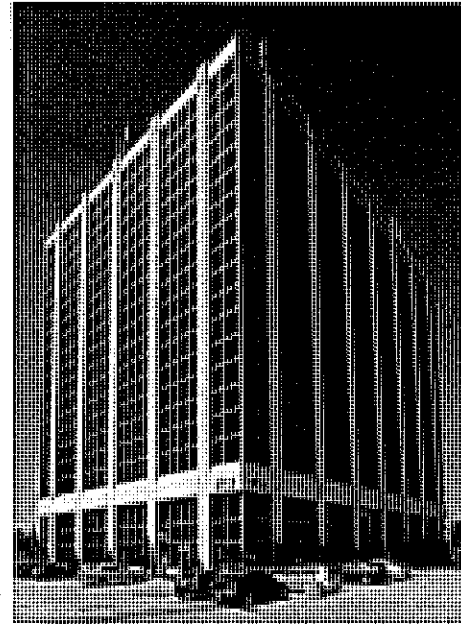
Interviews/ Meetings

- ▣ Commercial brokers
- ▣ VMC Sub-Committee
- ▣ Department commissioners
- ▣ Landowners and developers
- ▣ COV Planning and Design



Data Synthesis

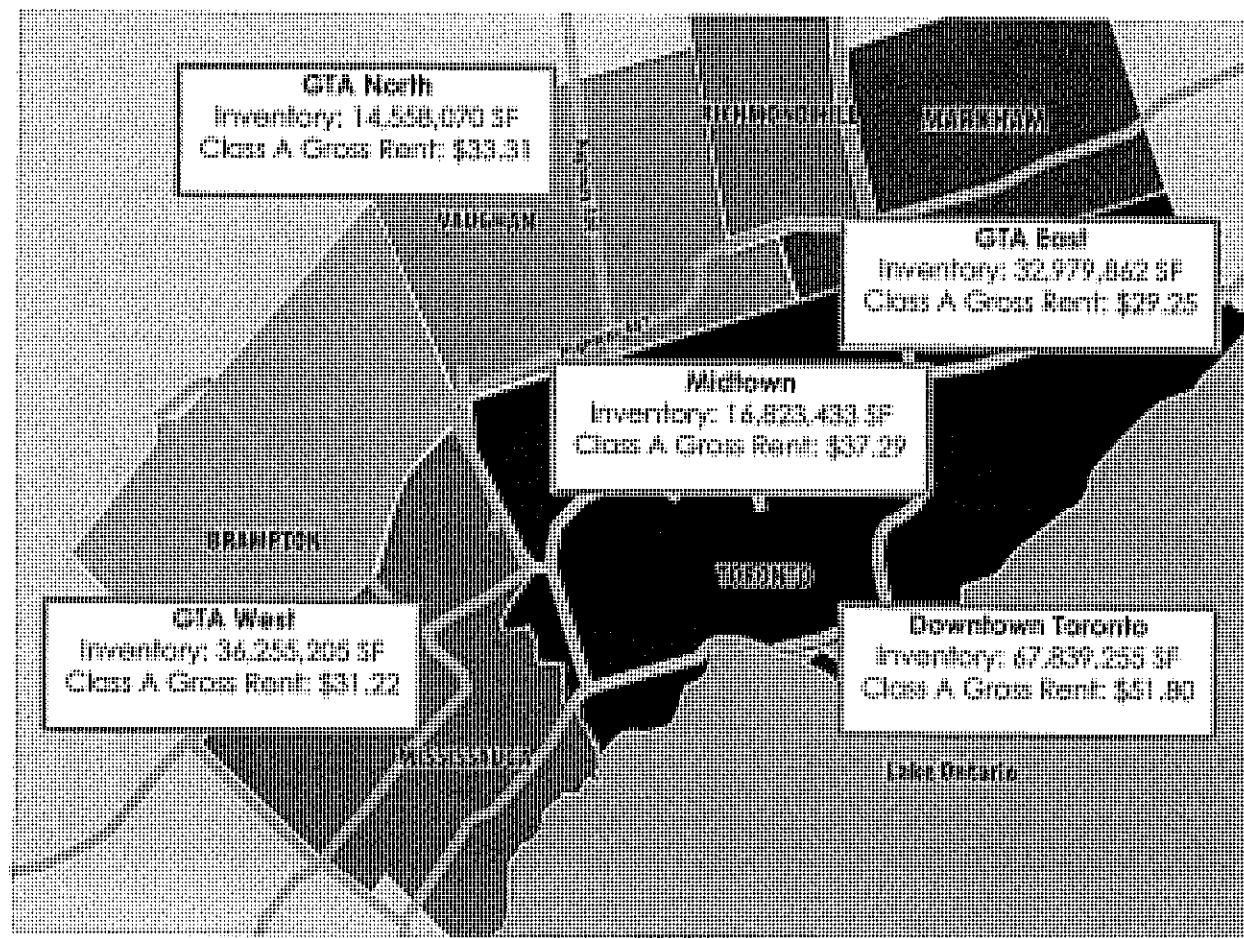
- ▣ Recent real estate reports
- ▣ Key indicators from competitive nodes
- ▣ Information on other relevant office developments



