The Regional Municipality of York

Committee of the Whole
Finance and Administration
October 10, 2024
FOR DECISION

Joint Report of the Commissioners of Finance and Corporate Services

Large Office Financial Incentives – Recommendations

1. Recommendations

1. Council approve a new Development Charges Deferral Policy for Large Office Buildings, as set out in Attachment 1.
2. Council, as part of the 2026 Development Charges Bylaw process, consider a development charges discount for large offices, as detailed in Table 3.
3. Regional Clerk circulate this report to Ministry of Municipal Affairs and Housing, local municipalities, and Building Industry and Land Development Association.

2. Purpose

This report is seeking Council approval of a new large office incentive program to help ensure the Region is well positioned to encourage large office development. It also provides Council with an update on the large office Development Charge (DC) deferral pilot program, as committed to Council in June 2021.

Key Points:

- Large office development is integral for the Region's long-term economic growth and supports local municipal economic development initiatives
- When the market rebounds, York Region will be well-positioned to attract large office development, with a highly educated workforce, financial incentives and transit-oriented communities, including being the only municipality outside of Toronto that will eventually have two subways
- Two new financial incentives to help attract large office development in all nine local municipalities in York Region are being recommended:
    a) New DC deferral policy for large office buildings (Attachment 1)

b) DC discounts for large office buildings through 2026 DC Bylaw (Table 3)

- As a result of introducing DC freezing provisions under section 26.2 of *Development Charges Act, 1997* (DCA), large offices with applications prior to 2026 DC Bylaw taking effect would not be eligible for proposed DC discount without resubmitting their applications
- Recommended DC deferral would be financed, while DC discount must be funded by non-DC sources
- Large office development incentives were developed in consultation with private sector and local municipal partners and support local economic development efforts

3. Background

York Region is the third largest business community in Ontario

York Region's population is over one million residents with 57,000 businesses and 629,000 jobs, making it the third largest business community in Ontario. York Region is forecast to grow to two million people and approximately 990,000 jobs by 2051.

According to the 2021 census, approximately 327,000 York Region residents (53% of the workforce) are employed in knowledge-based-sector jobs including Professional, Scientific and Technical Services, Health Care and Social Assistance, and Finance and Insurance. According to a Conference Board of Canada's Five-Year Economic Outlook report for York Region (2024-2028), these sectors are forecast to grow annually by 2.7%, 4.2% and 4% respectively for the next four years, with an average associated employment growth of about 2% per year (Table 1). Many knowledge-and service-based jobs in York Region tend to locate in large office buildings, which provide a built form that allows intensification of workers in transit supportive locations.

Table 1

2025 to 2028 Economic Outlook for York Region, by sector

Sector	Annual Growth 2025-2028	
	GDP	Jobs
Finance, Insurance, Real Estate	4.0%	1.9%
Professional, Scientific, and Technical Services	2.7%	2.7%
Health Care and Social Assistance	3.8%	2.0%

Source: Conference Board of Canada

Enhancing large office development incentives can support investment decisions across the Region. This can also assist in sustaining local and international competitiveness and the ability to attract and retain high-value, productive employment spaces and jobs, overall optimizing York Region's role in supporting local employment growth.

There are many factors, financial and non-financial, considered when developers choose locations for new, large office developments. These include proximity to higher-order transit, access to talent, land and construction costs, infrastructure availability, market conditions, and government charges and incentives. Many of these attributes have contributed to the presence of significant office nodes in the Region (see Appendix A).

Council investments in infrastructure support long-term economic prosperity

Council investments in transit and transportation infrastructure, including highway access, subway extensions, and an extensive Bus Rapid Transit (BRT) network, add to York Region's competitive advantage for attracting large office development. For example, Council's investment in Toronto-York Spadina Subway Extension and BRT has acted as a catalyst for developers seeking to maximize investments in residential and large office developments. This investment supported construction of two large office buildings, resulting in a total of 585,000 square feet of new, high quality office space and supports City of Vaughan's vision of creating a downtown in the Vaughan Metropolitan Centre (VMC).

Council continues to support growth through Public Works' 10-year Capital Plan, which allocates multi-year commitments to add investment capacity to the Regional transportation and transit networks, including the new Yonge North Subway Extension, and water and wastewater servicing. These significant infrastructure investments will continue to support development in centres, transit-oriented communities, and along transit corridors. Offices located in these areas, maximize the use of Council investments.

