Region of Peel
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REPORT
Meeting Date: 2023-04-27
Regional Council

For Information

REPORT TITLE:	**Peel's Growth Management Program and Development Charge Performance – 2022 Overview and Progress Report**
FROM:	Kealy Dedman, Commissioner of Public Works

OBJECTIVE

To provide an update on the Growth Management Program and report on monitoring of the Region of Peel's growth forecast and development charge performance.

REPORT HIGHLIGHTS

- Housing growth in Peel was below forecast levels in 2022. Apartment completions declined significantly from 2021 but returned to the previous five-year annual average. Ground-related housing completions (single, semi-detached and row houses) increased from 2021 levels but remain below the five-year annual average.
- Industrial development exceeded forecast growth expectations in 2022 while non-industrial non-residential growth continued to underachieve.
- There is an opportunity for Peel to come closer to achieving the short-term residential and non-residential growth forecasts when accounting for recent development activity and current applications in the approvals process.
- The Region collected approximately $409 million in development charge (DC) revenue (excluding GO Transit) in 2022, exceeding the annual average of the previous five-year period but below the amount forecast for 2022 in the DC Background Study.
- Changes brought about by Bill 23, including impacts on DC revenue collections and accelerated housing targets, which require more growth infrastructure in a shorter amount of time create significant financial risks for the Region.

DISCUSSION

1. Background – Growth Management Program

Over the past several years, Peel has adopted an integrated approach to planning, managing, and financing growth, known as the Growth Management Program. In 2015, Plan and Manage Growth was approved as a Term of Council priority which focused on the Region's debt levels associated with development charge (DC) revenues and expenditures, also known as the cost-revenue gap. Since 2019, planning, managing, and servicing growth continues to be a key organizational priority.

The purpose of this report is to provide an update on:

- The status of the Growth Management Program and its four implementation strategies;
- Growth trends relative to the Regional forecast;
- The Region's development charge performance; and,
- Risk considerations and next steps.

2. Growth Management Program – Current Status

a) Strategy 1: Planning and Managing the Location and Servicing of Growth

i) Regional Forecast to 2051

The new Regional Official Plan, including population and employment forecasts to 2051 by local municipality, was adopted by Regional Council on April 28, 2022. The Province approved the Regional Official Plan, with modifications, on November 4, 2022. The Provincial modifications included changes to the settlement area boundary expansion which added about 246 hectares of additional developable land to Peel's 2051 New Urban Area and changed about 76 hectares from employment land to community land. The Provincially approved 2051 New Urban Area consists of about 3,060 hectares of community land and 1,585 hectares of employment land.

Peel is forecast to reach a population of 2.28 million and 1.07 million jobs by 2051. This forecast is based on accommodating growth of approximately 500,000 people and 270,000 jobs in Peel's existing urban areas, including intensification in Urban Growth Centres, Major Transit Station Areas, and other Strategic Growth Areas.

ii) Small Geographic Unit (SGU) Forecast Updates

Population and Employment forecasts are broken down into SGUs by five-year increments for local and regional planning purposes. Regional staff have just completed an update of the boundaries of the SGUs to align with delineated boundaries of the Urban Growth Centres (UGC), Major Transit Station Areas (MTSA), and the 2051 New Urban Area. This work also aligns SGU boundaries with local municipal community planning areas and secondary plan areas. Local municipal planning and transportation staff were consulted through this process to ensure the updated SGU boundaries meet their needs.

Later in 2023, Hemson Consulting will revise the growth allocations for the updated SGUs using the Regional Official Plan growth forecast to 2051 as well as updated base data from the 2021 Census.

iii) New Urban Area Phasing Strategy

Regional staff are working with Town of Caledon staff to provide strategic input to the Town's phasing strategy for the 2051 New Urban Area in southern Caledon to support the provision of complete communities and the efficient and financially sustainable extension of infrastructure and other services.

iv) Response to Bill 23 Housing Targets

As previously reported to Council, the Province's Bill 23 housing targets are significantly higher than historic growth levels in Peel and are nearly 2.5 times the current Regional Official Plan forecast to 2031. Local municipalities in Peel have submitted pledges to the Province to meet these targets, subject to several caveats, conditions, and requests of the Province from both the local municipalities and the Region.

