Feasibility Assessment for a Major Office Employment Community Improvement Plan for the Region of Peel - Executive Summary

June 2020

N. Barry Lyon Consultants Limited

Executive Summary

The Regional Municipality of Peel retained N. Barry Lyon Consultants Limited (NBLC) to prepare a feasibility assessment that assesses the potential effectiveness and appropriateness of a Regional Community Improvement Plan (CIP) with the objective of encouraging major office employment (MOE) investment across the Region.

Incentives offered by a municipality to encourage private development can be used to help attract investment that would not otherwise occur. A CIP is a mechanism that can leverage economic and market forces to direct change and establish new patterns of office development.

NBLC's report assesses market conditions in the Region for MOE growth, the opportunities and challenges related to major office development, and how financial incentives may or may not influence the location and form of such investment.

The following are the core findings from this work:

The GTA and Peel have strong economic fundamentals driving long-term economic expansion.

- The Region of Peel is seeking to increase the amount of MOE jobs within the Region to 2041 to support greater employment growth and diversity, reduce out-commuting patterns, encourage a greater utilization of employment land, and fulfill growth targets.
- For reasons to be discussed (primarily the dominance of Downtown Toronto), Peel has not been meeting MOE growth targets over the past ten years. To fulfill the growth targets, it is expected that MOE jobs will need to increase by 71% from current levels.
- Notwithstanding Peel's modest office growth, the overall market fundamentals driving office investment in the Greater Toronto Area (GTA) and the Region remain very positive and support continued long-term economic expansion.
- Over the short-term, the COVID-19 pandemic has placed significant stress (e.g. job loss, business instability, trade uncertainty) on the GTA office market, and the world economy more generally. We expect that office demand will flatten or decline during this period. However, as the economy sheds the impacts of the pandemic, we expect that the market fundamentals that have underpinned the GTA economy will support continued long-term growth in the sector.
- The impact of COVID-19 could have some lasting impacts on the nature of work and office space. Some predictions indicate that COVID-19 will reduce demand for office over the long-term as telecommuting and work from home continues to be more accepted. Greater demand for satellite offices in less congested communities could have long term benefits for office markets in Brampton and Mississauga too.

Over the past 50 years, there has been an ebb and flow in the office market between Downtown Toronto and suburban GTA office locations.

- Prior to the 1980s, most office investment in the GTA was occurring in Downtown Toronto, helping this area become the major Central Business District in Canada.
- Leading into the 1980s and continuing into the 2000s, the GTA suburban municipalities began to capture a much larger share of regional office investment. Reasons for this shift include the increasing popularity of the suburbs for workers, and their family, seeking affordable housing options, strong vehicular accessibility, less traffic congestion, combined with opportunities for developers to purchase large properties capable of accommodating significant surface parking.
- Clear office nodes began to develop in the GTA and include the Airport Corporate Centre (ACC) and Meadowvale in Mississauga. This concentrated office activity is a trend identified across developed countries, where businesses prefer to locate near other similar businesses to drive connections, innovation, efficiencies, infrastructure, and other similar benefits – often referred to as agglomeration economics. The concentration of investment in specific nodes continues today.

Downtown Toronto is absorbing a disproportionate amount of office development.

- Since 2008, new office space has increasingly been attracted to the City of Toronto. Between 2011 and 2016 specifically, Toronto accounted for 72% of all new office space added to the GTA market. Currently, 92% of all office space under construction across the GTA is concentrated in Downtown Toronto.
- Given Toronto's record low office vacancy rate, rising rents, and the magnitude of office space proposed (e.g. The Well, East Harbour, Downsview, Celestica, Union Station and rail corridor), it does not appear that this trend will end over the short to medium-term.
- While it is also important to appreciate a small number of market areas are absorbing a sizeable proportion of overall office demand, new office buildings are developing more efficiently than ever before. This is largely due to more efficient office layouts. Employee dense co-working office space is also becoming more prominent and it is expected that telecommuting and "work from home" will continue to become more accepted. Combined, these trends are resulting in an overall lower gross floor area (GFA) being required per worker to satisfy future employment growth – whether it be demand for new space in Downtown Toronto or concentrated in suburban office nodes.

There are many factors influencing current activity, location of investment, and trends.