Regional Overview and Competitive Set



GTA Markets



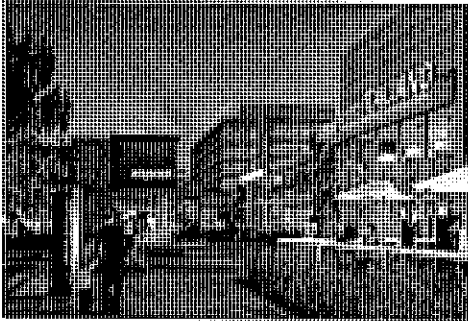
Potential Competitive Sub-Markets

#	Location	Inventory (SF)	Vacancy	Net Absorption (SF) - Q1 2012	Average Net Rent / PSF (Class A)	Additional Rent/ PSF	Gross Rent/ PSF (Class A)	Development Charges/ PSF	Property Tax Rate
1	Airport Corporate Centre	4,903,100	13.1% (Class A: 8.9%)	268,162	\$16.38	\$13.48	\$29.87	\$17.19	2.2%
2	Downtown Markham	3,400,000 (proposed)	--	--	--	--		\$20.44	1.89%
3	North York Centre	8,494,845	4.3%	-70,228	\$15.16	\$19.98	\$35.14	\$10.18 (Ground Floor)	3.18%
4	Mississauga City Centre	3,583,513	12.4%	-5,265	\$18.09	\$17.28	\$35.38	\$17.19	2.2%
5	Mississauga Meadowvale	5,927,946	9.6%	-15,446	\$18.83	\$13.66	\$32.48	\$17.19	2.2%
6	Markham	6,527,611	11.5%	-83,297	\$13.83	\$14.88	\$28.72	\$20.44	1.89%
7	Beaver Creek	2,840,483	10.3%	-68,404	\$16.43	\$13.20	\$29.63	\$18.73	2.03%
8	Oakville	2,915,874	15.8%	1,475	\$18.84	\$11.81	\$30.65	\$24.34	2.05%
	TOTAL/ AVG	32,665,426	11.0%	26,997	\$16.79	\$14.90	\$31.70	\$16.24	2.2%
	City of Vaughan	2,156,434	10.1%	-14,531	\$16.24	\$11.80	\$28.04	\$21.64	2.03%

Sources:

Cushman & Wakefield, Weighted Average Rental Rate Summary, Q1 2012
DTZ Barnicke Full Office Report, Q1 2012

Determining the True Competitive Set



Airport Corporate Centre

- ❑ One of GTA's most prestigious business parks, home to several premier tenants
- ❑ Low-density, surface parked, automobile oriented urban format
- ❑ Newer developments shifting towards more restaurant/life style offerings



