VAUGHAN

REVISED
(reports attached)

CITY OF VAUGHAN

Vaughan Metropolitan Centre Sub-Committee

AGENDA

Committee Room 242/243
2nd Floor
Vaughan City Hall
2141 Major Mackenzie Drive
Vaughan, Ontario

Thursday, June 28, 2012

1:30 p.m.

---

1. **CONFIRMATION OF AGENDA**

2. **DISCLOSURE OF INTEREST**

3. **COMMUNICATIONS**

4. **ITEMS FOR THE CONSIDERATION/INFORMATION OF THE COMMITTEE**

5. **ADJOURNMENT**

6. **NEXT MEETING** – September 13, 2012 at 1:30 pm

Committee Members
Mayor Bevilacqua, Chair Regional Councillor Di Biase Councillor DeFrancesca Councillor Racco

ITEMS

1. **BUILDING THE VAUGHAN METROPOLITAN CENTRE – PRELIMINARY OFFICE MARKET STUDY**

   Report of the Director of Economic Development with respect to the above.

2. **UPDATE ON DEVELOPMENT OF A COST SHARING FRAMEWORK FOR THE VAUGHAN METROPOLITAN CENTRE**

   Report of the City Manager and the Commissioner of Planning with respect to the above.

3. **PRESENTATION – UPDATE ON INFRASTRUCTURE AND PLANNING STUDIES BEING UNDERTAKEN BY THE CITY OF VAUGHAN**

   Presentation of the Commissioner of Engineering and Public Works with respect to the above.

4. **SECTION 37 - A DEVELOPMENT TOOL FOR INTENSIFICATION AREAS WITHIN THE CITY**

   Report of the City Manager and the Commissioner of Planning with respect to the above.

1.1

VAUGHAN METROPOLITAN CENTRE SUB-COMMITTEE - JUNE 28, 2012

BUILDING THE VAUGHAN METROPOLITAN CENTRE – PRELIMINARY OFFICE MARKET STUDY

Recommendation

The Director of Economic Development, in consultation with the City Manager, recommends:

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

2. THAT the comments received from the VMC Sub-Committee be incorporated into the final VMC Office Market Study; and

3. THAT staff report back to the VMC Sub-Committee in September with the final report on the VMC Office Market Study.

Contribution to Sustainability

Green Directions Vaughan embraces a *Sustainability First* principle and states that sustainability means we make decisions and take actions that ensure a healthy environment, vibrant communities and economic vitality for current and future generations. Under this definition, activities related to economic development contribute to the sustainability of the City.

Economic Impact

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

Communications Plan

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

Purpose

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

Background - Analysis and Options

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

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

All of the ideals identified through the Vaughan OP 2010 are key considerations in the site selection process for those employed in knowledge based sectors and the creative economy. Nurturing of ideas and innovation in today's knowledge-based work begins with the 'Place', being a collection of tangible and intangible elements which are more important than a building, parking convenience or a

1.2

VAUGHAN METROPOLITAN CENTRE SUB-COMMITTEE - JUNE 28, 2012

BUILDING THE VAUGHAN METROPOLITAN CENTRE – PRELIMINARY OFFICE MARKET STUDY

Recommendation

The Director of Economic Development, in consultation with the City Manager, recommends:

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

2. THAT the comments received from the VMC Sub-Committee be incorporated into the final VMC Office Market Study; and

3. THAT staff report back to the VMC Sub-Committee in September with the final report on the VMC Office Market Study.

Contribution to Sustainability

Green Directions Vaughan embraces a *Sustainability First* principle and states that sustainability means we make decisions and take actions that ensure a healthy environment, vibrant communities and economic vitality for current and future generations. Under this definition, activities related to economic development contribute to the sustainability of the City.

Economic Impact

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

Communications Plan

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

Purpose

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

Background - Analysis and Options

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

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

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

Knowledge based sectors generally 'Live' in an office type space. Office development will play a critical role in this vision for the VMC, leading to a balanced mix of uses, economic growth, and increased tax assessment. Developing office space within the urban context envisioned for the VMC does create a specific set of development implications for both the public and private sector that must be carefully considered in order to maximize the impact on the VMC.

Key Consideration – Toronto York Spadina Subway Extension

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

An Understanding of the Office Market In The GTA

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

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

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

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

About the Consultants

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

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

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

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

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

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

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

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

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

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

Accordingly, the study proposes the following:
- Collaborating extensively with landowners – the City needs to work with developers and landowners to create buy-in from those implementing the vision.

1.5

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

Relationship to Vaughan Vision 2020/Strategic Plan

This report is consistent with the Vaughan Vision 20|20 Strategic Plan –

Goal 1: Plan and Manage Growth and Economic Vitality.

The Study is also consistent with Goal 4 of the Economic Development Strategy that states "Grow Vaughan's dynamic quality of place and creative economy".

Regional Implications

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

Conclusion

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

The Study should be used in the following ways:

1. To inform and educate the various departments in the City and the Region of York regarding the attraction of office employment and development in the Vaughan Metropolitan Centre;

2. As direction into the development of the Economic Development Department's annual workplans and budgets – the activities and resource allocations of the City's Economic Development Department should demonstrate alignment with the marketing of the Vaughan Metropolitan Centre;

3. As an information resource to any future working group(s) established by the City to implement the VMC, bringing an economic and market realities perspective, and providing a holistic approach to its development;

4. To inform the Region of York's Economic Development Action Plan and other studies or strategies that are related to the development of regional growth centres.

5. As a source of information for collaboration – involving businesses, institutions, organizations, associations, levels of government and other stakeholders; and

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

1.6

Attachments

1. Building the Vaughan Metropolitan Centre - Preliminary Office Market Study

Report prepared by:

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

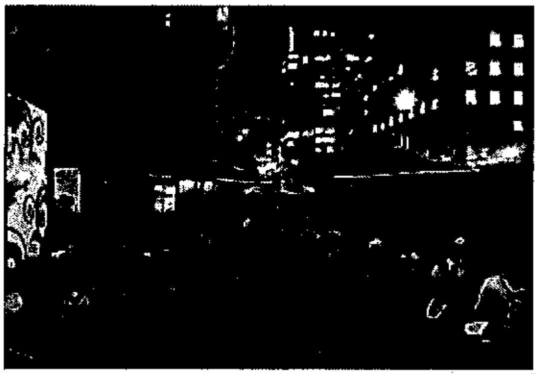
Respectfully submitted,

Tim Simmonds
Director of Economic Development

1.7

Building the Vaughan Metropolitan Centre

Preliminary Office Market Study



June 2012

VAUGHAN

LiveWork LearnPlay

1.8

1.9

Table of Contents

1.10

1.11

Executive Summary

Introduction and Methodology

The preliminary Office Market Study offers an analysis of office development potential within the Vaughan Metropolitan Centre (VMC), and proposes strategies to leverage the TTC subway extension and realize the vision for the VMC put forward by the City of Vaughan (COV). Although the focus of the assessment is the feasibility of office development and the implications of existing market conditions, the report also provides broader development direction for the other components of the VMC.

The findings presented herein are the result of a 90-day process in which local market participants (brokers and developers) and City of Vaughan staff were consulted regarding the opportunities and challenges related to office development within the VMC. This consultation process was augmented with the collection and analysis of office market data from across the GTA and preliminary analysis of TOD developments in other markets.

VMC Overview

The VMC is one of four York Region Urban Growth Centres identified by the *Places to Grow Act*, and is the only of the four that will be serviced by subway in the near future. There are 14 major landowners and a mix of smaller landowners within the VMC area, and the City does not have direct ownership of any of the lands.

According to the *Places to Grow Act* put forth by the Province of Ontario, and subsequent Official Plan and publications released by the COV, targets for the VMC (2031) include:

- 12,000 residential units (accommodating approximately 25,000 residents)
- 1.5 million square feet of office space
- 11,500 jobs (with a minimum of 5,000 new office jobs, 1,500 new retail and service jobs)
- A combined 200 jobs and residents per hectare

Although the vision and plan for the VMC have not been definitively established among stakeholders, there is an understanding of some common principles and characteristics that the development will exemplify. For the purposes of this report, the assumed vision for the VMC will consist of a mixed-use, urban, transit-connected and pedestrian-friendly area, which attracts residents of Vaughan and the broader community.