As reported to Council on March 9, 2023, Regional staff are undertaking a strategy for infrastructure planning to support the local municipal housing pledges. As part of this strategy, Regional staff are working with local municipal staff to coordinate the phasing of growth areas with the delivery of servicing and transportation infrastructure across Peel. This will include engaging in technical discussions to confirm regional population and employment growth areas and forecasts in the short and longer terms, including identifying potential areas where growth could be accelerated.

b) Strategy 2: Managing Revenues and Expenditures

In 2022-2023, the Region and Watson & Associates Economists undertook the Financial Sustainability of Growth in Peel study. The objective of the study is to develop a better understanding of systemic issues associated with the Region's DC revenues and provide recommendations to mitigate the cashflow timing mismatch that the Region has been experiencing between growth-related expenditures and DC revenues and debt servicing costs. The findings were presented by Watson & Associates at the January 19, 2023 Council meeting. Major components of the project included: a summary of key economic and development trends, analysis of DC revenue and expenditure historical trends and projections, and an assessment of various approaches to capital financing, including front ending agreements and others.

Building on this work, Regional staff with support from Watson & Associates are in the process of updating the current Front End Financing Agreements and Developer Reimbursements corporate policy.

c) Strategy 3: Leveraging Business Intelligence

A key objective of the Business Intelligence strategy in the Growth Management Program is to develop enhanced data capabilities and analytics to make evidence-based decisions on the prioritization of growth-related infrastructure. A key foundational principle of this strategy is to support the efficient utilization of infrastructure and aligning infrastructure investment with growth. This will be achieved through the implementation of the Integrated Forecast Monitoring Solution (IFMS).

The vision of the IFMS is to support internal decision-making on the prioritization of growth-related infrastructure investments by building the capability to bring together, analyze, and visualize data from various Regional program areas and local municipalities.

In 2022, PricewaterhouseCoopers (PwC) was retained to assist in the implementation of Phase 1 of the IFMS. This phase focuses on validating adherence to short term growth forecasts. Working with Regional subject matter experts, PwC developed a program that analyzes several datasets and creates output tables to be used in developing metrics and visualizations to respond to the Phase 1 business questions. Regional staff continue to work on finalizing the visualizations with an expected completion date for Phase 1 of the IFMS in Fall 2023.

d) Strategy 4: Internal and External Collaboration

A key part of the Growth Management Program is integration and collaboration with multiple Regional program areas including Finance, Water and Wastewater, Transportation, Planning, Housing, Climate Change, and Public Health to inform growth-related decisions. There is also engagement with local municipalities and the development industry.

Forums for external engagement include the Planning and Growth Management Technical Advisory Committee (with local municipal staff) and the Development Industry Working Group. Internal meeting groups consist of the Core Team, Advisory Committee (Directors), and Steering Committee (CAO and Commissioners). Meetings of these committees discuss growth management related matters including the Region's Infrastructure Master Plans, Development Charge By-law, the Business Intelligence project, responses to Provincial legislation, among other growth management-related topics.

3. Growth Monitoring Findings and Analysis

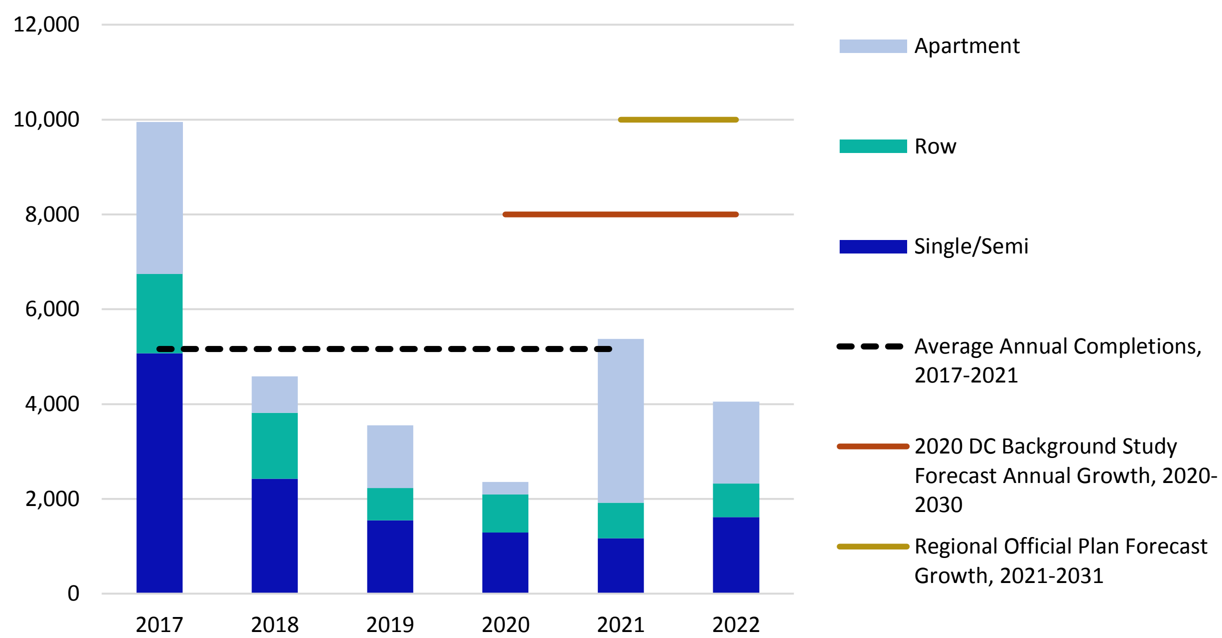
The following provides an overview of growth trends and development charge performance with year-end 2022 data. This information has also been summarized in Appendix I.