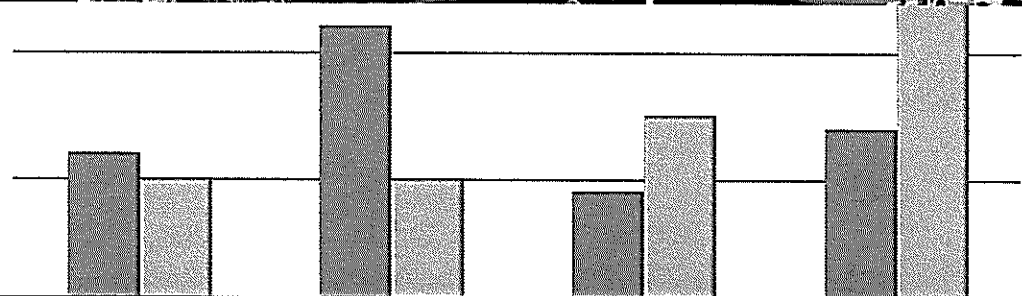
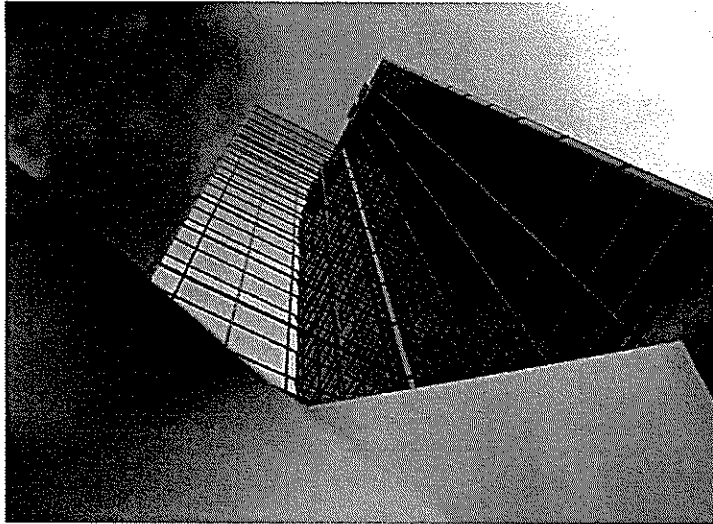
Downtown Markham

- ❑ Envisioned as mixed-use satellite city centre
- ❑ Top of mind due to development momentum
- ❑ Innovative approach to development – District Energy and differentiated DCs



North York Centre

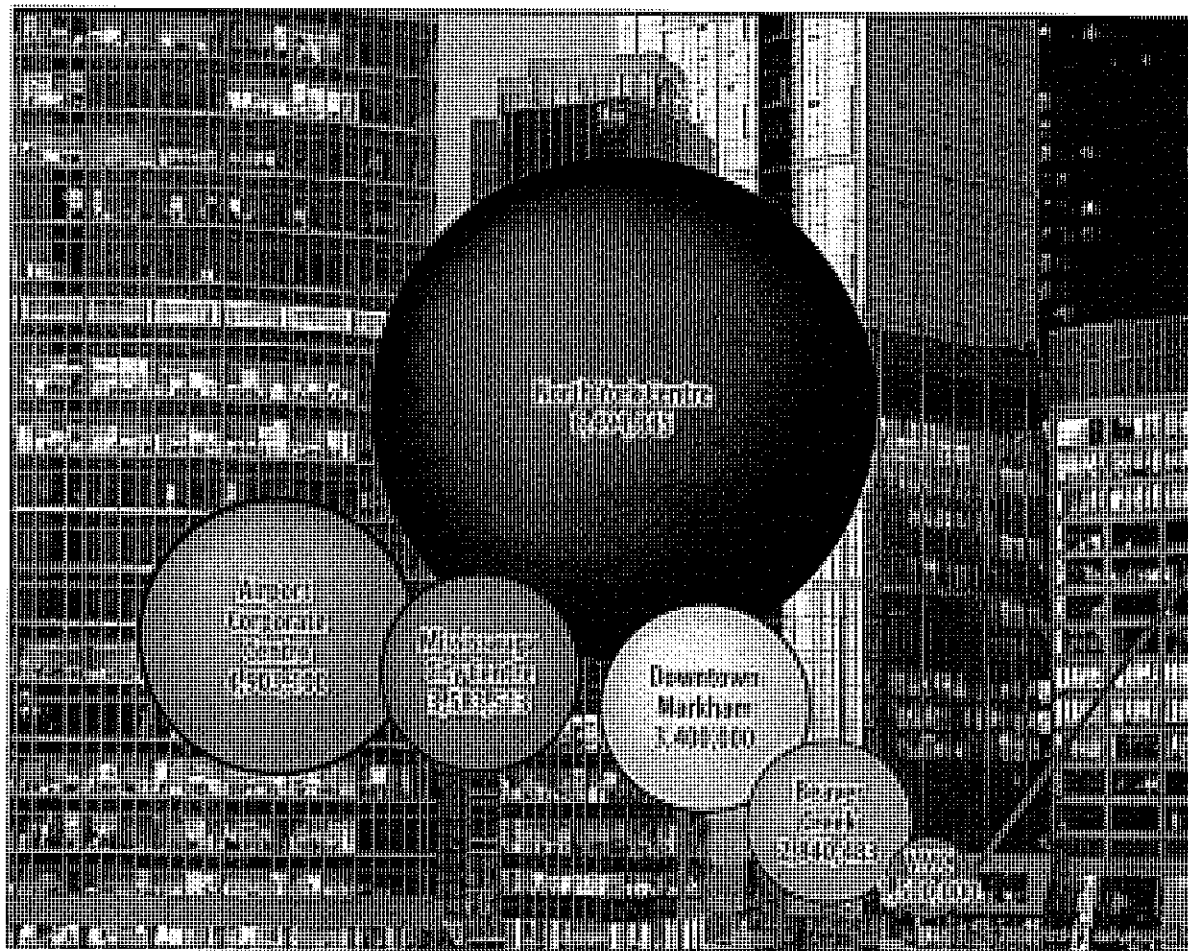
- ❑ Offers subway access, urbanity, and a mixed-use environment
- ❑ Largely underground parked, medium to high-density office sites
- ❑ Limited potential for new-build office towers
- ❑ Development charges only applied to ground floor leasable area



