

The Regional Municipality of York

Committee of the Whole
Planning and Economic Development
October 10, 2019

Report of the Commissioner of Finance, the Commissioner of Corporate Services
and the Chief Planner

Large Office Building Development Charge Deferral Pilot Program

1. Recommendations

1. Council approve a pilot incentive program to encourage large office buildings through:
 - a. Aligning the Region's existing development charge deferral for office buildings (Attachment 1) with the provisions of the *More Homes More Choice Act, 2019*, and
 - b. Introducing a new time-limited policy that provides an interest-free, long-term development charge deferral for qualified office buildings in Regional Centres and Corridors, as set out in the accompanying draft policy (Attachment 2).
2. Staff report back to Council, prior to the end of this Council term, on the results of the pilot incentive program.
3. The Regional Clerk circulate this report to the local municipalities, the Building Industry and Land Development Association – York Chapter (BILD), and all other industry stakeholders consulted in the development of this incentive program.

2. Summary

In June 2019, Council authorized staff to consult with stakeholders on potential financial incentives to help promote major office development in Regional Centres and Corridors. This report updates Council on the results of that consultation and recommends a development charge deferral policy be implemented, as a three year pilot project.

Key Points:

- Office development, particularly in Centres and Corridors, is important to the Region's competitiveness, city building initiatives, and financial sustainability
- In recent years, a number of the Region's local and neighbouring municipalities have introduced financial incentives for office development
- Over the summer, staff consulted with industry stakeholders and local municipalities on potential financial incentives

- Most industry stakeholders indicated that financial incentives may help in facilitating major office development in the Regional Centres and Corridors
- Some stakeholders supported extending any incentives to proposed Major Transit Station Areas outside of the Regional Centres and Corridors
- A new time-limited development charge deferral is recommended to incentivize large office buildings in the Regional Centres and Corridors
- If approved, the ability to take advantage of the deferral would begin at Council approval and end three (3) years later, and staff would report back to Council prior to the end of this Council term on the results of the pilot incentive program
- At the request of a municipality, Council could consider applying this incentive to an office building in a Major Transit Station Area outside of Regional Centres and Corridors if it otherwise meets the criteria set out in Attachment 2

3. Background

Major office development in the Regional Centres and Corridors is important to the Region's competitiveness, city building initiatives, and fiscal sustainability

Office developments support the Region's prosperity, and provide a built form that allows intensification of workers easily served by transit. They are an integral part of vibrant, accessible, multi-use downtowns, such as Regional Centres and Corridors. Larger office buildings often serve as headquarters and research centres for domestic and global corporations and enhance the attractiveness of a location.

Regional Centres are planned as the most intense concentrations of development within the Region, integrated with rapid transit, and include: Markham Centre, Richmond Hill/Langstaff Gateway, Vaughan Metropolitan Centre, and Newmarket Centre. The Corridors are: Highway 7 Corridor, Yonge Street Corridor, Davis Drive Corridor, and the Green Lane Corridor. The Cities of Vaughan, Markham and Richmond Hill as well as the Towns of East Gwillimbury, Aurora, and Newmarket all have lands in Regional Centres and Corridors.

Major Transit Station Areas generally refer to areas including and around existing and planned higher order transit stations (subway, Bus Rapid Transit and GO Rail). The Region's Official Plan will delineate and set minimum density targets for Major Transit Station Areas through the Regional Municipal Comprehensive Review process. Major Transit Station Areas may also become important focal points for major office development, as part of the Region's objective to achieve complete communities.

York Region is attracting new office jobs, but this growth is not translating into new major office space

The Region's office job growth since 2012 is in line with Growth Plan projections. However, major office space development over the same period has fallen short of projections. This is likely a result of office jobs being accommodated in converted industrial space, and

decreases in office space per worker due to the changing nature of how jobs are delivered (e.g., telework and flex-space).

Toronto continues to dominate new supply of major Class A office space

Class A office space typically locates around major infrastructure such as the subway or transportation hubs. Since 2012, the City of Toronto has become more dominant with respect to new major office construction, and has accounted for just over half of all the office space built in the Greater Toronto Area (“GTA”). Toronto’s share of new major office building space under construction has increased to roughly three quarters of the GTA total. Downtown Toronto accounts for 84% of office buildings greater than 250,000 square feet built since 2012, and 100% (totalling 5 million square feet) of buildings in this size range under construction.

There is a lack of immediately available Class A office, greater than 100,000 square feet in the Region to attract or retain major tenants. Of the formal office proposal applications currently under review across the Region, 30 office buildings are at some stage of the development process. These buildings total just over 2.8 million square feet of new space, however, almost three quarters of them are located outside of the Region’s Centres and Corridors, and none are over 250,000 square feet in size.