Office development will play a critical role in this vision for the VMC, leading to a balanced mix of uses, economic growth, and increased tax assessment. Developing office space within the urban context envisioned for the VMC does create a specific set of development implications for both the public and private sector that must be carefully considered in order to maximize the impact of the VMC. In order to better understand these development dynamics, an analysis of the competitive environment was conducted.

1.12.

Office Competitive Set

An overview of the Greater Toronto Area (GTA) office market environment was conducted, revealing a generally positive, and improving, market outlook across most segments. To address the diversity of office options and the breadth of the geographic region encompassed within the GTA, and to constrain the competitive set to locations that might conceivably compete with the office product envisioned for the VMC, the market was narrowed to include only suburban office nodes with Class A office space available. A qualitative assessment of key features was provided for each location:

				Cost Structure				
	Inventory (SF)	**Vacancy (%)**	**Net Absorption (SF - Q1 2012)**	**Avg Net Rent (PSF)**	**Additional Rent (PSF)**	**Gross Rent**	**Development Charges (DCs)**	**Property Tax Rate**
Airport Corporate Centre	4,903,100	13.1% (Class A: 8.9%)	268,162	$12.16	$11.97	$24.13	$17.19	2.2%
Mississauga City Centre	3,583,513 (Class A: 2,468,010)	12.4%	-5,265	$15.89	$15.40	$31.29	$17.19	2.2%
Meadowvale Busines Park	5,927,946	9.6%	-15,446	$15.72	$12.60	$28.32	$17.19	2.2%
Markham	6.527,611	11.5%	-83,297	$15.14	$12.16	$27.30	$20.44	1.89%
Downtown Markham	3,400,000 (proposed)	--	--	--	--		$20.44	1.89%
North York Centre	8,494,845	4.3%	-70,228	$17.78	$18.93	$36.71	$10.18 (Ground Floor only)	$3.18%
Beaver Creek	2,840,483	10.3%	-68,404	$15.04 (Richmond Hill avg)	$11.40	$26.44	$18.73	2.03%
Oakville	2,915,874 (Class A: 1,680,117)	15.8%	1,475	$17.00	$10.11	$27.11	$24.34	2.05%
TOTAL/ AVG	**32,665,426**	**11.0%**	**26,997**	**$15.53**	**$13.22**	**$28.76**	**$16.24**	**2.2%**
City of Vaughan	2,156,434 (Class A: 1,239,542)	10.1%	-14,531	$16.29	$11.40	$27.69	$21.64	2.03%

Source: Cushman Wakefield, Greater Toronto Area Market Research Report, Q4 2011
DTZ Barnicke. Q1 2012 Office Report. Greater Toronto Area
All DCs and property taxes taken from municipal websites

An analysis of the universe of Class A office nodes within the '905' region suggests that the proposed VMC office program will primarily compete with the following locations:

- Airport Corporate Centre - one of the GTA's most prestigious office parks, offering proximity to the airport and major highways. The area has successfully attracted a number of leading corporate tenants, and newer developments have been planned with a focus on lifestyle amenities.
- Downtown Markham – envisioned as the mixed-use satellite city centre with aggressive office targets, build out in downtown Markham is well underway. The development has already attracted some big name tenants, and due to its development status, has been described as a top of mind location for office users.
- North York Centre – with an urban form, Toronto address and development charges applied only the ground floor area, this node has substantial appeal for some potential tenants and developers looking to be in close proximity to downtown Toronto.

Within the competitive set, the VMC has the potential to offer a truly differentiated and highly attractive office product within the GTA. Key differentiating factors include:

- Superior transit connectivity
- Central location within the GTA
- Proximity to Pearson International Airport
- A vibrant, pedestrian-friendly, mixed-use environment
- Prominent signage opportunities and highway visibility for office tenants
- Easy vehicular access

Key Opportunities and Challenges

Opportunities

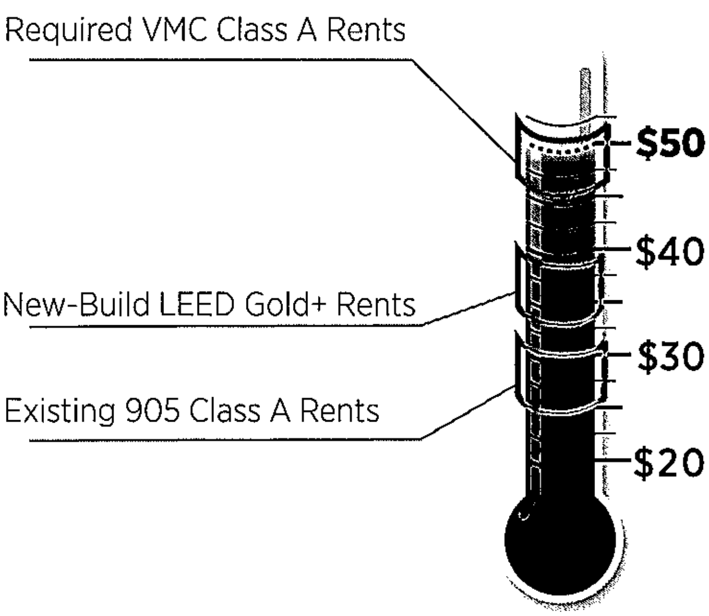
- Geographic location – the VMC has arguably the best site in the '905' for office development, as well as a subway connection
- Create a downtown for the COV – the VMC has the potential to become the central gathering place for the broader community
- Develop a dense, differentiated office node – office tenants seek a prestigious address and appreciate strong co-tenancy. Looking beyond the 1.5M square feet currently envisioned for the VMC may prove desirable.
- Create economic value – driving office development and density within the VMC will increase civic revenue and reduce costs over time
- Build a case for TOD within the GTA – the VMC is a test case for extending transit infrastructure. Successful realization of the VMC vision will spur future transit investment across the GTA

1-14

Challenges

- Existing conditions – there is a gap between the proposed vision for the VMC, and the existing conditions and land ownersip patterns present today
- Infrastructure – uncertainty and lack of a funding framework for infrastructure may stall or impede development of office space within the VMC
- Regulatory framework – lack of clarity and consensus regarding the plan for the VMC may stall or impede development of office space within the VMC
- Differing business models – there is not always clear alignment between the urbanity and mixed-use envisioned for the VMC and the established business models of the VMC land owners
- Market dynamics – the proposed requirements for office development within the VMC result in a cost structure that is not compatible with market comparable rents in other suburban office nodes.

Office Economics



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

Note: Diagram is based on gross rent figures

1.15

There are several strategies available to facilitate and accelerate office development within the VMC. Broadly speaking, these strategies either lower the cost of office development, thereby lowering the required rents, or increase the real or perceived value of locating within the VMC, thereby increasing tenants' willingness to pay higher rents. Employing both strategies will bridge the gap between the VMC rental rates and rates in competing existing and future office buildings.

Cost Mitigation Strategies

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

Increasing the VMC Value

- Achieving higher rents through superior product and value offering
- Achieving higher rents through clear, compelling marketing

Fiscal Impact

A preliminary scenario analysis, based on figures for similar office deals within Vaughan, revealed significant positive revenue impact for the City of Vaughan and York Region with the development of urban format, high-density, Class A office space.