Key Findings

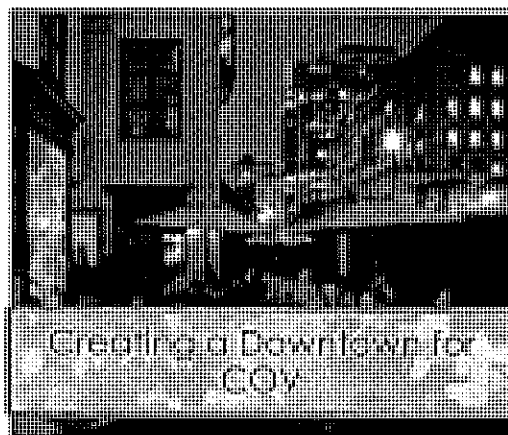


The Golden Number?



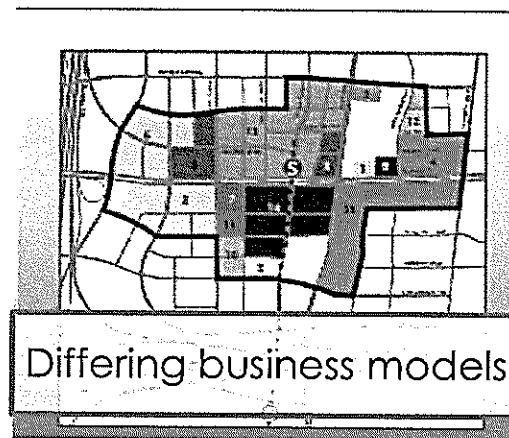
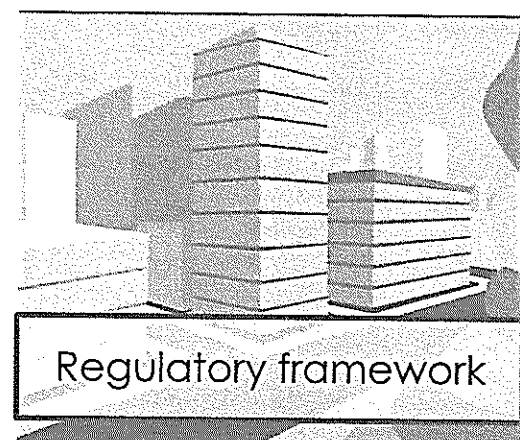
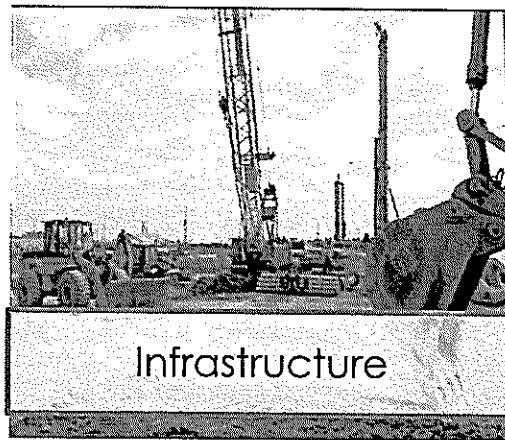
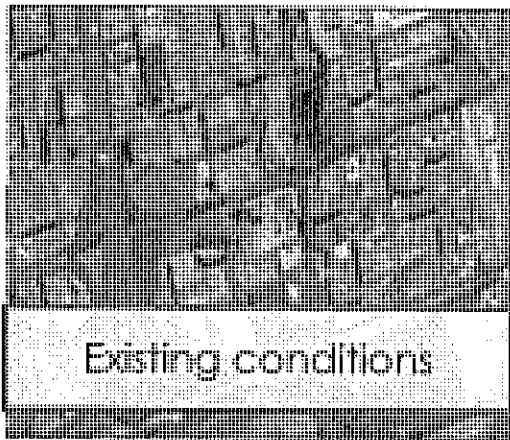
1.5 million square feet of office as sufficient critical mass?