Investment in 'Class-A' office space contributes to a community's competitiveness as tenants are prioritizing high-quality spaces and amenities located near transit nodes

Given current market conditions, employers are evaluating workplace models to attract and retain employees, emphasizing superior building features and amenities to encourage employees' return to the office. According to a Q2 2024 Toronto Office Market report from Colliers, demand for high-quality office space is increasing with vacancy rates hovering around six percent for Class A office in downtown Toronto. In contrast, lower-quality spaces have recorded office vacancy rates exceeding ten percent, a trend also observed in York Region.

Substantial construction activity is underway in the GTA, with over 2.9 million square feet of office space being developed. Approximately 30% of this is expected to be completed this year. Since 2020, office growth has been largely concentrated in downtown Toronto. Presently, York Region has a relatively low supply of higher quality (Class A) office space compared to office nodes in Toronto and Mississauga. While this presents short-term challenges, the recent increase in demand for high-quality large office space is expected to continue over the long term.

Encouraging large office development in York Region supports economic and community priorities, including:

- Local efforts to achieve vibrant mixed-use communities in centres, corridors and major transit station areas (MTSAs)
- Local employment opportunities for a highly talented workforce

- Economic growth by meeting needs in employment sectors that will continue to grow (i.e., knowledge sector)
- Office market growth as identified in goal 1.5 of the Council-approved 2024-2027 Economic Development Action Plan

4. Analysis

Council has been demonstrating leadership in offering financial incentives for office buildings since 1998

Beginning in 1998, Council offered DC discount to non-residential rates to attract non-residential development to the Region (phased out by mid-2010).

Later in 2010, Council introduced an 18-month DC deferral for office buildings. Following this, in 2019, Council again acknowledged the importance of large office development and approved a pilot program offering DC deferrals for Large Office Buildings.

Under the three-year pilot, full DCs payable could have been deferred, interest-free, for between five and 20 years (Table 1). The deferral was only available on Regional Centres and Corridors and Specific Local Centres, as the areas planned for the greatest population and employment densities, where significant infrastructure investments had been made. The pilot was capped at 1.5 million square feet. In June 2021, Council extended the program for two more years due to COVID-19 pandemic, with a new expiry date of October 2024.

Despite interest in large office financial incentives, the Region saw no uptake in its pilot, which was a shared experience across the GTHA

The process to review the Region's large office pilot program began in September 2023 and included multiple touchpoints with local municipal staff throughout the year and continuing in 2024. On March 1, 2024, York Region held a workshop with stakeholders from private sector and all nine local municipalities (details in Appendix B), all of whom supported the need for continued financial incentives to facilitate office in long-term, notwithstanding current state of office market.

While there has been interest in the Region's pilot program, there was no uptake over the nearly five years it has been in place. This is an outcome shared by most municipalities outside of Toronto, noting among the contributing factors level of incentives, pandemic-driven rise in remote and hybrid work, inflation, tight labour markets, and high interest rates. The jurisdictional scan can be found in Appendix C.

From an economic prosperity perspective, there is rationale to expand the financial incentives to signal that York Region is open for business when office market rebounds. The timing of this work aligns with some local municipalities' reviews of their respective policies.

Staff reviewed multiple financial incentive options for large office developments

As part of a comprehensive review, staff evaluated seven incentives, which included Planning Fee discounts, Capital Grants, and TIEGs that are no longer possible due to the Region losing its planning responsibilities through provincial legislation[1], and with that, the ability to have or participate in Community Improvement Plans. Co-Investment option would also not be permitted due to limitations set out under the *Municipal Act, 2001*, governing eligible investments for municipalities. Finally, Planning Fee deferrals did not perform well given minimal developer cost savings and low stakeholder support.

The two incentives that performed best in evaluation and were most supported through the consultation (Appendix B) were DC deferral and DC discount.

New DC deferral and discount are recommended to help attract large offices

Given the current legislative restrictions, the only two incentives Council can consider, to help facilitate new, large office development in the Region, are a DC deferral and a DC discount. While DC deferral can be done immediately, a DC discount can only be done through DC Bylaw update.

The recommended new DC deferral for offices greater than 75,000 square feet is outlined in Table 2. It modifies the existing program by expanding on eligible location, to include Major Transit Station Areas (MTSAs) and streamlining thresholds. The deferral would have eligible locations in all nine local municipalities. The proposed changes aim at making more large offices eligible for the incentive.