- The site selection priorities of businesses that require office space will naturally vary, but the fundamental preferences of prospective tenants (employers/employees) and office developers tend to be similar and include:
    - Access to labour and talent;
    - Agglomeration effects;
    - Walkable access to retail, restaurants, open spaces and cultural activities;
    - Access to high order transit;
    - Access to highways;
    - Affordable parking solutions (particularly, in the absence of transit);
    - Operating costs (e.g. property taxes); and,
    - Development Costs (e.g. land value, development charges).
- Overall, office locations that fulfill the greatest number of tenant needs or preferred locational attributes will be in highest demand, achieve higher rents, and generally support viability of the largest scale projects.
- Assessing these factors collectively explains why Downtown Toronto has been so successful over the past decade. These factors are both financial and demand driven, with Downtown Toronto being able to satisfy virtually all demand side characteristics while also supporting the highest rents and lowest parking requirements (due to strong transit accessibility). The impact of these trends is that Downtown Toronto is leaving only a small amount of demand for new office space for other areas in the GTA.
- Overall, a significant shift in the office market from Downtown Toronto to some suburban locations is not expected over the near to medium term but may increase over time.

Growth in the suburban office market over the past ten years has been limited – but there are reasons to be optimistic in Peel.

- Recent office investment in suburban office market has largely been fueled by growth in the Vaughan Metropolitan Centre (VMC), as well as continued popularity of Mississauga's business parks – namely Meadowvale and the ACC.
- Mississauga's business parks have leveraged the factors that made them successful in previous decades, such as availability of large sites capable of accommodating surface parking, competitive costs, strong highway access, and the strong agglomeration economics. In one instance – the ACC – now offers higher order transit and a greater mix of uses, and in another, the promise of future LRT service – the Mississauga Gateway area. These areas remain strong markets for continued office investment.

Outside of Peels most popular business parks, major office investment interest has been mixed:

- Downtown Mississauga has not experienced significant office investment, which is primarily due to lack of high order transit, traffic congestion, and the requirement to provide underground parking (significantly increasing construction costs). Recognizing these trends and challenges, the City implemented a Community Improvement Plan (CIP) in 2017 for the downtown that offers financial incentives to encourage more office development. Future investment will also be supported by integration of future LRT.

- Caledon has experienced virtually no major office investment, but given Caledon's suburban/rural context, there is little potential for growth in this sector.
- Brampton has attracted some investment activity outside of the downtown, primarily driven by owner-occupied businesses selecting Brampton for its prestige employment areas / relative affordability of employment lands / reduced development complexity in such locations. However, the superior characteristics of competing suburban office locations, such as the VMC have presented a unique challenge as they have a greater number of in-demand features such as, superior highway access and exposure, better transit service levels and established office nodes that draws demand away for Brampton. To compete, regionally competitive rents are marketed but are below that necessary to finance office investment, particularly multi-tenant major office.
- Recognizing that new office investment is seeking environments that office a greater blend of uses, a masterplan was developed for the VMC that provides for wide range of commercial and residential uses. Leveraging the subway transit system and supported by a CIP, the area has been successful in attracting very strong office demand. The approach taken at the VMC has proven the importance of transit and thoughtful, mixed use master planning in attracting modern office investment.
- Brampton has the potential to position itself to attract modern office investment in the future. Riverwalk, GO service expansion, post-secondary, innovation district, health cluster initiatives along with the potential for, LRT and BRT are key initiatives that will significantly increase the appeal of the downtown and Central Area for major office investment
- Brampton is currently investigating the feasibility of implementing a new CIP tailored specifically to employment growth, as well as changes to the existing Central Area CIP that has largely been ineffective at encouraging office development.

- Overall, the success of the VMC should provide some optimism of what can be achieved in Peel through the right combination of transit investment, planning framework (mixed-use master plan with a focus on office, residential, and retail), appropriate financial incentives, and developers buying into the long-term vision of the area.

CIP incentives can be effective, but also have limitations.