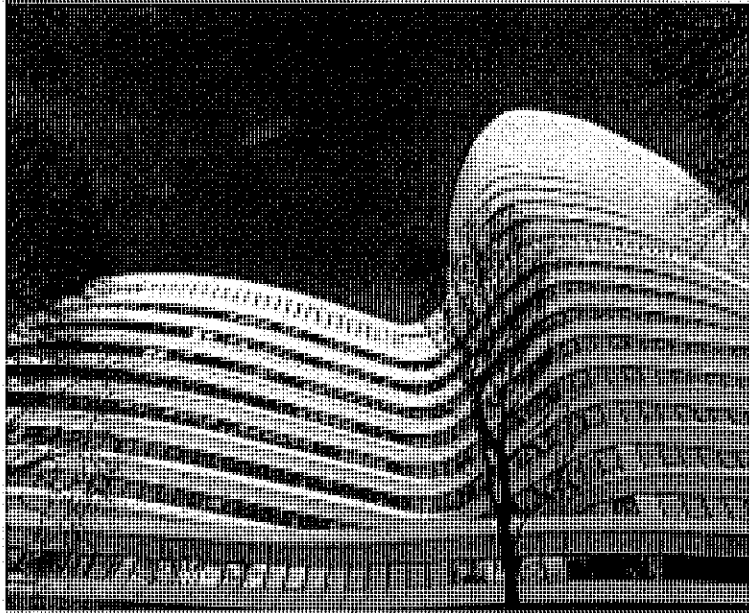
Opportunities





Challenges





Office Economics

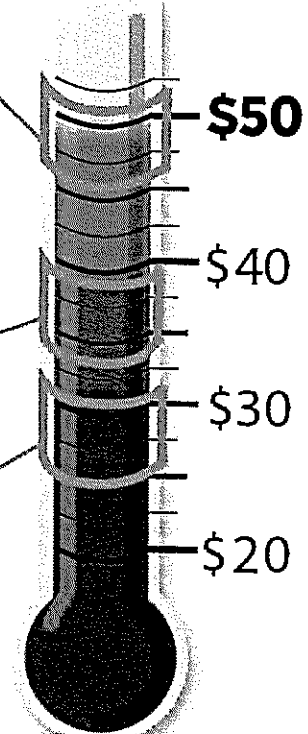


Office Deal Structure

Required VMC Class A Rents

New-Build LEED Gold+ Rents

Existing 905 Class A Rents

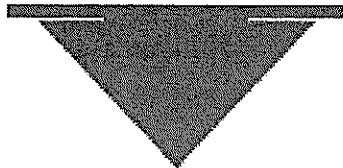


Office development in the VMC faces a significant cost disadvantage to both existing and new-construction Class A space across the '905'. Although office development within the VMC may well be achievable, the spread in required rents between the VMC and competing areas will limit the pace of development.