Table 2
Key Differences between Existing Pilot and New DC Deferral Policy

Key Changes	Existing DC Deferral		Recommended DC Deferral	
Geography	Centres and Corridors Specific Local Centres		Centres and Corridors Specific Local Centres* MTSAs	
DC deferral thresholds and timeframe	75,000 to 149,999 sq. ft.	5 years	75,000 to 149,999 sq. ft.	5 years
	150,000 to 249,999 sq. ft.	10 years	150,000 to 249,999 sq. ft.	10 years
	250,000 to 399,999 sq ft	15 years	250,000 sq. ft. and above	20 years
	400,000 sq ft and above	20 years		

*Note: Specific Local Centres are: Georgina - Glenwoods Urban Centre, Maskinonge Urban Centre, Uptown Keswick Urban Centre, as well as Mixed-Use Corridor 1 and 2; King: Village Core and Mixed-Use areas of King City, Nobleton, and Schomberg; Whitchurch-Stouffville: Western Approach Mixed-Use Area, Gateway Mixed Use Area, and Highway 48 Mixed-Use Corridor

[1] Bill 23, *More Homes Built Faster Act, 2022* and Bill 185, *Cutting Red Tape to Build More Homes Act, 2024*

The recommended DC discount for large office buildings (Table 3) will help address stakeholders' feedback on the importance of deeper incentives to promote large office supply in all nine local municipalities. The discount will be bounded by:

- Location: Regional Centres and Corridors, Specific Local Centres (as defined above), MTSAs
- Capping: maximum 1.5 million sq. ft. eligible for discount (aligns with total large office space built in the Region in last 10 years and provides a baseline to measure policy effectiveness)
- Duration: up to 10 years (maximum life of Bylaw)

Table 3

Recommended DC Discount for Large Office Buildings

Size Threshold (square feet)	DC discount
75,000 sq. ft. to 149,999 sq. ft.	50%
150,000 sq. ft. to 249,999 sq. ft.	75%
250,000 sq. ft. and above	100%

Note: Once threshold is crossed, the entirety of space is discounted by applicable %

Finally, the DC deferral and discount policies could be combined, where a developer could receive a discount on a certain threshold of the building and a deferral on the remaining part. For example, for a 150,000 square-foot building, an eligible developer could qualify for a 75% discount and a 10-year deferral on a remaining amount owing. Once incentives are in place, staff will regularly monitor uptake, with annual updates to Council.

As a result of DCA freezing provisions, any offices with applications prior to 2026 DC Bylaw taking effect, would not be immediately eligible for proposed discount

In 2019, the Province introduced mandatory freezing provisions under section 26.2 of DCA, which not only froze DC rates at time of application, but also the associated DC Bylaw (and all of its provisions). This change prevents any large office developments with applications submitted prior to 2026 DC Bylaw taking effect from being immediately eligible for the discount. Neither staff nor Council can vary this statutory provision/implication.

To be eligible for the discount, those developments would have to resubmit their applications and refreeze/pay their rates under the 2026 DC Bylaw.

2026 DC Bylaw could be passed by Council as early as April 2026

In December 2023, Council directed staff to accelerate a comprehensive, Region-wide update of the 2022 DC Bylaw to 2026, to help address funding challenges associated with accelerated growth expectations arising from local municipal housing targets. Table 4 depicts a refined 2026 DC Bylaw timeline for the potential inclusion of the recommended large office DC discount.

Table 4

Tentative Timeline for 2026 DC Bylaw Passage

Deliverable	Tentative Timeline*
Status update and potential policy changes report to Council	May 2025
2026 DC Background Study and Bylaw made public Notice of public meeting published on York Region's webpage	February 2026
Public meeting at Committee	March 2026
2026 DC Bylaw to Council for passage	April/May 2026
2026 DC Bylaw and rates in effect	May/June 2026**

*Dates are tentative; subject to the 2026 Committee and Council schedule and number of public meetings

**Subject to Council approval and determination of in-effect date

Recommended financial incentives for large office buildings support Good Government and Economic Vitality focus areas of the 2023 to 2027 Strategic Plan and Vision

Supporting development of large offices through a targeted DC deferral policy and a time-limited, bounded DC discount aligns with the Region's Vision and its goals, including: open and responsive government, livable cities and complete communities, and a place where everyone can thrive. It also aligns with goals of the Council-approved 2024-2027 York Region Economic Development Action Plan related to promoting growth and job creation through targeted business retention, expansion, attraction and investment initiatives.