Financial considerations of the scenario analysis included:

- Public benefit – urbanized development produced tax and Development Charge revenue per acre fourteen times greater than existing suburban development
- Revenue realization – Development charges are paid by the developers up front and are earmarked for specific investments into infrastructure, whereas property tax payments are largely a pass-through expense born by the office tenants and occur over time
- Regional and provincial partnerships – given the revenue potential for upper-tier government, and the significant investments made into the subway connection, close collaboration should be pursued for the planning and development of the VMC
- Investment flexibility – the analysis suggests the examination of different investment tactics, to determine which will be most appropriate for the VMC
- The "but for" test – the use of Tax Increment Financing (TIFs), and other infrastructure investment, should only be employed to fund development that will generate tax revenue that would not occur but for the investment being made

1.16

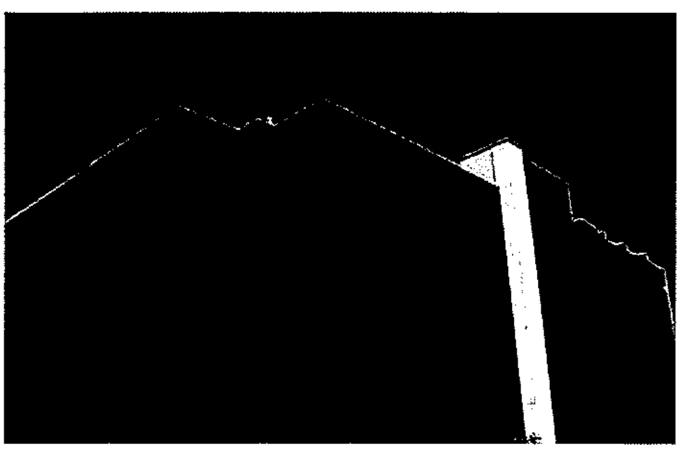
VMC Planning and Consultation Process

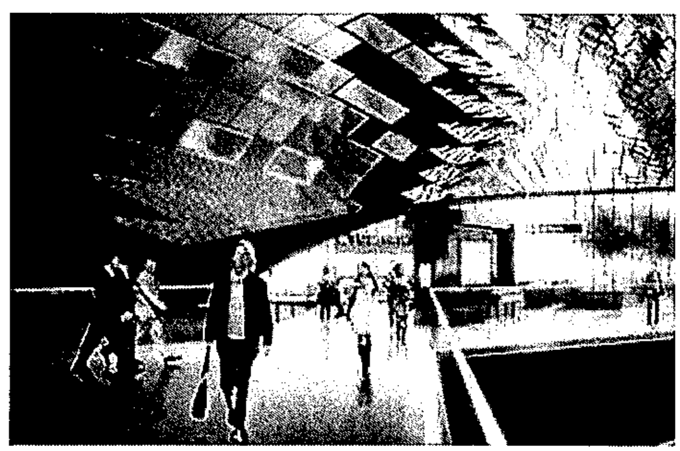
Many outstanding issues regarding the VMC must be resolved to achieve high quality urbanism. Central to resolving these issues is a strong collaboration between all key stakeholders. The following principles are proposed to guide the collaborative process going forward:

- Collaborate extensively with landowners – the interrelation between various aspects of the VMC and across multiple land parcels necessitates an open communication process to reach quality strategies
- Create a Consensus-Based Plan – VMC landowners and COV staff are working on plans in parallel but insufficiently connected processes. The interrelation of development in an urban context requires coordination across property lines
- Establishing a new approach to downtown development – the creation of a downtown requires innovative approaches to economic development and to relating to the development and business communities

Recommendations and Next Steps

- Create a VMC Landowner Working Group
  - The VMC working group is the venue to achieve a consensus based plan and to resolve outstanding items relating to the development of the VMC
- Establish a Phase I Plan
  - The build-out of the VMC will take place over decades. Establishing a high-quality first phase of sufficient scale will set the bar for future phases of development and communicate to the market the intention and commitment to the VMC





1.17

Building the Vaughan Metropolitan Centre: Preliminary Office Market Study

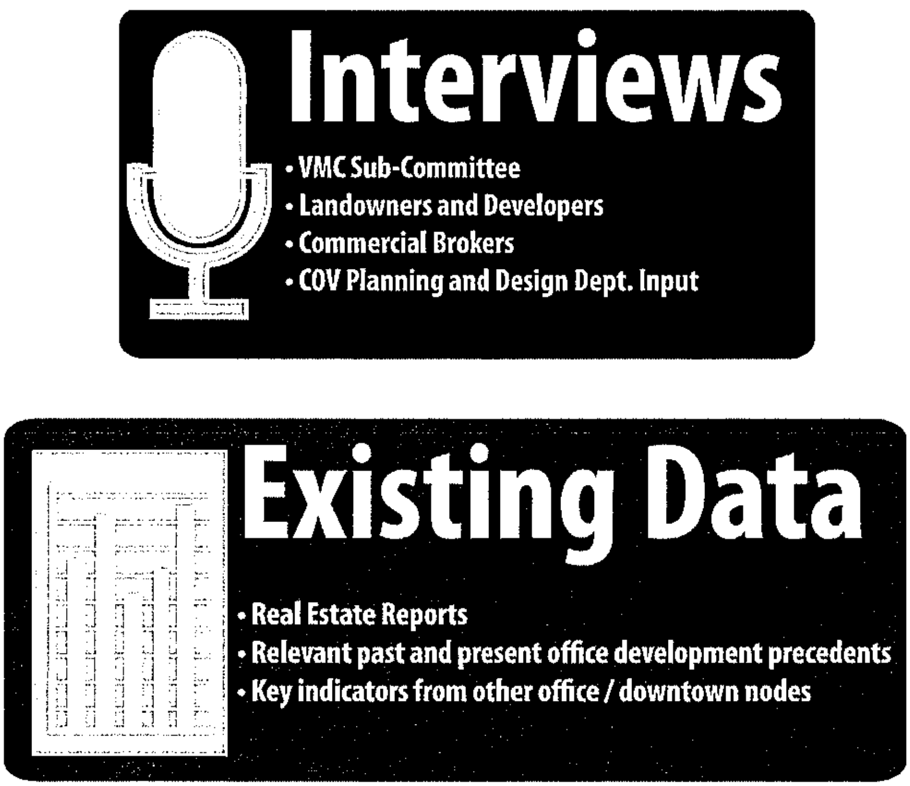
Methodology

The preliminary Office Market Study process took place from mid-April to June 2012. During this time, extensive primary and secondary data was collected, synthesized, and evaluated.

Central to the assessment process were the interviews conducted with key COV staff and leadership, local industry experts, and VMC landowners and/or developers. These interview dates are as follows:

- VMC Sub-Committee Meeting: May 7, 2012
- Economic Development Analysis Meeting: May 7, 2012
- Landowner and Developer Meeting: May 15, 2012 (some follow-up and information received after this date from various landowners)
- Commercial Broker Discussions: May 15-June 5, 2012
- COV Planning and Design Session: May 16, 2012 (some follow-up)

Figure 1: Process Overview



1 .18

Introduction

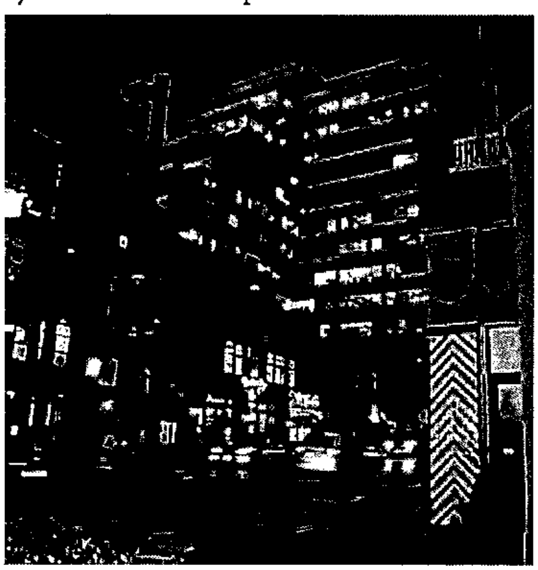
The preliminary Office Market Study offers an analysis of office development potential within the Vaughan Metropolitan Centre (VMC), and proposes strategies to realize the vision for the VMC put forward by the City of Vaughan (COV) and to leverage the TTC subway extension. Although the focus of the assessment is the feasibility of office development and implications of market conditions, the report also provides broader development direction for the other components of the VMC.

As a largely suburban market, the COV does not currently have a downtown area or central hub. The VMC is intended to serve this purpose, becoming the "heart" of Vaughan and a mixed-use, community gathering place. Although a common understanding amongst VMC stakeholders regarding the vision and program for the VMC has not been definitively established, for the purposes of this report the assumed vision for the VMC will consist of a mixed-use, urban, transit-connected and pedestrian-friendly area, which attracts residents of Vaughan and the broader community. The goal of this report is to test this vision for the VMC against market and site conditions, explore the viability of the office component of the VMC, and provide strategic recommendations based on the opportunities and challenges that have been identified in attracting urban office tenants and building typologies that would fit into a downtown context.