Some of the Region’s local and neighbouring municipalities offer financial incentives to attract office development

In recent years, several of the Region’s local and neighbouring municipalities started to offer property incentives (e.g., property tax grants) and development charge reductions (discounts or exemptions) to help facilitate office development (details in Attachment 3). Other than Toronto and Halton Region, most incentive programs are in their early stages, and their efficacy has not yet been assessed. Nonetheless, preliminary analysis suggests that local municipal incentives may not be fully effective without Regional participation.

Bill 108, *More Homes, More Choice Act, 2019*, will change how development charges are levied for office development

On June 6, 2019, Bill 108, *More Homes, More Choice Act, 2019* (Bill 108), received Royal Assent. Bill 108 amends the *Development Charges Act, 1997* allowing developers to lock in development charge rates at the time of site plan or zoning amendment application. Eligible non-residential developments, including offices, would delay development charge payment until the earlier of occupancy permit or first occupancy. Payment would be phased over the ensuing five years. Under the regulatory framework proposed by the Ministry, virtually all types of office development would qualify for the delayed and phased payment regime. On September 26, 2019 Regional Council approved a memorandum summarizing the response by staff on the proposed regulatory framework associated with the changes to the *Act*.

Bill 108 affects all 444 municipalities in Ontario. The changes to the treatment of office development do not target specific locations, nor do they encourage larger offices.

In June 2019, Council authorized staff to consult with stakeholders on potential financial incentives

On June 27, 2019, Council approved the, "[Potential Financial Incentives for Office Buildings](#)" report. The report recommended staff consult with stakeholders on potential office incentives in Regional Centres and Corridors to help achieve the following outcomes:

- Encourage 'place-making' in the Regional Centres and Corridors through a mix of uses
- Promote live/work and transit within York Region
- Increase the size of proposed office buildings in the current pipeline and promote additional major office building applications
- Generate new speculative office space to satisfy GTA-wide demand
- Minimize impact on the Region's tax levy

4. Analysis

During the summer, staff consulted with stakeholders on potential incentives

On July 31, 2019, the Commissioner of Finance and the Chief Planner held a half day consultation with over forty industry and local municipal stakeholders. The consultation included Regional and local planning and finance staff from all nine local municipalities. External participants included, Building Industry and Land Development Association – York Chapter, office and mixed-use developers, local Chambers of Commerce, and commercial real estate brokerages. This facilitated discussion sought feedback on:

- Barriers and challenges to large speculative office development in York Region
- Potential office incentives, and ways to work collectively to achieve more large office developments in Regional Centres and Corridors

Stakeholders expressed support for targeted incentives to facilitate increased office development in Regional Centres and Corridors

Most stakeholders indicated some form of financial relief may be helpful in facilitating office development, both within Centres and Corridors and throughout the Region. Stakeholders indicated building speculative office development is challenging in the Region due to the high cost of land, government fees, construction costs and potential rents. Stakeholders who build both residential and non-residential product, indicated residential development offers lower risk and faster return. Participants also suggested it is unlikely Bill 108 will be enough to facilitate larger offices in Centres and Corridors, and any Regional fee deferral must be 'better' and longer. Finally, some stakeholders did indicate financial incentives would not likely change market conditions.

Stakeholders were most supportive of a targeted development charge or property tax relief linked to the investment made by the developer (i.e., as the office gets bigger the incentive gets better). A Community Improvement Plan, under the *Planning Act, 1990*, would be required to provide any grant or waiver of municipal taxes and fees. It was also indicated

non-financial assistance should be considered at both the Regional and local level, including expedited approvals and relaxed parking requirements. Finally, feedback from the consultation indicated any development charge deferral should have the following features: minimum five year deferral, easy to administer, and interest free.

Staff reviewed a number of incentives based on stakeholder feedback

After receiving feedback from the consultation, staff evaluated property tax, development charge and planning fee incentives based on five criteria:

- Can the incentive be targeted: incentives focused on both size and location
- Ability to address stakeholder desired incentives: preferred incentives were property tax grant, development charge discount or exemption, or long-term development charge deferral
- Minimize impact on tax levy: incentive not funded through the tax levy
- Speed of implementation: incentive not requiring a Community Improvement Plan or amendment or update to a development charge bylaw
- Ease of execution: administrative ease, ease of understanding for stakeholders

Table 1 summarizes the evaluation of potential incentives. A long-term development charge deferral scores well on all five of the evaluation criteria.