5. Financial Considerations

This report identifies potential financial implications beyond the current budget year, including resources that may be requested through subsequent reports or future budget processes.

Recommended DC deferral will be financed, not requiring alternative funding sources

The proposed DC deferrals would be financed, as opposed to funded, and therefore do not have any tax levy or user rate implications. While deferring DCs delays their collection, the corresponding benefits from new, large offices would support local municipalities' social and economic growth and better leverage the Region's infrastructure investments.

DC discount must be funded by non-DC sources, such as tax levy and user rates

As required by the DCA, recommended DC discounts, if approved as part of the 2026 DC Bylaw review, will have to be fully funded by other non-DC funding sources, creating budget pressure for the Region for the duration of the Bylaw.

By way of example, if the DC discount were in effect today and capped at a total 1.5 million square feet over 10 years, it could equate to about $4.3 million in annual foregone DC revenue, and result in pressures of 0.2% in tax levy and 0.4% in user rate. However, there are important Regional economic benefits associated with large office development. Large offices help facilitate the Region's local knowledge-based and service sectors' employment potential. They also support place-making efforts by providing more options for office-based businesses to locate in the Region and economic opportunities for residents.

6. Local Impact

Large office incentives, informed by local municipal input would be available in all nine municipalities

Facilitating new office development leverages large infrastructure investments across the Region. The recommended approach, developed in consultation with local municipal staff, focuses on large office development in the Centres and Corridors, Specific Local Centres, and MTSAs. In doing so, the program would benefit, and be available to, locations in all nine local municipalities and align with some local economic development efforts. For example, the City of Vaughan's recent work in reviewing potential office incentive options under a CIP process. Developers could also leverage the Region's incentive program in additional to any relief provided at the local level.

7. Conclusion

Large offices and the associated employment are important to Region's economic growth and a desired objective to support local municipalities in building complete communities. To support this in a fiscally sustainable way, it is recommended Council approve a new DC deferral policy (Attachment 1) and direct staff to consider a DC discount for large offices (Table 2) for inclusion in 2026 DC Bylaw.

For more information on this report, please contact David Cohen, Acting Director, Treasury Office, at 1-877-464-9675 ext. 71660, or Jonathan Wheatle, Director, Economic Strategy, at 1-877-464-9675 ext. 71503. Accessible formats or communication supports are available upon request.

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September 25, 2024
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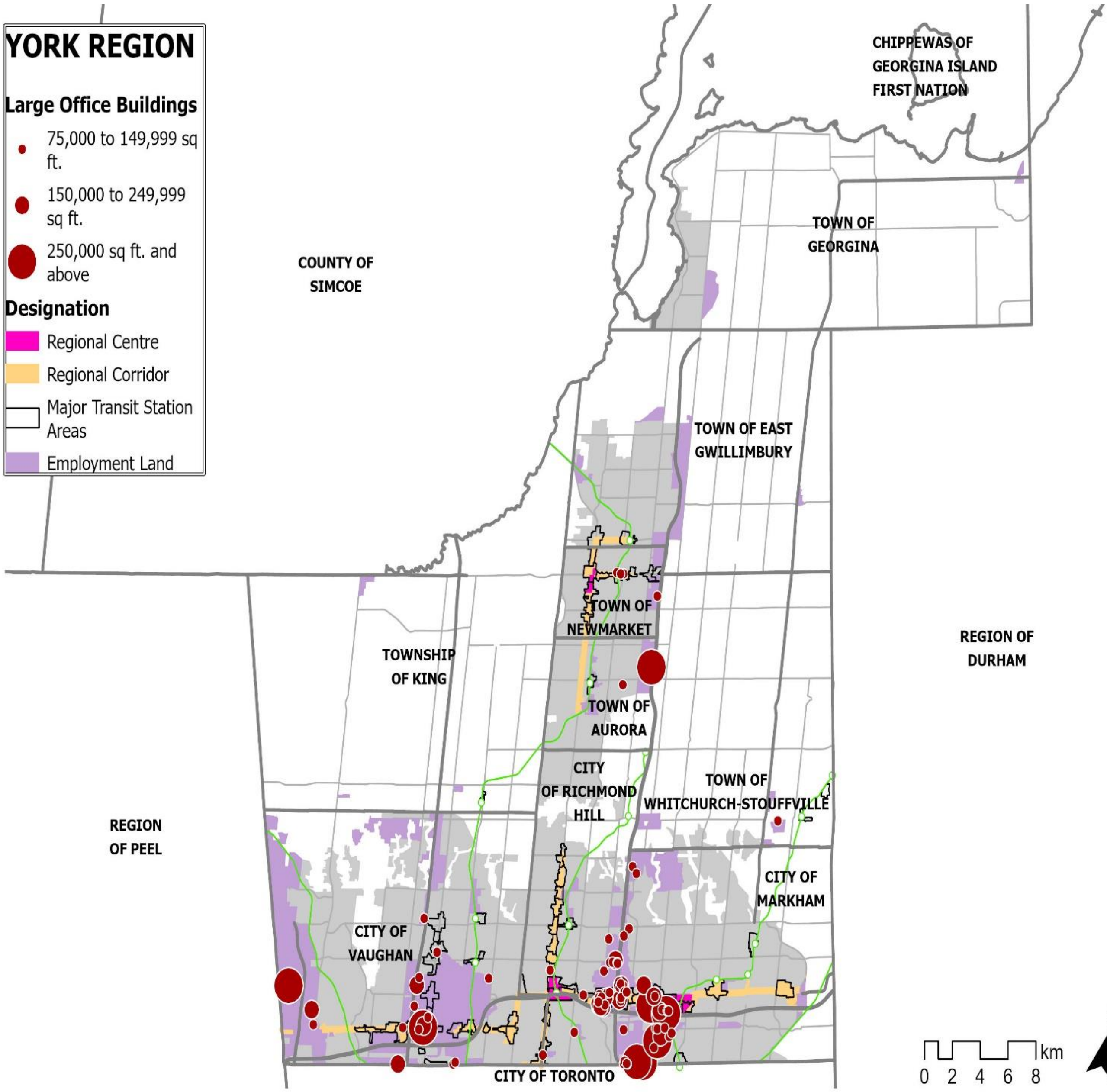
Appendix A - Location of Large Office Buildings in York Region
Appendix B - Large Office Development Consultations
Appendix C - Interjurisdictional scan of large office incentives
Attachment 1 - Large Office DC Deferral Policy