The key objectives of the preliminary Office Market Study include the following:

- Establish the primary opportunities and challenges in attracting office tenants and creating a commercial node
- Identify and examine the commercial environments competitive to the VMC
- Highlight examples of successful TOD projects and lessons learned from these areas
- Assess the impact the subway will have on commercial development within the VMC , and test the assumption that a subway is sufficient for attracting office development
- Provide strategic recommendations and direction for implementing the VMC vision

This report offers the COV an overview of the office development opportunity, and is intended to set the stage for a detailed and collaborative business planning exercise that will establish the business case for the VMC. This broader process of collaboration between COV staff and leadership and the VMC stakeholder community should continue to build consensus and understanding regarding the objectives for the VMC and the development dynamics which impact the realization of these objectives.



(.19

Project Context

The VMC is a 442-acre area located along Highway 7, bounded by Creditstone Road in the east and Highway 400 in the west, and spanning from Portage Parkway in the north to Interchange Way at the south end. The site is located centrally within the Greater Toronto Area, and is adjacent to both Highway 400 and Highway 407, making it easily accessible by automobile.

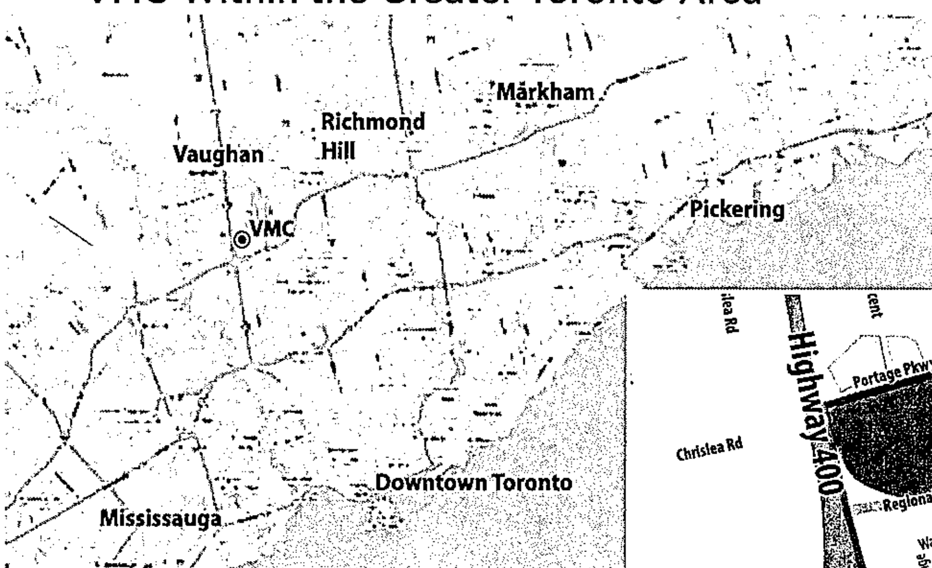
The VMC is one of four York Region Urban Growth Centres identified by the *Places to Grow Act*, and is the only of the four that will be serviced by subway in the near future. There are 14 major landowners and a mix of smaller landowners within the VMC area, and the City does not have direct ownership of any of the lands (see *Appendix A: VMC Landownership* for a full landowner plan).

According to the *Places to Grow Act* put forth by the Province of Ontario, and subsequent Official Plan and publications released by the COV, targets for the VMC (2031) include:

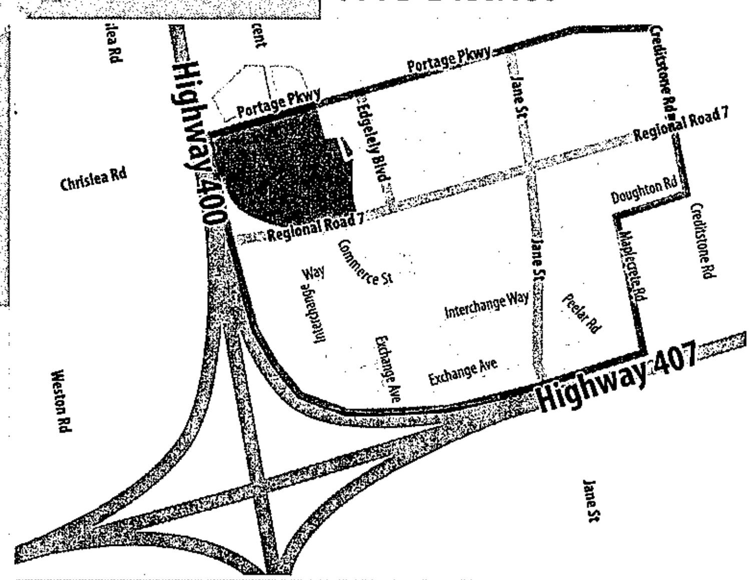
- 12,000 residential units (accommodating approximately 25,000 residents)
- 1.5 million square feet of office space
- 11,500 jobs (with a minimum of 5,000 new office jobs, 1,500 new retail and service jobs)
- A combined 200 jobs and residents per hectare[1]

The COV anticipates that the subway stop will serve as a catalyst for the development of the VMC, encouraging commercial, residential, and other types uses to locate within the immediate area.

VMC Within the Greater Toronto Area



VMC District



1.20

Development Status

Existing uses and road systems in the VMC are geographically scattered and lack a coherent urban fabric. Current uses include an eight-storey office building, three mid-rise hotels, big-box-type retail, and several low-rise industrial buildings (see *Appendix B: Existing VMC Uses* for an aerial view and list of uses). As the first phase of the VMC, a $2.6 billion subway expansion from Toronto's Downsview Station to the Vaughan Metropolitan Centre is currently under construction, and is scheduled to be completed and open for ridership in 2015. Also soon to be under construction is Phase I of ExpoCity, a five building, 1,800-unit residential condominium project being developed by Cortel Group. The 337-unit first phase of this residential project sold out, and sales momentum is expected to continue with the recently launched second phase of the project.

In addition to the subway expansion and residential construction, it is understood that a major office tenant will be locating within the VMC. The office deal is based on a 14-18-storey building on the SmartCentres lands, just north of the subway exit on Millway Avenue. The building will offer approximately 300,000 square feet of office space, 500-600 underground parking spaces, retail at grade, and direct underground connection to the subway.