a) Peel has the opportunity to meet the short-term residential growth forecast, but ground-related housing may be at risk of underperforming

- Peel had 4,052 housing units completed in 2022, according to the Canada Mortgage and Housing Corporation (CMHC) Starts & Completions Survey. This represents a 25% decline from 2021 and is below the annual average from the previous 5-year period (5,164 completions).
- 4,052 housing completions for 2022 is also well below the forecast annual growth of approximately 10,000 units between 2021 to 2031 in the Regional Official Plan (ROP) forecast and the forecast annual growth of about 8,000 units between 2020 to 2030 in the 2020 DC Background Study (see Figure 1). The level of growth experienced in 2022 was less than 20% of the growth required to meet the annual average growth of approximately 24,600 units through the Bill 23 local municipal housing targets.
- Of note, while both the ROP and DC Background Study forecasts include growth in second units, these units are not included in the CMHC housing completions data. Various data sources indicate that an increasing number of second units are being completed in Peel, but it is difficult to accurately measure the actual number of net new second units being created annually.
- Peel had 1,726 apartment units completed in 2022, which is about 50% lower than 2021. A decline in apartment completions is not unexpected for 2022 since 2021 had the highest number of apartment unit completions in Peel since 1990. The apartment completions in 2022 of 1,726 is in line with the previous 5-year annual average.
- Single and semi-detached unit completions increased by about 38% from 2021 levels but remain below the 5-year annual average, while row houses experienced a modest decline.

- Looking at housing starts data from CMHC, 2021 (at 7,077 starts) and 2022 (at 7,697 starts) saw the highest number of housing starts in Peel since 2015 and are well above the previous five year (2015-2020) average of approximately 5,300 units. These starts will translate into housing completions in the coming years. In 2022, nearly 70% of housing starts in Peel were apartments.

Figure 1: CMHC Peel Housing Completions



Regional Planning Commissioners of Ontario Housing Supply Inventory

- In late 2022, the Regional Planning Commissioners of Ontario (RPCO) made a request of its members through the Regional Information Systems Working Group (RISWG), to collect year-end housing supply data to provide an estimate of the approved, draft approved, and proposed units in the development approval process.
- This information was gathered to inform the discussion about housing supply in relation to the Province's goal of building 1.5 million homes by 2031 and to support a monitoring initiative by the RPCO. The findings of the survey were published in a media release dated March 7, 2023 (see Appendix 2).
- The surveyed municipalities comprise about 70% of Ontario's population and include all of the GTHA. The unbuilt housing supply estimate comprises residential units in site plans and plans of subdivision that are either registered unbuilt, draft approved, or proposed units, and units through approved Ministerial Zoning Orders.
- For Ontario, the survey estimated that there were over 1.250 million housing units in the inventory with over 330,000 of these being either registered or draft approved. The estimated year-end 2022 housing inventory for the GTHA indicated nearly 912,000 units with over 217,000 units being either registered or draft approved.
- Regional staff compiled the data for Peel based on information from local municipalities and Regional data sources.