Location of Large Office Buildings in York Region



Note: Figure does not include federal, provincial or municipal buildings (classified as institutional development).
Source: Economic and Development Services, York Region, 2024

LARGE OFFICE DEVELOPMENT CONSULTATIONS

Local Municipal Engagement - Large Office Pilot Program

The Table below summarizes targeted outreach to local municipal staff in support of the Large Office Pilot Program review.

Date	Group	Deliverable
September 2023	Area Treasurers Local Municipal Finance Staff	Update Presentation
October 2023	Local Municipal Planning Commissioners and Directors Local Economic Development Officers	Update Presentation
October 2023 – August 2024	Local Municipal Finance Staff	Regular verbal updates

Summary of Feedback - March 1st Large Office Development Workshop and Survey

Workshop sought feedback on future of large office development in the Region, the large office DC deferral pilot, and potential new incentives to support large office development. Specifically, participants were asked for feedback on four areas:

- Key elements currently influencing large office development in York Region
- Future of office development in the short, medium, and long term
- Feedback on the Region's large office five- to 20-year DC deferral pilot program
- What could municipalities do to further support large office development?

Question	Key Feedback
Key elements currently influencing large office development in York Region	• Decreased demand due to COVID/hybrid work • Proximity to transit and talented workforce • Competitive DCs/fees and taxes • Profitability/ return on investment • Complete communities/ infrastructure availability
Future of office development in the short, medium, and long term	*Short* term (0-10 years) • Muted demand for new office space (hybrid work) • Filling current space before new space gets built *Medium term* (10-20 years) • Slow recovery in demand (mostly class A)/ remaining uncertainty • Competing with residential development near transit areas *Long term* (20+ years) • Having vibrant complete communities will drive office demand • Office space evolution: more collaborative/flexible/mixed-use
Feedback on Region's Large Office five- to 20-year DC Deferral pilot program	• DC exemptions/ municipal co-investment to 'move the needle' • Account for varying needs of diverse communities within Region • Market York Region, attract more businesses/ tenants to drive office demand
What could municipalities (Region and Local) do to further support large office development?	• Consider full DC exemption, capital grants, co-investment, TIEGs • Keep DC deferral policy; add option for targeted incentives (CIPs) • Flexibility of zoning and land-use policies • Highlight attractiveness of investment/ promote incentives • Financial incentives to go along with non-financial • Non-financial assistance at local level, such as expedited approvals and relaxed parking requirements, could help in combination with Regional financial support

Among financial incentives, stakeholders were most supportive of targeted DC discounts or property tax relief linked to the size of investment made by the developer (i.e., the larger the office building, the deeper the financial incentive). Other forms of financial assistance that were discussed included:

- Capital Grants
- Co-Investment, where in exchange for financial assistance, Region would take an equity stake in office development
- DC deferrals
- Planning fee discounts and deferrals

Staff also sent a follow-up survey with the workshop questions to all invitees, allowing those unable to attend an opportunity provide feedback and those who attended, an opportunity to share additional insights.