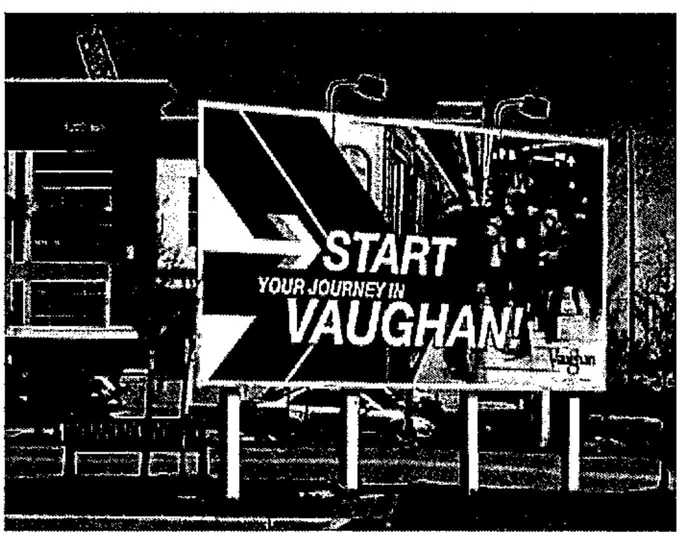
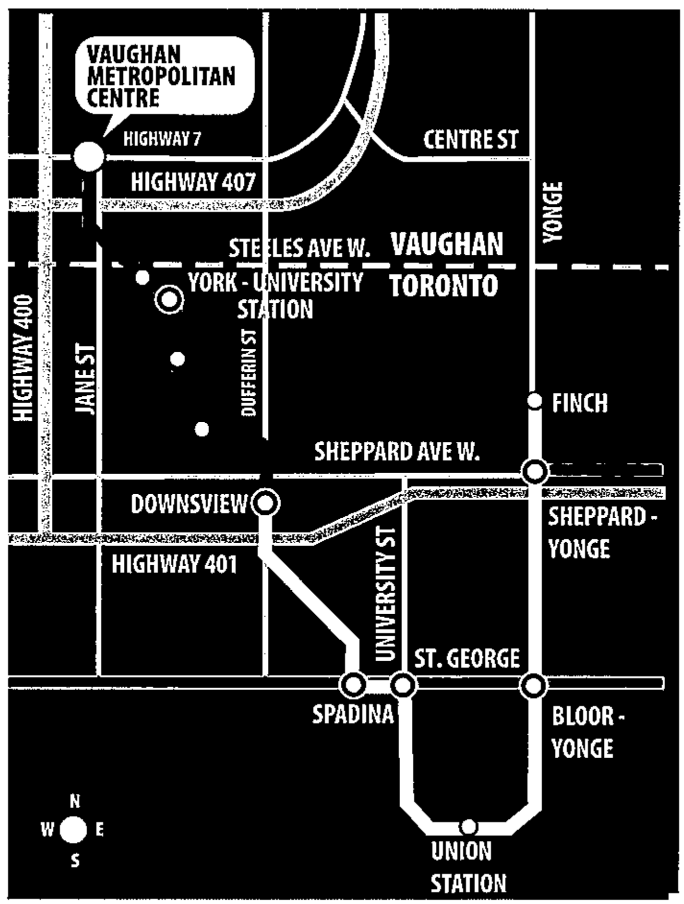


Figure 2: VMC Subway Extension



1.21

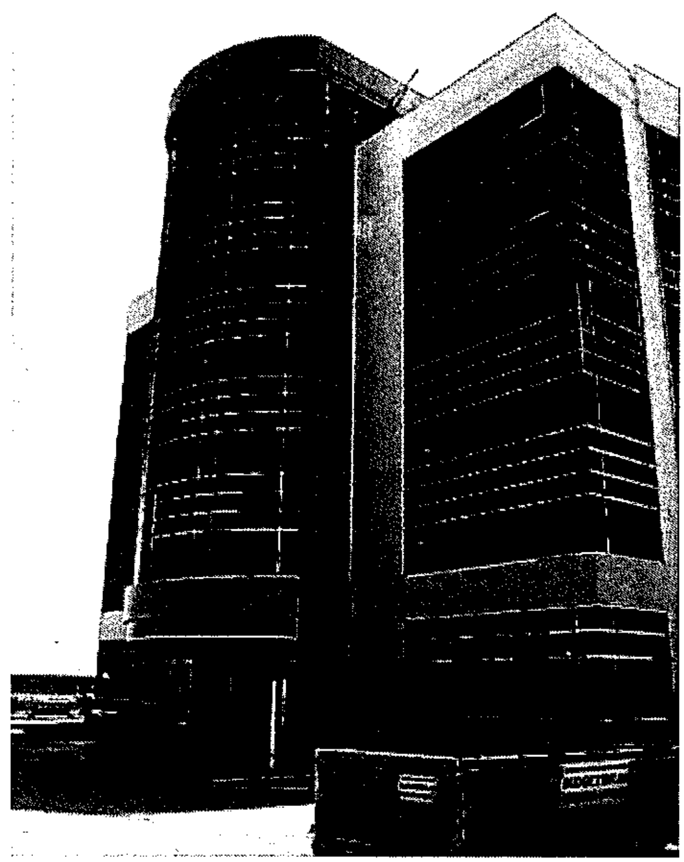
The VMC Office Opportunity

The presence of office within the VMC is highly desirable for several reasons including, but not limited to, diversifying the end-users within the core, enhancing street level vibrancy and activation, and supporting the general long-term economic success and viability of the City's downtown. The office model envisioned for the VMC is a more urban form of office development than traditional suburban development in the GTA. Urban format office is differentiated from its suburban counterpart by the elimination of surface parking and by generally taller building heights, both of which have significant implications for the look, experience, and financial model of the development. While the VMC, with its subway connection and high-profile location will have a compelling office market offering, it is important to understand how the envisioned office development can be successfully brought to market.

Standard surface parked office formats, although more cost effective, contribute to decreased densities and fragmented, unwalkable urban fabric, creating substantial obstacles to achieving the targeted vision and performance for the VMC. This notion of reduced surface parking, supported by the VMC Secondary Plan, suggests alternative parking strategies, such as parking decks or underground parking facilities, as well as lower parking ratios for office users. These structured parking solutions can be significantly more expensive on a per-stall basis, especially in areas where there are physical considerations, such as a high water table. The higher cost structure implicit in the proposed office development format will necessitate premium rents from targeted office tenants to achieve a viable development model.

Additionally, more urban office formats – with larger buildings, shared infrastructure, and greater interplay between adjacent buildings – necessitate different approaches than more suburban physical form. Prospective tenants will require assurances regarding proximate development and infrastructure projects, while office developers will face higher pre-leasing hurdles on larger office buildings.

It is within the context of the required rental premiums and development dynamics implicit in urbanizing the VMC that this market research has been prepared. Strategies and solutions to overcome these obstacles are available and will allow the VMC to realize its full potential and create a new and dynamic office node within the Greater Toronto Area (GTA).