- For Peel, at year-end 2022, there were an estimated 73,408 units in the approvals process (see Table 1). Of these units in the approvals process, 76% are for apartments.

Table 1: Peel Region - 2022 Year-End Estimate of Units in the Applications Process

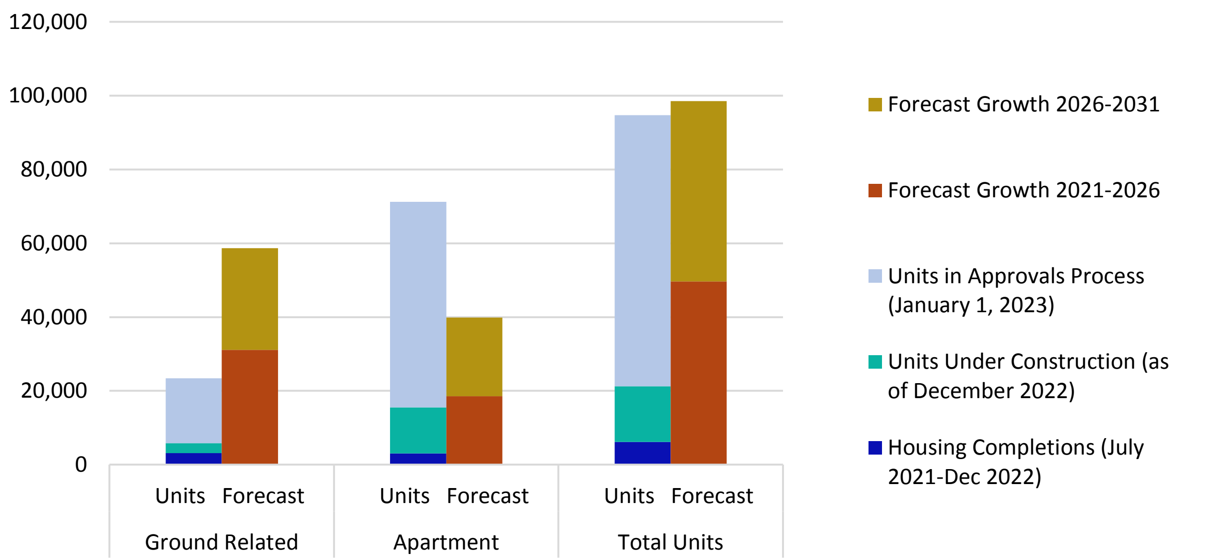
Application Status	Single and Semi - Detached	Townhouse	Apartment	All Types
Registered Unbuilt Units in Subdivisions and Unbuilt Units in Approved Site Plans	482	1,220	945	2,647
Draft Approved Subdivisions	2,643	1,931	4,221	8,795
Under Application Subdivisions and Site Plans	4,484	6,859	50,623	61,966
Total Units	**7,609**	**10,010**	**55,789**	**73,408**

Sources City of Brampton, Town of Caledon, Peel Development Tracker

Outlook for Residential Growth

- Despite underperforming residential growth in 2022, when factoring in units under construction and units in the approvals process, there is an opportunity for Peel to come closer to meeting short- and medium-term residential growth targets for apartments (see Figure 2)[1]. Ground-related housing (single- and semi-detached and rowhouses) growth continues to be at risk of underperforming forecast expectations.