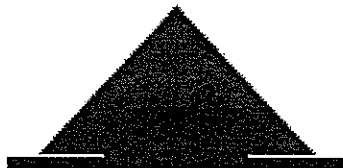
** Note – graphic represents gross rents for freestanding office buildings*

Solving the Equation

Lower Costs



STRONG OFFICE NODE



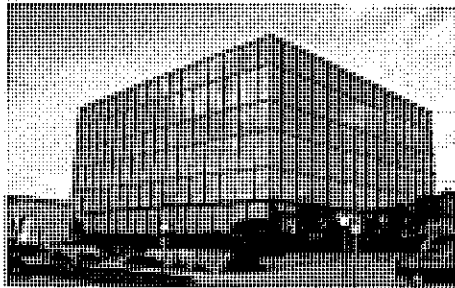
Higher Value

- ⇓ Reduced parking requirements
- ⇓ Infrastructure frameworks and partnerships
- ⇓ Development charges

- ⇑ Delivery of vibrant mixed-use downtown
- ⇑ Office locations in close proximity to subway
- ⇑ Clear, compelling marketing

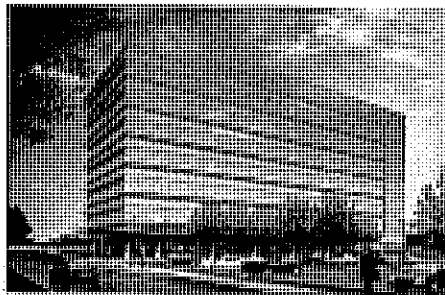
Fiscal Impact

Scenario A



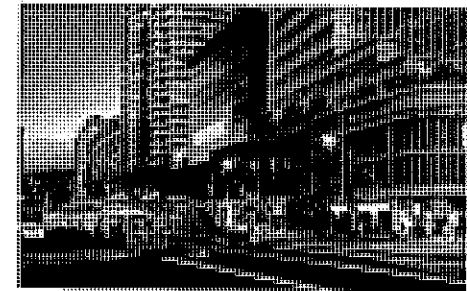
Parking	Surface
F.A.R	0.5
Gross SF/Acre	21,780
Assessed Value Per SF Above- Grade	\$190
Vaughan Revenue	\$284,000
York & Ed Revenue	\$1,866,000

Scenario B



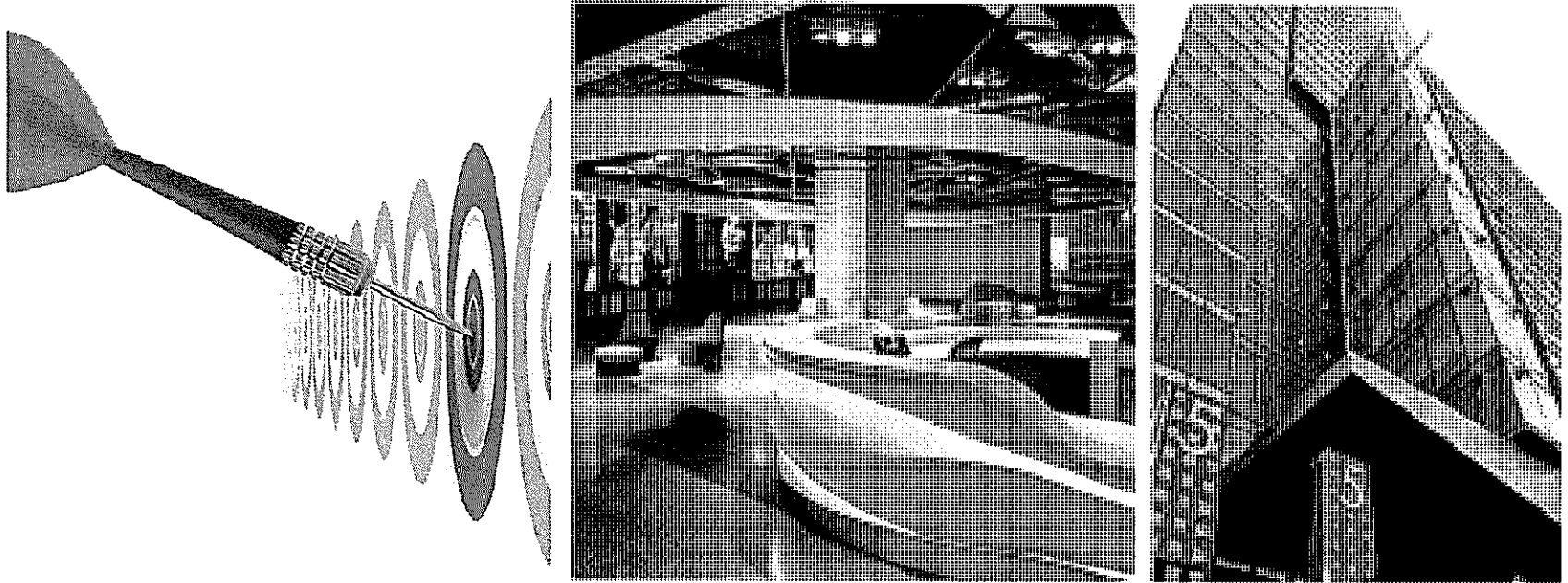
Parking	Hybrid
F.A.R	2
Gross SF/Acre	87,120
Assessed Value Per SF Above- Grade	\$285
Vaughan Revenue	\$1,623,000
York & Ed Revenue	\$10,333,000