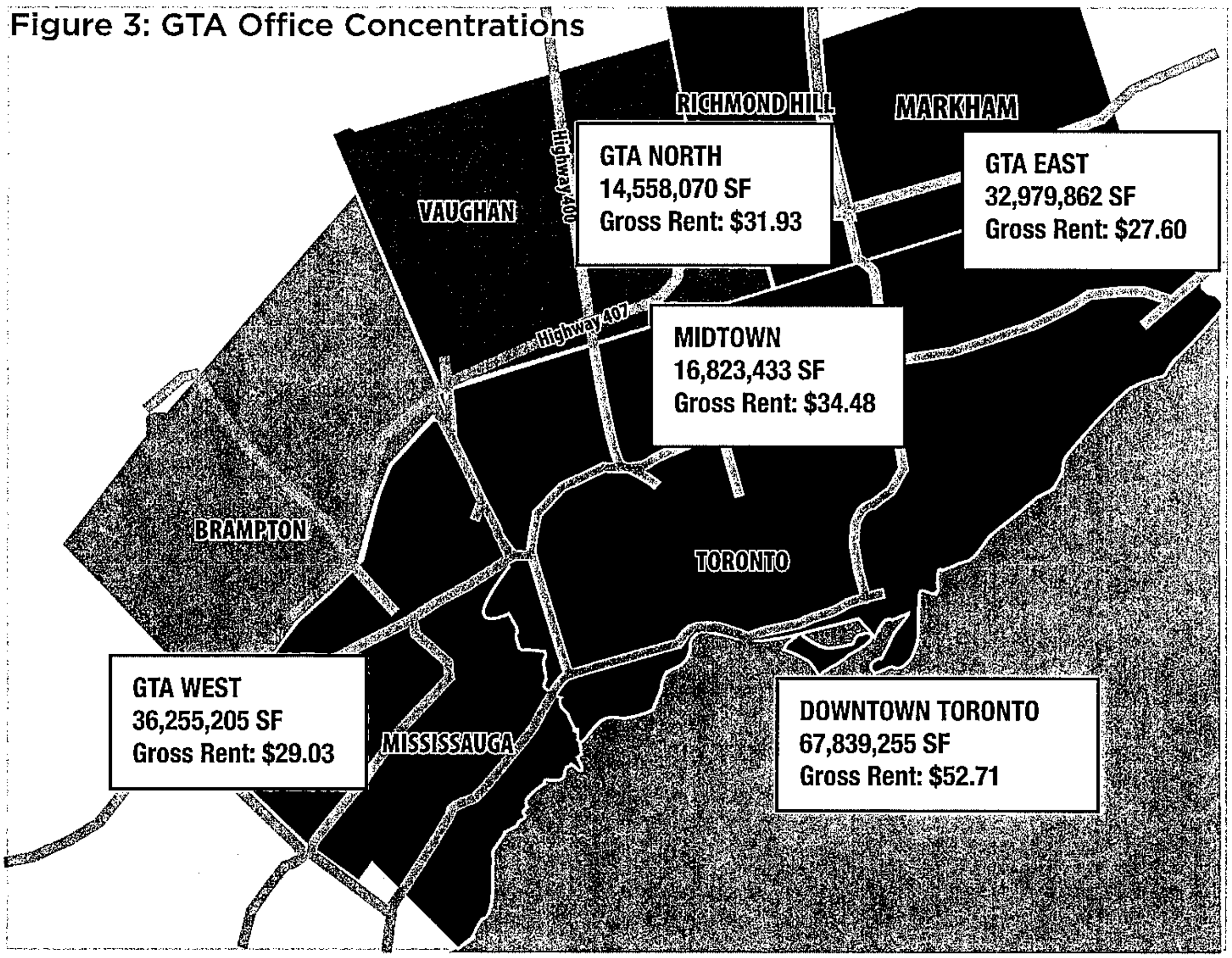
1.22

Competitive Commercial Environment

Regional Overview

With the growth of the suburbs surrounding the City of Toronto over the past three decades, the office sector in the region has become increasingly decentralized. Of the existing 200 million square feet of office space in the GTA today, approximately 60% of the space is located in Toronto proper, and the remaining 40% of the space is located within surrounding suburban areas, also referred to as the "905".[2] Presently, only about 20% of office space in the region is located within the Financial District of Toronto, compared to 63% roughly 30 years ago.[3] Hypotheses for this shift include the emergence of the GTA suburban market and the associated shifting of the workforce outside the city core, ease of vehicular accessibility compared to Downtown Toronto, streamlined approvals processes, and lower real estate taxes in certain municipalities. The availability of Class A space for larger companies that service the GTA in the suburban areas is also believed to be a driving factor. Although Downtown Toronto continues to experience a robust office economy, with 4.1 million square feet of office space under construction in the core, the office landscape of the region continues to evolve towards a model of strong satellite office nodes and city centres.[4]

Figure 3: GTA Office Concentrations



This shift in office sector concentration has also resulted in a number of notable trends. Many financial services remain in the urban, Class A office space within the Downtown Toronto core, where there has been a transition from more 'entrepreneurial' landlords to predominantly large real estate corporations and institutional asset owners, such as REITs and pension funds.[5] While financial services are located within the core, many service-based businesses have consolidated their other services into standalone, surface-parked office buildings with highway accessibility in suburban areas. Additional offices nodes have emerged along higher-order transit lines in Toronto, such as North York Centre, Don Mills and to some extent, Scarborough, as well as in suburban office parks. Some industries chose to cluster, with many creative businesses locating in the Downtown Toronto "Kings" area, life sciences in Meadowvale (known as "Pill Hill") and high-tech companies moving to Markham. Across the GTA, there has been a push towards LEED and sustainability measures from major tenants, which has both financial and competitive implications for the VMC.

> ***According to BOMA, Class A office can be defined as the "most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high quality standard finishes, state of the art systems, exceptional accessibility and a definite market presence."***
>
> Source: BOMA International, 2011 (http://www.boma.org/resources/classifications/Pages/default.aspx)

At present, general performance indicators for office space in Downtown Toronto vs. the 905 regions can be broken down both by geography and by class of space.

Table 1: Total GTA Office Inventory

Office Market	Total Office Inventory (SF)	Average Gross Rent	Vacancy
Downtown Toronto Core	67,839,255	$52.71	5.3%
Midtown	16,823,433	$34.48	5.5%
GTA East (Markham, Scarborough, Pickering, Ajax)	32,979,862	$27.60	8.6%
GTA North (Vaughan, Richmond Hill, North Yonge)	14,558,070	$31.93	3.4%
GTA West (Mississauga, Oakville, Brampton, Burlington)	36,255,205	$29.03	10.1%

Source: Cushman Wakefield, Trend Map, Q1 2012
Cushman Wakefield, Greater Toronto Area Market Research Report, Q4 2011

Office vacancy rates vary within and between municipalities in the GTA. Although there is no widely accepted benchmark in the market, generally, an occupancy rate between 90-95% is considered healthy, indicating that broader office market areas within the GTA are currently experiencing strong demand. Occupancies above this rate represent a robust economy for the short-term and can imply pent-up demand that is outpacing supply, driving net rental rates and new office development. In the longer-term, however, a lack of available office inventory can limit economic growth.

The market can be further broken down by type of office inventory. Since the VMC will be targeting high-quality tenants, this analysis will focus on Class A inventory where figures are available.

1.24

Table 2: Total GTA Class A Office Inventory

Office Market	Total Office Inventory (SF)	Vacancy
Downtown Toronto Core	42,735,108	4.9%
Midtown	7,529,143	5.7%
GTA East	19,021,044	9.1%
GTA North	9,414,563	3.7%
GTA West	22,256,191	10.1%

Source: Cushman Wakefield, Trend Map, Q1 2012
Cushman Wakefield, Greater Toronto Area Market Research Report, Q4 2011

Within the suburban and urban office market categories, there are diverse and distinct office markets. In order to determine the competitive set for the VMC, it is vital to take a closer look at relevant sub-markets within the GTA. Although there is increasing interplay between Downtown Toronto, Midtown, and the suburbs of the GTA (also known as the "905"), for the purpose of this analysis and based on feedback from office broker interviews, Downtown Toronto and Midtown do not pose the most probable competition for the VMC and will not be included in the competitive analysis.

905 Sub-Markets

Potential competitive sub-markets were identified based on known and established office nodes, as well as recent office leasing momentum. The 905 sub-markets offer a range of options for office tenants looking to locate outside of Downtown Toronto, however, not all of these sub-markets are in direct competition with the VMC for similar tenants. Key determining factors of competing areas include:

1. Existing Product Offering: What type of office space is currently being offered in these nodes, and how does it compare to the office planned for the VMC? Density, physical environment, amenities and non-office uses, status on capital or infrastructure projects, and existing tenants were among the top considerations.
2. Targeted 'brand' and/or vision: What is the existing or projected narrative of the node? Do existing tenants reinforce this vision? Is the vision or current offering comparable to the VMC?
3. Geographic considerations: Is the area accessible and located in proximity to places that are necessary for successful business performance?
4. Deal cost structure: What is the existing or projected cost of locating within these areas? Does the projected cost structure vary so drastically that types of targeted tenants are entirely different?

An analysis of each of the potential competitive markets in the following section assesses which of the sub-markets are or will be truly competitive with the VMC for office tenancy.

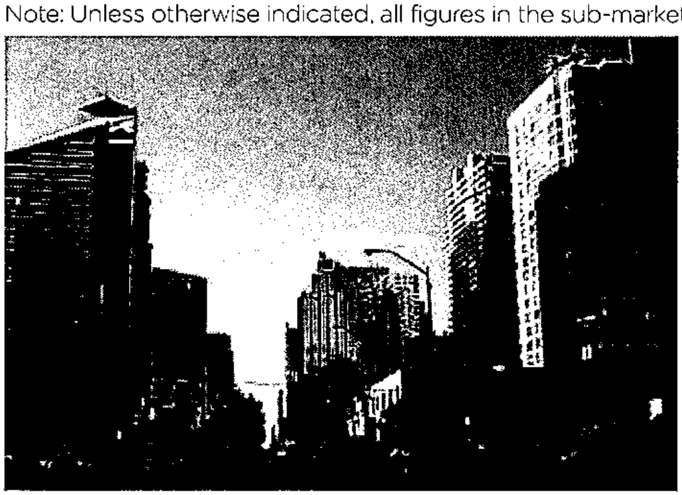
1,25

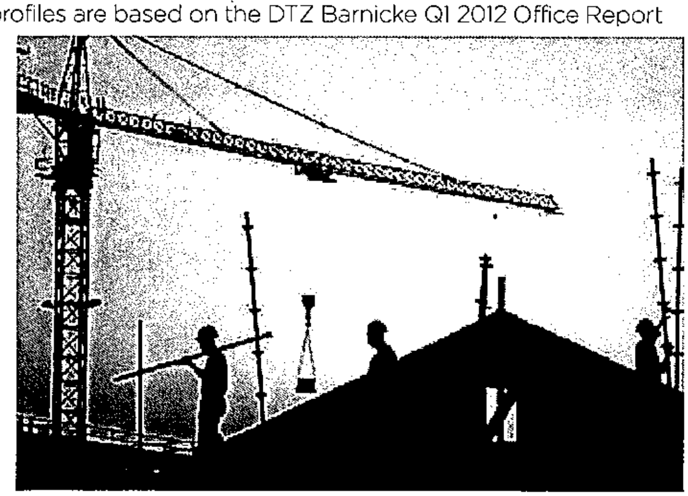
Table 3: Potential Competitive Sub-Markets