Based on feedback received, staff assessed several potential financial incentives

Responding to consultation input, staff assessed seven potential financial incentives, as summarized below. Incentives were ranked against the following criteria:

- Impact on office supply or ability to 'move the needle' based on stakeholder feedback
- Timing of implementation: whether permitted, immediate, or within one to two years
- Cost to Region, based on 150,000 sq. ft. office building
- Funding source: financed or funded through tax levy/user rate

Potential Financial Incentives for Large Office Development in York Region

Potential Financial Incentive	Office Supply Impact*	Timing of Implementation	Cost to Region**	Financed or Funded***
DC deferral (5- to 20-year)	3	Immediate	$$	Financed
DC discounts	5	~ 2 years	$$$	TL/UR Funded
Planning fee deferral (5- to 20-year)	1	Immediate	$	Financed
Capital Grant ($25/sq.ft. if > 50K sq.ft.)	5	Not permitted	$$	TL/UR Funded
TIEG (10 years) year-1 - 100% grant; year-2 - 90%; etc.	4	Not permitted	$$	TL/UR Funded
Planning fee discount	1	Not permitted	$	TL/UR Funded
Co-Investment	5	Not permitted	$$$	TL/UR Funded

* 1 – Minimal; 2 – Low; 3 – Moderate; 4 – High; 5 – Maximum
** $ Low cost (<$100K); $$ Moderate cost ($100K to $1M); $$$ Medium cost; ($1M to $2M); $$$$ High cost (>$2M)
*** Tax Levy (TL) or User Rate (UR) Funded

Interjurisdictional Scan of Current Financial Incentives for Office Development

As part of interjurisdictional analysis, staff consulted the Region's local municipalities and neighboring GTHA single, local, and upper-tier municipalities. Several of York Region's local municipalities have been offering financial incentives for office development for some time, with no to minimal uptake. Some, such as the City of Vaughan's 2013 Community Improvement Plan or the Town of Aurora's DC deferral, either expired or were repealed.

Municipality	DC Incentives		Tax Incentives	Details/ Uptake	Years Incentives Introduced
	Deferral	Discount	TIEGs		
York Region	✓			No uptake	2019*
Aurora				Minimal uptake on three-year pilot deferral (no longer in effect)	2014; 2020
King			✓	No uptake	2015; 2021
Markham		✓		No uptake	2017
Newmarket	✓			No uptake	2012
Richmond Hill	✓		✓	No uptake	2018; 2023
Vaughan	✓			No uptake, similar to CIP (no longer in effect – offering DC discount; or TIEG)	2015; 2019
Whitchurch-Stouffville				No uptake on previous program	2020
Peel Region			✓	No uptake	2021
Brampton		✓		Minimal uptake	2000
Mississauga			✓	Minimal uptake	2018
Halton Region		✓		Minimal uptake	2000
Hamilton		✓		Minimal uptake	2020
Waterloo Region		✓		No uptake	2019
Toronto		✓	✓	Significant uptake; Review of office incentives underway, potential to scope or end DC discount and TIEG	2008

Notes:
Durham offered incentives in 2008 and 2013 DC Bylaws, but phased out in 2018 DC Bylaw due to minimal uptake

Some municipalities without targeted office incentives offer commercial development incentives (could be used for office):
- Aurora Promenade CIP (2014), to facilitate large office, but had no uptake (now expired)
- CIPs in King, Stouffville, East Gwillimbury, Georgina offer various building improvement, conversion, and redevelopment incentives
- Newmarket offers TIEGs and Fee Rebates (CIP) for development/redevelopment along Main St. and Davis Dr.
- Whitchurch-Stouffville, upon Council approval, on a case-by-case basis, offers to match Regional incentives

* York Region has an 18-month DC deferral that, while not targeted for large office development, could be used for it