Table 1
Evaluation of Potential Regional Incentives

Potential Regional Incentives	Criteria				
	Can the incentive be targeted	Address stakeholder preference	Minimize impact on tax levy	Speed of implementation	Ease of execution
Property tax grant	✓	✓			
Development charge discount/ exemption	✓	✓			
Long-term development charge deferral	✓	✓	✓	✓	✓
Planning fee waiver	✓				
Planning fee deferral	✓		✓	✓	✓

Staff recommend a new time-limited and targeted long-term development charge deferral policy

Based on feedback received from the consultation and evaluation of the potential incentives in Table 1, staff recommend that a new pilot incentive program be implemented to encourage

larger, speculative office development in Regional Centres and Corridors. Key terms of this development charge deferral are set out below (for additional detail, see Attachment 2):

1. To measure the effectiveness of the policy, the ability to enter into the policy would only be available for three years (pilot) and the eligible gross floor area would be capped at 1.5 million square feet
2. Applies only to office buildings locating in Regional Centres and Corridors
3. Applies only to office buildings in excess of 100,000 square feet
4. Local municipal participation would be required (see Attachment 2 for further details)
5. No interest would be charged
6. Deferral duration would be dependent on size (larger office = longer deferral)

Table 2 below provides further details on the development charge deferral package being recommended.

Table 2
Recommended Development Charge Deferral for Office Buildings

Size Threshold*	Duration of development charge deferral available in Regional Centres and Corridors**
Between 100K sq. ft. and 250K sq. ft.	5 year***
Between 250K sq. ft. and 400K sq. ft.	10 year***
Greater than 400K sq. ft.	20 year***

*It is recommended the threshold be on a per building basis.

**It is recommended the deferral be interest free (see Attachment 2)

***Once threshold is crossed, entirety of gross floor area in the office building is deferred

It is recommended the development charge deferral structure identified in Table 2 also apply to community benefits charges when they are in place

Based on the proposed regulatory framework released by the Province in June, municipalities have until January 1, 2021 to adopt their first Community Benefits Charges Bylaws. Once a Community Benefits Charges Bylaw is in place, a number of soft services would be recovered through the community benefit charge rather than through regional development charges. These services account for approximately 0.1% of the current Industrial/Office/Institutional (IOI) development charge. It is recommended that the deferral policy apply to community benefits charges beginning when the Region passes, and has in-effect, a new Community Benefits Charges Bylaw.

The recommended development charge deferral policy provides a more favourable treatment to office developments than the changes under Bill 108

The recommended development charge deferral policy provides a more favourable treatment to office developments than the changes under Bill 108. Three key differences are:

- the duration of the recommended development charge deferral is longer

- the entirety of the payment is not made until the end of the deferral
- interest would not be charged on the deferred development charges payable

Furthermore, the recommended incentives are further enhanced when factoring in incentives at the local municipal level, including the Tax Increment Equivalent Grants in Vaughan and Richmond Hill, the development charge deferral in Newmarket and the development charge discount in Markham.

Over the course of the pilot incentive program, staff will review other options to facilitate large office buildings, including non-financial tools

The pilot incentive program is proposed to run for three years. During this time, staff propose a more in-depth and coordinated review of other potential actions to attract major office development in the Region's Centres and Corridors. Staff will also review the efficacy of recently introduced incentives in local and neighbouring municipalities. The Region will continue the York Link marketing campaign as a key priority in the Strategic Plan and the Economic Development Action Plan, to be updated later in 2019.

Staff will report back to Council prior to the end of this Council term

If Council were to approve this pilot incentive program, staff recommend a report be brought back to Council, prior to the end of this Council term, on the results of the pilot incentive program and provide a recommendation on whether additional steps should be taken to further facilitate office development in Regional Centres and Corridors. Performance measures could include:

- The number of office buildings currently in the development process that added gross floor area to their proposed development and/or change locations to the Region's Centres and Corridors in order to qualify for the deferral
- The number of new development applications that qualify for the deferrals
- The total amount of development charge collections that have been delayed

Council could consider permitting office buildings outside of Centres and Corridors to access the pilot program on a case by case basis if criteria are met

The recommended pilot development charge deferral policy focuses on the Regional Centres and Corridors to leverage the significant transit investment that have been made. While many draft Major Transit Station Areas in York Region are located in Regional Centres and Corridors, a number of them are located outside. In consultation with, and at the request of a local municipality, Council could consider permitting large office buildings located within Major Transit Station Areas outside of the Regional Centres and Corridors to access the recommended pilot deferral program provided they meet the criteria.