					Cost Structure			
	Inventory (SF)	**Vacancy (%)**	**Net Absorption (SF - Q1 2012)**	**Avg Net Rent (PSF)**	**Additional Rent (PSF)**	**Gross Rent**	**Development Charges (DCs)**	**Property Tax Rate**
Airport Corporate Centre	4,903,100	13.1% (Class A: 8.9%)	268,162	$12.16	$11.97	$24.13	$17.19	2.2%
Mississauga City Centre	3,583,513 (Class A: 2,468,010)	12.4%	-5,265	$15.89	$15.40	$31.29	$17.19	2.2%
Meadowvale Busines Park	5,927,946	9.6%	-15,446	$15.72	$12.60	$28.32	$17.19	2.2%
Markham	6.527,611	11.5%	-83,297	$15.14	$12.16	$27.30	$20.44	1.89%
Downtown Markham	3,400,000 (proposed)	--	--	--	--		$20.44	1.89%
North York Centre	8,494,845	4.3%	-70,228	$17.78	$18.93	$36.71	$10.18 (Ground Floor only)	$3.18%
Beaver Creek	2,840,483	10.3%	-68,404	$15.04 (Richmond Hill avg)	$11.40	$26.44	$18.73	2.03%
Oakville	2,915,874 (Class A: 1,680,117)	15.8%	1,475	$17.00	$10.11	$27.11	$24.34	2.05%
TOTAL/ AVG	**32,665,426**	**11.0%**	**26,997**	**$15.53**	**$13.22**	**$28.76**	**$16.24**	**2.2%**
City of Vaughan	2,156,434 (Class A: 1,239,542)	10.1%	-14,531	$16.29	$11.40	$27.69	$21.64	2.03%

Source: Cushman Wakefield, Greater Toronto Area Market Research Report, Q4 2011
DTZ Barnicke, Q1 2012 Office Report, Greater Toronto Area
All DCs and property taxes taken from municipal websites

Note: Unless otherwise indicated, all figures in the sub-market profiles are based on the DTZ Barnicke Q1 2012 Office Report





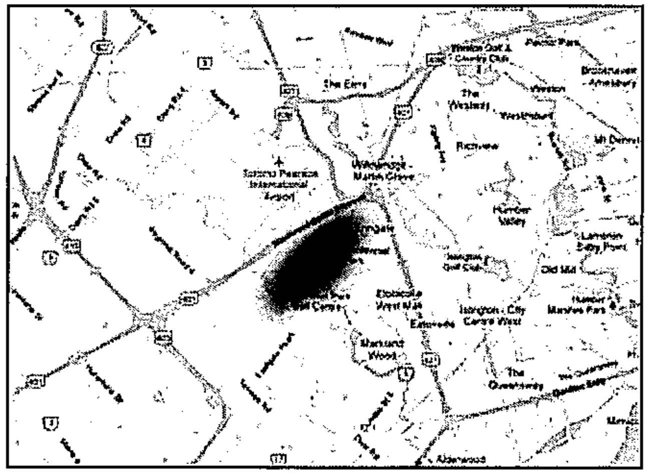
1,26

Market Profiles

1) Airport Corporate Centre

Location and Accessibility: Located in the GTA West region in the City of Mississauga, minutes from Pearson International Airport. The 938-acre site is immediately south of Highway 401 and just west of Highway 427.[6] Airport Corporate Centre has prime automobile accessibility, proximity to airport, and future bus rapid transit station, but lacks any higher-order transit (see *Appendix C: Transit Accessibility of Competitive Nodes* for map). Some of the Class-A office parks (such as the AeroCentre) offer hybrid shuttle services for employees to/from the Kipling TTC station during rush hour.

- **Inventory:** 4,903,100 SF
- **Under Construction:** 150,000 SF
- **Vacancy:** 13.1%[7]
- **Net Absorption:** 268,162 SF (Q1 2012)
- **Cost Structure**
  - **Average Net Rental Rate (per square foot):** $12.16
  - **Average Additional Rent (per square foot):** $11.97
  - **Municipal Development Charges:** $182.214 per square metre of Gross Floor Area (GFA) or $17.19 per square foot of GFA
  - **Municipal Property Tax Rate:** 2.2%[8]

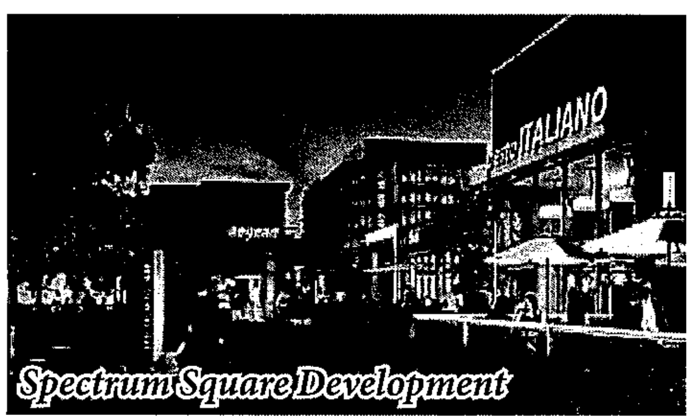


Tenancy: Several prestigious tenants are located within the employment area, including Bell, RIM, Hewlett-Packard, Pitney Bowes, PepsiCo, and RICOH. Target also recently moved into 183,000 square feet of space in the AeroCentre V complex. The Airport Corporate Centre boasts a diversity of industry sectors, but has also become home to industry clusters, such as life science and biomedical uses.

Physical Characteristics: Characterized by mostly low-density, low to mid-rise freestanding office buildings, Airport Corporate Centre features buildings with floor plates that are typically from 15,000–25,000 square feet, although there is some larger floor plate product. There is a mix in age of inventory, with some buildings developed in the mid-1980s and a substantial quantity of more recent office development. Buildings are either completely surface parked, or offer a combination of surface and a small percentage of underground stalls. Parking ratio standards as low as 3 spaces/1,000 square feet have been used in the area , however, the typical ratio remains closer to 5 spaces/1,000 square feet.

Additional Notes: Although the Airport Corporate Centre experiences a high level of vacancy (as high as 24% in 2011), it still remains one of the most prestigious suburban office nodes in the GTA.[9] Despite the prestige associated with the employment area, it would be extremely difficult and cost prohibitive to transform the Airport Corporate Centre into a more walkable, compact urban place due to the existence of large surface parking lots and industrial buildings. There are efforts being made in future developments, such as Spector Square and the new HOOPP 33-acre office park, to include significant restaurant components.

AeroCentre



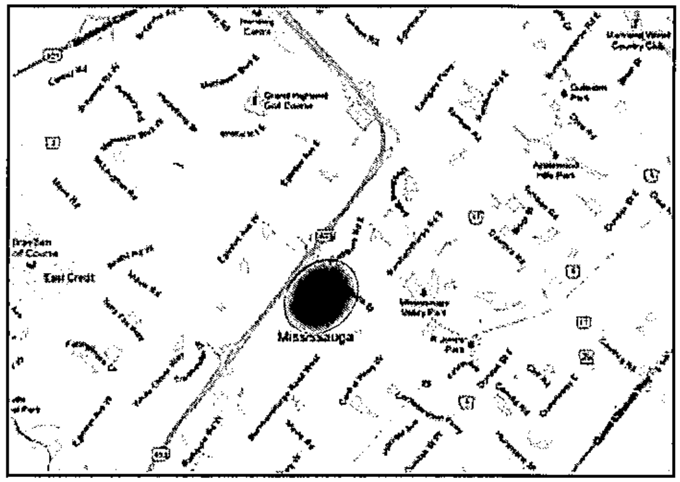
Spectrum Square Development

1.27

2) Mississauga City Centre

Location and Accessibility: Mississauga City Centre is located at Highway 403 and Hurontario, just 20 minutes west of Downtown Toronto and 10 minutes from the airport. In addition to Highway 403 and proximate arterial road access, Mississauga and Go Transit buses currently service the City Centre. The City Centre lacks any rail connection, but has been working to secure both bus rapid and light rail transit systems with Metrolinx and the Province of Ontario.