- Financial incentives for office investment can improve the economics of developing in a location by lowering capital and/or operating costs, allowing lower market rents. CIP's can also help remove obstacles and accelerate development approvals. Incentives can include capital grants, grants to offset fees and charges (e.g. development charges), Tax Increment Grants (TIGS), waiving application and building permit fees, and many others.
- However, financial incentives cannot always directly influence all the demand side factors driving office development. Equally important are factors that sustain investment, such as the quality of the labour pool, access to transit, walkable urban amenities, which cannot be addressed through a CIP.
- Implementing incentives in Peel Region will not reverse the larger trends observed in the GTA market, such as Downtown Toronto's dominance. Similarly, other emerging office nodes like the VMC have been successful with the incentives offered to that geography, however, the primary factors driving investment in that area is the installment of a new TTC subway station, the mixed-use policy framework implemented, and buy-in from local developers and land owners.
- Competition for suburban office market demand will grow. The GO RER service expansion will have a dramatic effect on the supply of marketable lands for MOE. New station areas such as Downsview, Woodbine, St Clair, and Unionville are likely to attract new investment interest too. Peel Region will continue to compete regionally for this investment, and while incentives will assist with this objective, they will not solve the issue in isolation.
- Continued investments in transit, the public realm, floodproofing, partnerships with institutions and associated economic development initiatives in the Downtowns of both Brampton and Mississauga will eventually allow these areas to compete better in the 905 MOE office marketplace.
- Incentives alone may not result in the successful attraction of new office development. This is evident by the fact that despite funding, Mississauga's CIP has yet to experience any take up, and Brampton's CIP has resulted in only one built office project in over ten years.
- Incentives, therefore, are effective at helping to resolve near-term financial obstacles. They are less effective in addressing the long-term fundamentals that influence MOE markets.

Recommendations: Incentives are necessary, and the Region of Peel has a role to play.

- Over the past decade, all of the Region's local municipalities have taken steps to stimulate more office development in urban areas by offering various financial incentives through the adoption of CIPs, which range from development charge relief, TIEGs, one-time development application and permit fee rebates, façade and capital improvement grants, and municipally funded parking programs; the latter of which is unique to Mississauga.
- Only two of these CIPs – namely, Brampton's Central Area CIP and the Downtown Mississauga CIP – align with encouraging

major office growth in the Region's growth centres and corridors, as well as aligning with significant transportation and transit infrastructure investments. However, these CIPs have had limited (or no success) at attracting office investment. The lack of success can largely be attributed to:

  - The market weaknesses of new office development in Brampton's Central Area. Brampton's CIP is also a broad program with multiple revitalization objectives and is not necessarily tailored specifically to encouraging new office development. As noted throughout this report, Brampton is currently in the process of investigating a new CIP tailored specifically to new employment growth, which might also result in amendments to the existing Central Area CIP.
  - In Mississauga, the CIP is relatively new and therefore too early to evaluate.

- Based on the market findings, we are of the general opinion that it is appropriate to further incent major office investment. However, a single blanket approach to the entire Region would not be an effective or appropriate solution. The market conditions and overall deficiencies and opportunities in each local municipality are unique, therefore requiring a nuanced approach for each context.
- Overall, Brampton and Mississauga have taken appropriate and proactive steps to address employment growth deficiencies that are specific to each local context (e.g. Mississauga targeting downtown specifically, Brampton targeting employment growth more broadly). These CIP programs (existing and proposed) are being administered by planning and more specifically, economic development staff, that are best suited to carry out a program of this nature.
- We therefore recommend that the Region leverage and bolster the local experience by offering funding on a matching basis to each local CIP targeting major office employment. This would not require a separate, Regional CIP, but rather relies on enabling polices (Subsection 7.2.2.26) in the current Region of Peel Official Plan that facilitate the Region's participation in implementing area municipal Community Improvement Plans."
- The key strengths of this approach are:
  - The Region leverages the built-in expertise at the local level, including economic development expertise.
  - Objectives and funding are aligned with each local municipality.
  - Funding dollars are focused and stacked, which amplifies the impact and effectiveness of public funding.
  - The approach offers greater clarity to the market and results in less administrative complexities associated with two separate programs.
  - Administration is much simpler, less time consuming, and less costly for the Region.
- To implement this approach, several steps will be necessary as highlighted in Chapter 9 of this report.

- While NBLC suggests further investigating the means through which Peel could participate in local municipal CIPs, it is important to appreciate that the success of the programs cannot be guaranteed, as their use is also a function of external influences on demand, varying business models of developers, and many others. It will also be imperative to continue monitoring the employment market and success of each CIP program to adjust as necessary, which might involve increasing or decreasing the incentives offered as market conditions change.
- As a next step, NBLC recommends engaging with local municipalities to discuss how to best integrate with existing programs and align interests with regional interests.

A full copy of the Feasibility Assessment for a Major Office Employment Community Improvement Plan for the Region of Peel can be found on-line at:

https://peelregion.ca/officialplan/review/focus-areas/growth-management.asp#july