Scenario C



Parking	Underground
F.A.R	6
Gross SF/Acre	261,360
Assessed Value Per SF Above- Grade	\$300
Vaughan Revenue	\$5,100,000
York & Ed Revenue	\$32,359,000

Strategic Approach to the Design of a New Building

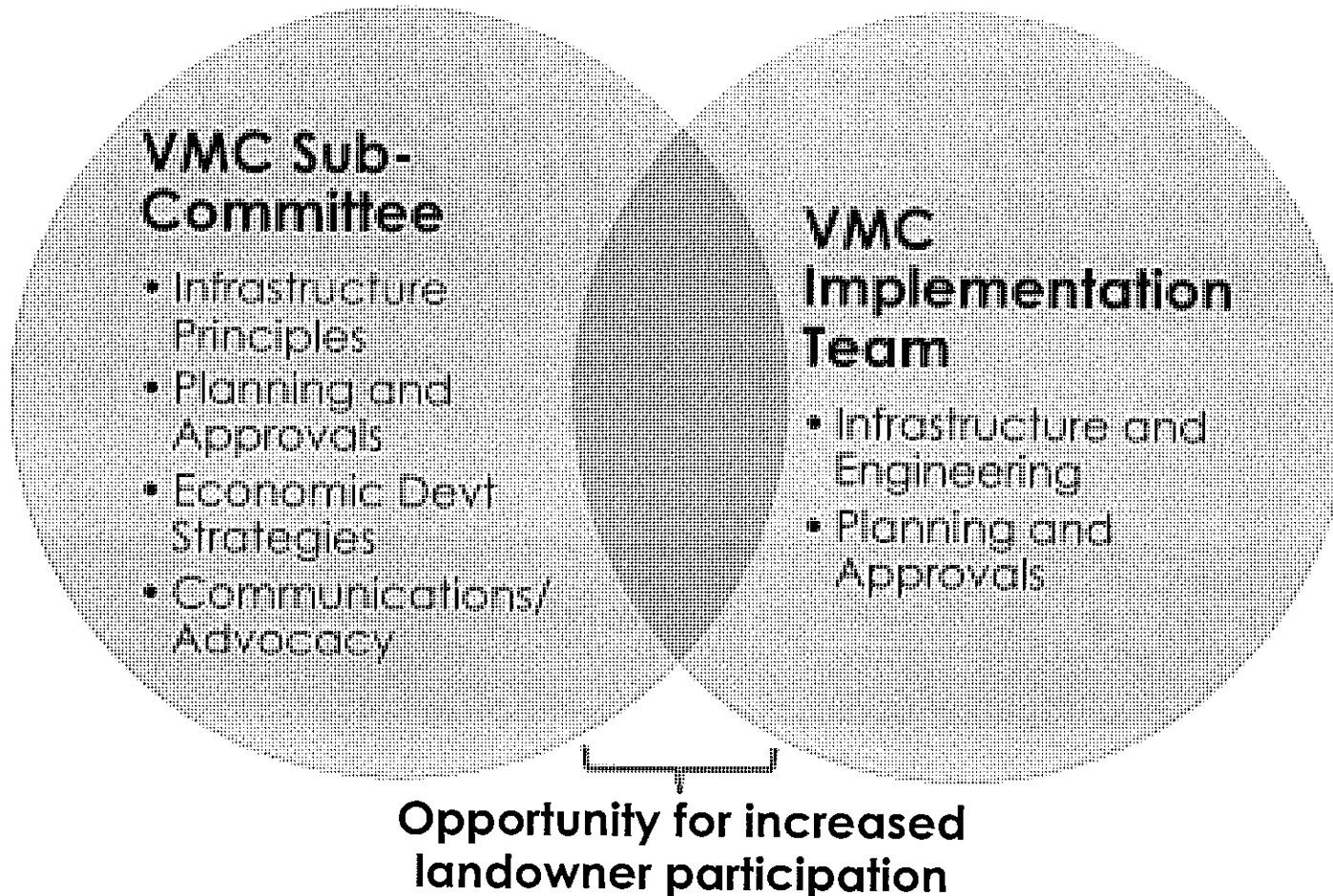


A Strategic Approach





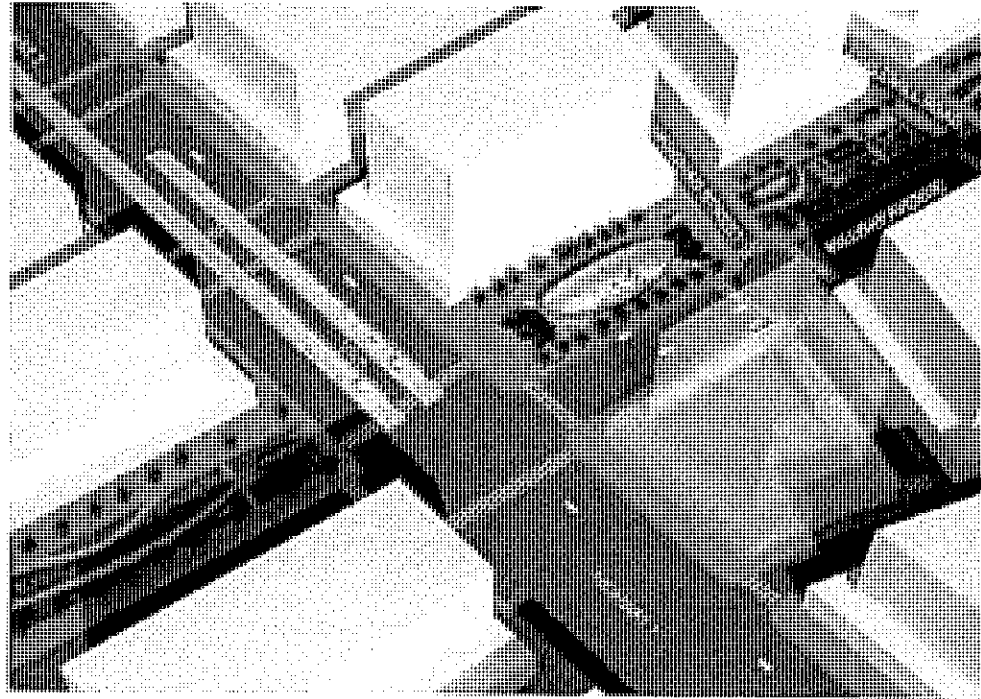
Further Collaboration



Creating a Consensus-Based Plan



Need for collaborative master planning with input from all major landowners, which reconciles realities of existing site with the vision for the VMC



Recommendations and Next Steps

Recommendations and Next Steps



- Create a Landowner Working Group
- Establish a Phase I Plan
- Continue engaging external players

Questions?