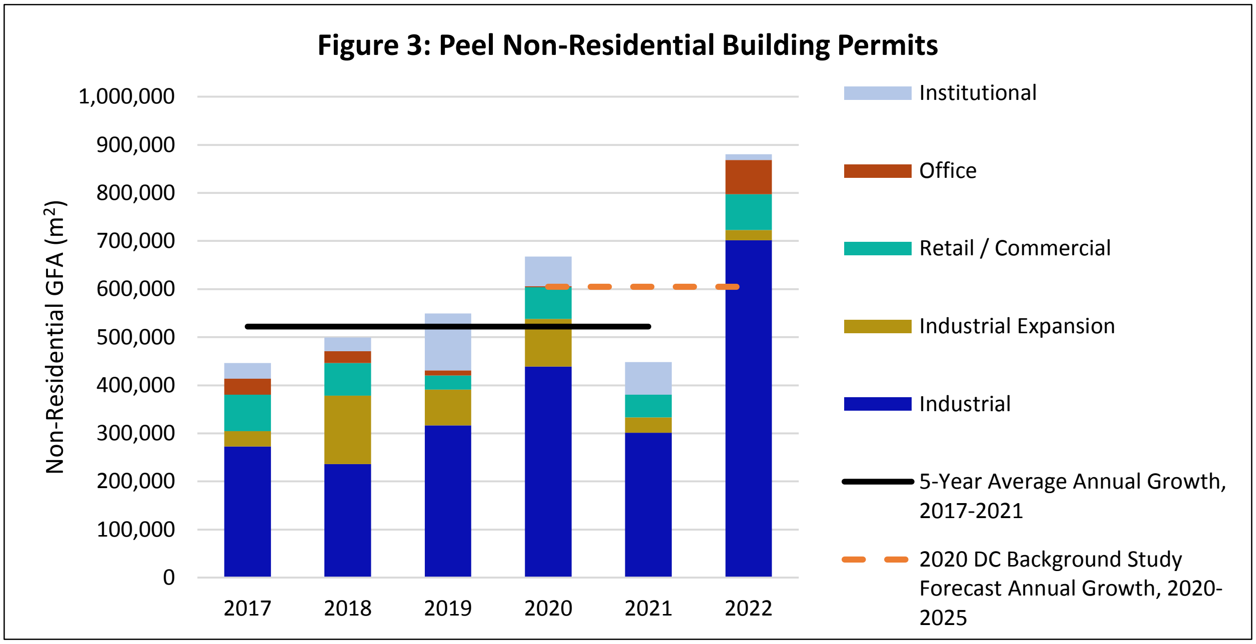
Figure 2: Housing Completions, Units Under Construction, and Units in Approvals Process Compared to Regional Official Plan Forecast[1]



[1] Figure 2 does not include second unit completions, second units under construction, or second units in the approvals process.

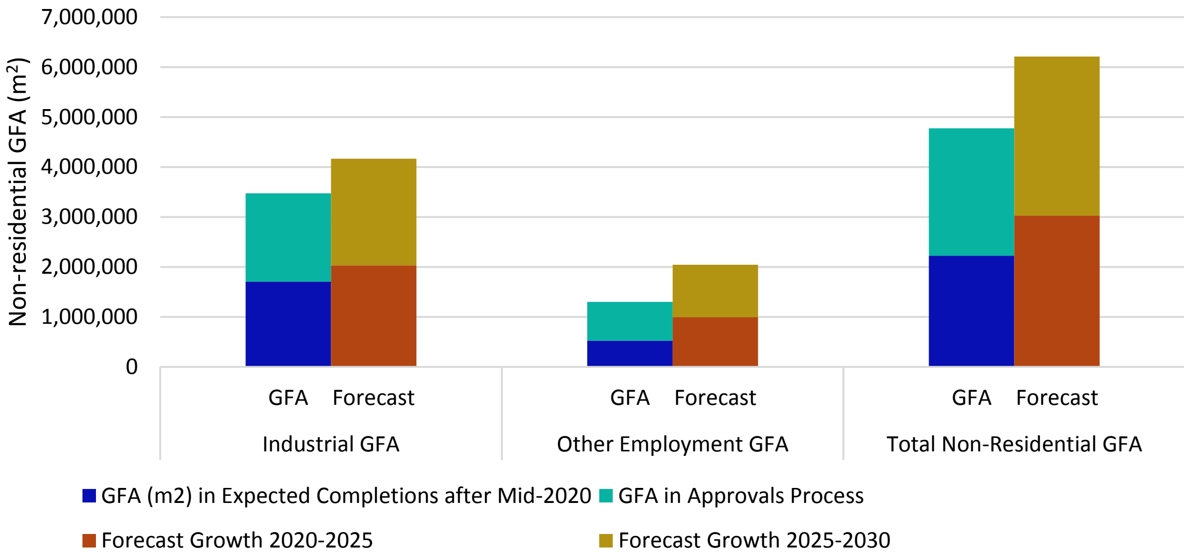
b) Peel has the opportunity to meet the short-term non-residential growth forecast due to industrial growth, but non-industrial growth is at risk of underperforming

- Peel had nearly 881,000 square metres of non-residential gross floor area (GFA) in issued building permits in 2022 (see Figure 3). This represents a 96% increase from the previous year and about 360,000 square metres greater than the annual average of the preceding 5-year period (2017-2021). This large increase was mainly in the industrial sector.