Staff also recommend Council align the Region's existing 18-month office development charges deferral with Bill 108 provisions

In 2010, the Region introduced an 18 month interest-free development charge deferral for office buildings that are 4 storeys or taller. This deferral program is available to developments throughout the Region, and requires the developer provide a letter of credit.

To address Bill 108, staff recommend Council amend the Region's current policy (Attachment 1). The major changes being that, upon proclamation of Bill 108, development charge rates will be set at site plan application or zoning bylaw amendment application and the deferral will begin at the earlier of occupancy permit or first occupancy. It is also recommended this deferral policy apply to community benefits charges beginning when the Region passes, and has in-effect, a new Community Benefits Charges Bylaw.

Staff has also developed an incentive program for affordable, purpose-built rental buildings

Housing is a key factor in attracting new major office developments, as employers want adequate local housing for their workers. Another report on the same Committee agenda entitled, "Purpose-Built Rental Housing Incentives" is recommending financial incentives to facilitate purpose-built rental developments. The development of any new affordable, purpose-built rental, particularly in the Region's Centres and Corridors, could also help attract new office buildings.

The recommended incentive program aligns with Vision 2051

Facilitating the development of major office buildings in the Region's Centres and Corridors, through a targeted development charge deferral policy, is aligned with many of the Region's Vision 2051 goals, including: open and responsive government; liveable cities and complete communities; and a place where everyone can thrive.

5. Financial

If there is take up, the proposed incentives would represent a financing cost to the Region but also spur assessment growth

A development charge deferral is financed as opposed to funded (as is the case with a Tax Increment Equivalent Grant - TIEG). For example, a 20 year development charge deferral for an office of 400,000 square feet (similar to the KPMG building in the City of Vaughan) would cost the Region approximately \$2.8 million over the life of the deferral, but would also generate approximately \$2.8 million in additional property tax revenues (present valued) during the first five years of occupancy. In addition, developments within the Regional Centres and Corridors would optimize the Region's existing services provided. Table 3 quantifies the costs for the recommended incentives for differently sized office buildings.

Table 3
Potential Financial Implications for Different Sized Buildings

Size of office building	Present value of cost of deferral (\$ Millions)*	Present value of property tax revenues over first five years (\$ Millions)
5 year deferral – 100,000 square feet	0.2	0.4
10 year deferral – 250,000 square feet	1.2	1.3
20 year deferral – 400,001 square feet	2.8	2.8

* Assumes current Industrial/Office/Institutional rate of \$22.89 (July 1, 2019). Costs are net of Bill 108 costs. The estimated cost of the proposed deferral program is the foregone interest earned on reserves by deferring development charge collections.

6. Local Impact

The pilot was developed in consultation with all nine local municipalities

The recommended pilot was developed in consultation with finance representatives from all nine local municipalities. In addition to the half day meeting held in July, staff had informal consultations with local staff on multiple occasions. These discussions canvassed many areas including; types of financial incentives and potential barriers to the take-up of financial incentives in the local municipalities.

The recommended pilot focuses on office development in the Region’s Centres and Corridors. While not all local municipalities have lands located in Centres and Corridors, all could benefit directly or indirectly from increased office development.

At the request of a municipality, Council could consider applying this incentive to an office building in an Major Transit Station Area outside of the Regional Centres and Corridors if it otherwise meets the criteria set out in Attachment 2.

Local municipal participation will be required

Local municipal participation is a long standing principle of Regional financial incentives and will be required for any financial incentives package to be successful. As of the date of this report, four of the Region’s local municipalities with lands in the Centres and Corridors also have financial incentives that could be used to facilitate office development.

7. Conclusion

To encourage large office buildings in the Region's Centres and Corridors a new targeted pilot financial incentive program is being recommended

Major office development is important to the Region, especially in the Centres and Corridors where significant infrastructure investments have been made. In June 2019, Regional Council authorized staff to consult on potential office incentives in order to help promote office development in these areas. Over the summer, staff consulted with a number of industry stakeholders to develop a development charge deferral. A new, targeted, development charge deferral policy for office buildings in the Region's Centres and Corridors is being recommended. It is proposed that the pilot program run for three years. Staff will report back on the results of the pilot incentive program.

For more information on this report, please contact Doug Lindeblom, Director, Economic Strategy at 1-877-464-9675 ext. 71503 and/or Edward Hankins, Director, Treasury Office at 1-877-464-9675 ext. 71644. Accessible formats or communication supports are available upon request.

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October 2, 2019
Attachments (3)
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