- Overall, non-residential GFA growth in 2022 exceeded forecast growth in the 2020 DC Background Study forecast due to industrial development, while non-industrial development underperformed compared to the DC forecast growth.
- Industrial development continues to be the strongest non-residential sector in Peel. New industrial growth and industrial expansions increased by 117% over 2021. Industrial development represented approximately 82% of all non-residential building permit GFA in Peel in 2022.
- Preliminary estimates indicate that as of year-end 2022, there was just over 2.5 million square metres of non-residential GFA in the approvals process.
- Industrial development continues to be the top non-residential performer in Peel and will likely achieve the growth forecast from the 2020 DC Background Study (see Figure 4). Non-industrial development requires a significant portion of proposed development in the approvals process to be completed by 2025 to meet growth forecasts.

Figure 4: Expected Non-Residential Development Plus Development in the Pipeline Compared to 2020 DC Background Study Forecast



4. Region of Peel's Development Charge Performance

In 2022, the Region of Peel collected $409 million in total DC revenue (excluding GO Transit) which exceeded the average annual DC collection over the previous five-year period of $262 million but is still below the forecast of $460 million for 2022, based on the 2020 DC Background Study. The $409 million DC revenue collected is before any DC appeal settlement, which is still outstanding. This information has also been summarized in Appendix I.

- The $409 million in DC revenue collected in 2022 was allocated by development type as follows:
  - Apartments: 42%;
  - Single detached, semi-detached, row dwellings: 30%; and
  - Non-residential development: 28%
- The strong DC revenue collection relative to the previous year total (i.e., $409 million vs. $288 million) can be attributed to a historically high index rate applied to the DC rates (i.e., 17.5% increase from December 2021 to December 2022).
- In addition to the increase in DC rates due to indexing, apartment and industrial developments which paid a DC in 2022 exceeded historical 5-year averages by 81% and 52% respectively.
- Ground-related housing (i.e., singles, semis, and row units) and non-industrial, non-residential development which paid a DC in 2022 were lower than 5-year historical averages by 14% and 32% respectively.
- Despite the strong level of DC collections in 2022 relative to historical collections, the residential units and non-residential GFA that paid DCs in 2021 and 2022 are still well below unit and GFA forecast in the Region's 2020 DC Background Study, which includes all units and GFA (i.e., includes DC exempt development).
- Over the two-year period from 2021-2022, only apartment units exceeded what was forecast in the DC background study, at 90% above forecast. Ground-related housing units were 56% below forecast, and industrial and non-industrial non-

residential development were 10% and 67% respectively below forecast. Assuming DC rates as of December 31, 2022, these cumulative shortfalls in units and GFA compared to the DC Background Study total approximately $200 million, or $100 million per year over the past two years.

- The DC reserve fund at the end of 2022 was approximately $92.1 million, an increase of $62.9 million compared to the previous year. The DC debt outstanding as of December 31, 2022 was approximately $1.2 billion resulting in annual debt service costs of $108 million. Based on forecasts for DC revenue and expenditures, it is expected that the Region will borrow an additional $150-$200 million in 2023, approved by Council on March 23, 2023. Although the reserve appears stable, the reserve continues to be reliant on debt to finance growth-related infrastructure.

5. Additional Insights

a) Economic Growth and Employment

The post-pandemic economic rebound was interrupted in 2022 by heightened geopolitical uncertainties and a shift to higher inflation and rising interest rates. In response, Canadian economic growth slowed from 5.0% in 2021 to 3.4% in 2022 and the risk of a global economic recession increased.

In Peel, the total number of employed residents declined by 3.1% in 2022, to approximately 823,700. Despite the decline of employed residents, Peel's overall average unemployment rate continued to fall from its pandemic driven high of 12.2% in 2020, to reach 6.4% in 2022. This decline was in part due to the exit of workers from Peel's labour market[2] and a 6.9% reduction in total labour force to about 879,700 persons.

In the current flexible work environment, labour market exit and decline in employed residents may result from the migration of workers from one location to another. In 2022, the number of residents who migrated from Peel to other Ontario locations and other provinces increased.

Likely influences on migration patterns in 2022 include higher inflation and rising interest rates, which have eroded affordability, including housing affordability. The Bank of Canada's housing affordability index, which measures how difficult it is to afford a home, has reached its highest point since 1990. Net migration into some regions in the Greater Toronto and Hamilton Area (GTHA) where housing is more affordable, increased in 2022.

b) Residential Market

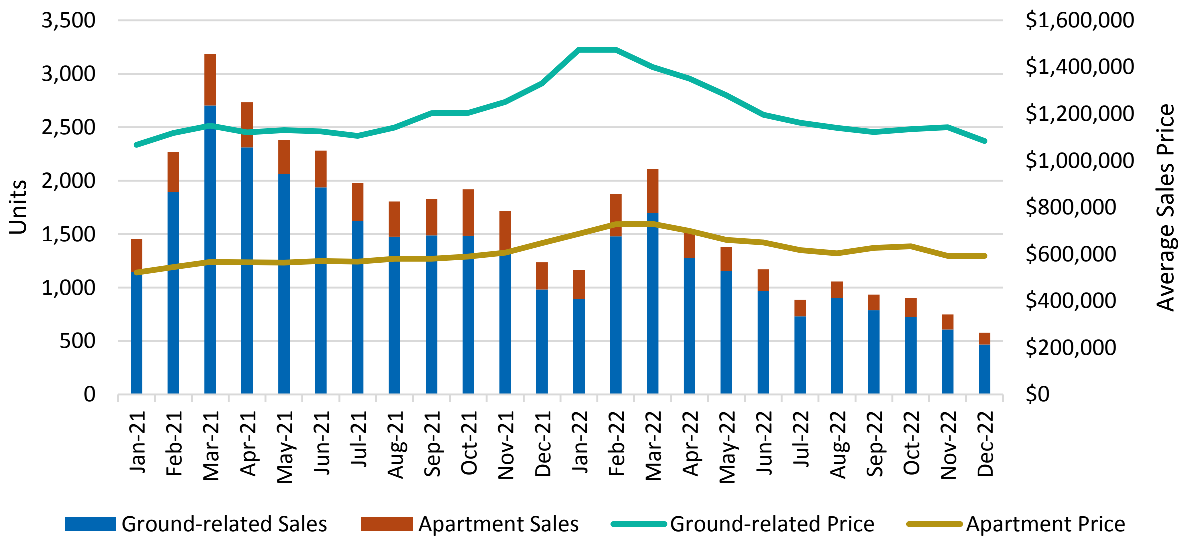
Peel's residential housing market showed the following trends in 2022 (see Appendix I):

- New home sales data, provided by Altus, shows that new home sales fell by 42% from 2021. Sales of new single-family homes fell by 69% and sales of new condos fell by 13%.

[2] Peel's labour market is the working age residents of Peel who work or are looking for work, inside or outside of Peel.

- Monthly existing home sales data from the Toronto Regional Real Estate Board (TRREB) shows that sales fell by 42% from 2021. Sales of ground-related units fell by 43% and sales of apartment units by 39%. Despite the decline in existing home sales, the average sales price was $1,170,000 in 2022, an 11% increase from 2021. The average sales price of a ground related unit increased by 11% to about $1,300,000 and the average sales price of an apartment unit increased by 17% to about $671,000 over this period. The increase in average sales prices was the result of significant increase in sales prices in early 2022. Later in the year, as interest rates were increased, sales volumes and prices declined as shown in Figure 5.

Figure 5: Peel Monthly Existing Ground-related and Apartment Unit Sales and Average Price



c) Commercial and Industrial Markets

The commercial and industrial markets showed the following trends in 2022:

- As reported by Cushman and Wakefield, the availability rate for office space within the GTA West submarket, which includes Peel and Halton, was 16.9% at year-end 2022. This is an increase from the availability rate at year-end 2021 of 16.0%. The GTA West 2022 year-end availability rate is similar to the availability rate of 16.1% for other suburban areas within the GTA.
- Cushman and Wakefield report that the vacancy rate for industrial space in the GTA West submarket was 1.1% at year-end 2022. This is an increase from the reported vacancy rate for year-end 2021 of 0.8%. The other suburban areas of the GTA had an industrial vacancy rate of 0.4% at year-end 2022.

d) Major Office Incentives Program

To further support and encourage Major Office development in Peel, the Regional Major Office Incentives Program was established in April 2021. The program is a partnership between the Region of Peel and its three local municipalities where the Region contributes funding to the local municipal's Community Improvement Plan (CIP) programs. The amount is determined in a manner that is similar to a Tax Increment

Equivalent Grant for qualifying major office developments in locations identified by local municipal CIPs.

The program was established in accordance with the *Planning Act* and is reliant on policies included in the RPOP. Once the changes to the *Planning Act* introduced by Bill 23 are in full effect, the Region which will no longer be able to participate in local Municipal CIPs under the current program structure.

Regional staff are examining opportunities to continue the program through alternative legislation and will prepare a follow up report to Council.

RISK CONSIDERATIONS

As a result of the recent statutory changes brought about by provisions in Bill 23, the More Homes Built Faster Act, 2022 (Bill 23), the Region's responsibilities related to land use planning are to be removed on a date to be proclaimed by the Lieutenant Governor (Bill 23 defines the Region as an "upper-tier municipality without planning responsibilities"). In addition to changes from Bill 23, regional governance, including Regional roles and responsibilities, is being reviewed and will be confirmed through a facilitated process further to provincial announcements made simultaneously with the introduction of Bill 39 Better Municipal Governance Act, 2022 (Bill 39). These legislative processes are still underway and the Province has advised that changes to the *Planning Act* to remove Regional planning responsibilities would not come into effect until winter 2024 at the earliest.

While Bill 23 will remove Regional planning responsibilities there continues to be a strong need for regional growth management to coordinate growth and infrastructure provision across the Region and to identify and mitigate financial risks associated with growth.

The changes imposed by Bill 23, which include significant reductions to the Region's ability to collect DC's, along with continuing systemic challenges associated with DC revenue collections, required capital expenditures to support growth, and cost escalation pressures will result in increased debt requirements for the Region. Increased debt requirements for growth-related infrastructure will put pressure on the Region's capacity to utilize debt for future growth and non-growth-related capital. Furthermore, increased debt reduces the Region's financial flexibility as a higher percentage of DC revenues is directed to support debt service costs.

As outlined in recent staff reports to Council, Bill 23 and the accelerated timing for the 2031 housing targets present significant challenges to the Region in delivering the required infrastructure to support growth in Peel. Staff recommendations on accelerating infrastructure to support housing growth will include an assessment of the required investments to minimize financial risks. If expected housing growth does not materialize in anticipated timeframes, the Region may face significant revenue shortfalls.

Significant economic uncertainty remains with inflation at multi-decade highs, labour shortages, and supply chain challenges, all which contribute to a higher cost environment with significant capacity constraints. These factors represent considerable challenges to the Region's ability to deliver on its capital plan in a timely manner.

NEXT STEPS

Peel's Growth Management Program continues to monitor evolving trends and work collaboratively with Regional program areas, local area municipalities, and the development industry to address challenges associated with growth in Peel. While Bill 23 will remove

Regional planning responsibilities, there is a continuing need for a strong regional growth management role to integrate growth forecasts with infrastructure planning and sustainable financing strategies.

Next steps for the Growth Management Program include:

- Continuing to monitor development activity, growth related revenue, and timing of capital projects, including working with local municipal staff to ensure consistent reporting on key growth management data;
- Ongoing collaboration with Regional staff, local municipal staff, and the development industry to better align growth and infrastructure capacity;
- Maintaining a dialogue with the development industry to understand emerging trends which may impact future growth in the Region and risks to meeting growth forecasts;
- Engaging in discussions with Regional and local municipal staff to confirm the population and employment growth areas in the short and longer terms including identifying potential areas where growth could be accelerated by 2031;
- Finalizing Regional phasing directions for the 2051 New Urban Area to be provided as input to the Town of Caledon's Growth Management and Phasing Plan;
- Finalizing the first phase of the Business Intelligence Strategy – the Integrated Forecast Monitoring Solution – to support decision making on the prioritization of growth-related infrastructure investments; and
- Working with Regional Planning staff to prepare a report for Regional Council to re-consider and determine the continuation of the Regional Major Offices Incentives Program through an alternative mechanism.

APPENDICES

Appendix I – Peel's Growth Management Program – 2022 Overview and Progress Report
Appendix II – News Release and Media Package: Regional Planning Commissioners of Ontario Issued Inventory of Ontario's Unbuilt Housing Supply, March 7, 2023

Kealy Dedman, Commissioner of Public Works

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