- **Inventory:** 3,583,513 SF
- **Vacancy:** 12.4%
- **Net Absorption:** -5,265 S72(Q1 2012)
- **Cost Structure**
    - **Average Net Rental Rate (per square foot):** $15.89
    - **Average Additional Rent (per square foot):** $15.40
    - **Municipal Development Charges:** $182.214 per square metre of GFA or $17.19 per square foot of GFA
    - **Municipal Property Tax Rate:** 2.2% [10]



Tenancy: As is expected in a downtown core, the majority of the Mississauga City Centre office landscape (56%) is dominated by financial, insurance and real estate sectors.[11] Among the notable tenants are Symcor, Desjardins, Morguard Investments, Ernst & Young Canada, General Electric, and Sun Life Financial. The City Centre has experienced a number of major tenants, such as Bell Canada, Royal Bank and the federal government relocating from the core in recent years for other (newer) office buildings in Mississauga.[12]

Physical Characteristics: Office buildings in the Mississauga City Centre are generally higher than 10 storeys, with more high-rise towers along Robert Speck Parkway. Floor plates are smaller than those within the Airport Corporate Centre and other employment areas within Mississauga, with most around or below 18,000 square feet. The shift towards smaller tenants in the City Centre is believed to be partially due to these smaller floor plate formats. There has been no new office construction in the City Centre since 1992 and, as such, the building inventory is older relative to many of the other 905 sub-markets, resulting in lower base rents and higher operating costs. Some buildings offer underground parking, and many offer surface parking in addition to underground or deck parking.

Employment Density: 30 jobs/acre in the City Centre area [13]

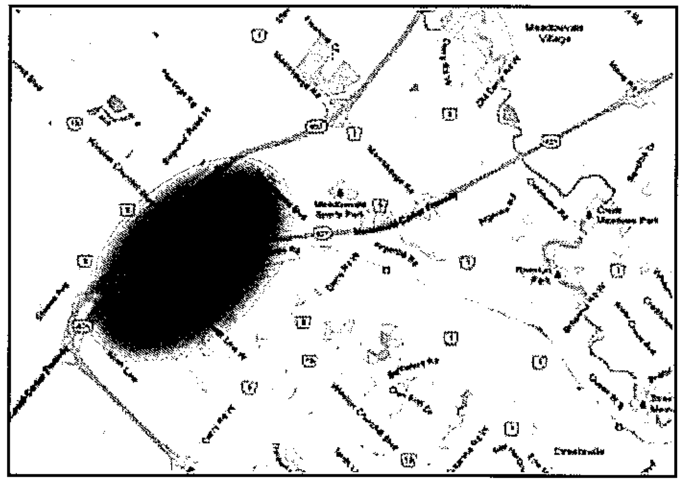
Additional Notes: The City of Mississauga has been working actively to implement their Downtown21 master plan, which calls for a vibrant, urban downtown centred around a Main Street district. Similar to VMC, Mississauga City Centre land ownership is fragmented, and the city is now working with landowners to realize the vision.

In recent years, there has been a "crowding out" of office space by residential development in the City Centre. The higher residual land values associated with for-sale condo development have set land values above what is economically feasible for office development. Other areas of Mississauga, such as Meadowvale, Airport Corporate Centre and Heartland, have benefitted from this in recent years.

3) Meadowvale Business Park

Location and Accessibility: The Meadowvale Business Park is located around the intersection of Highway 401 and Mississauga Road in northwest Mississauga, offering many tenants prime highway visibility. The 1,414-acre business park spans both north and south sides of Highway 401, and sits 15 km west of the Toronto International Airport. Meadowvale Business Park is accessible via local Mississauga Transit, as well as GO Transit buses and rail.

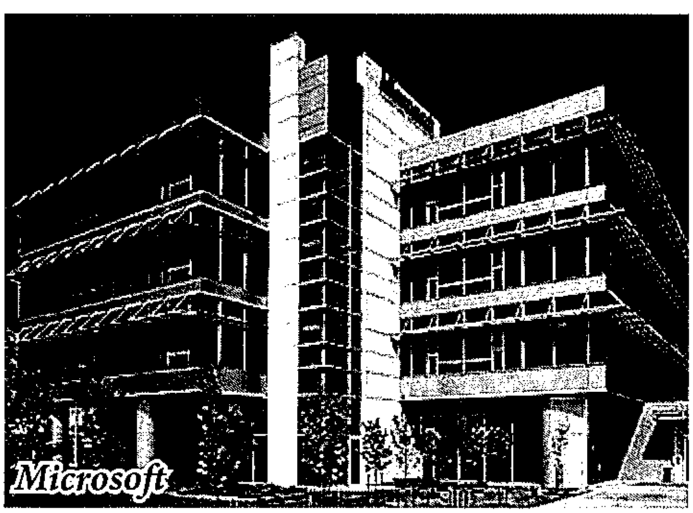
- **Inventory:** 5,927, 946 SF
- **Under Construction:** 375,000 SF
- **Vacancy:** 9.6%
- **Net Absorption:** -15,445 SF (Q1 2012)
- **Cost Structure**
  - **Average Net Rental Rate (per square foot):** $15.72
  - **Average Additional Rent (per square foot):** $12.60
  - **Municipal Development Charges:** $182.214 per square metre of GFA or $17.19 per square foot of GFA
  - **Municipal Property Tax Rate:** 2.2%



Tenancy: Meadowvale is often referred to as Mississauga's "Pill Hill" due to the clustering of over 350 pharmaceutical and biomedical companies. In addition to pharmaceutical companies, prestigious tenants such as Microsoft, Wal-Mart Canada, RBC, Bank of Montreal, and Loblaw call Meadowvale home.

Physical Characteristics: Meadowvale Business Park consists of a number of mid-rise (4-5 storey) multi or single tenancy buildings, some of which date to the early 1970s. Newer Class A office buildings have achieved LEED status, and are using parking ratios of around 3.5 stalls per 1,000 square feet, slightly reduced from 3.9 stalls per 1,000 square feet. Free surface parking is widely available, and underground parking is extremely limited or non-existent.

Additional Notes: The Meadowvale Business Park is located within a short walk or drive to/from amenities such as five hotels, two gyms, restaurants, and retail options.



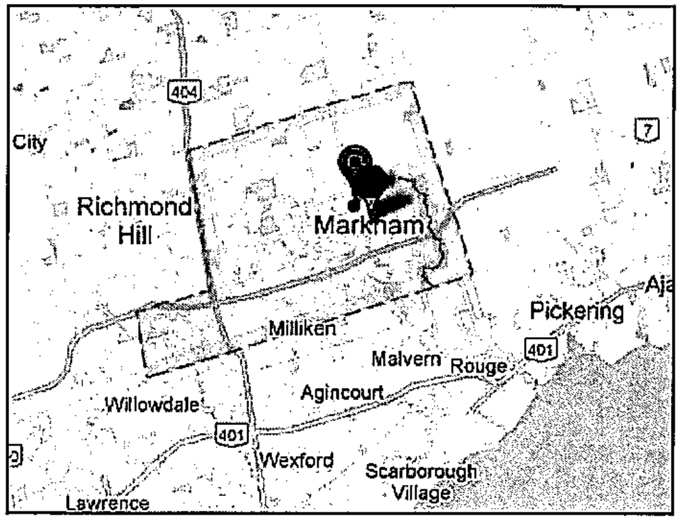
Microsoft

Royal Bank Complex

4) Markham

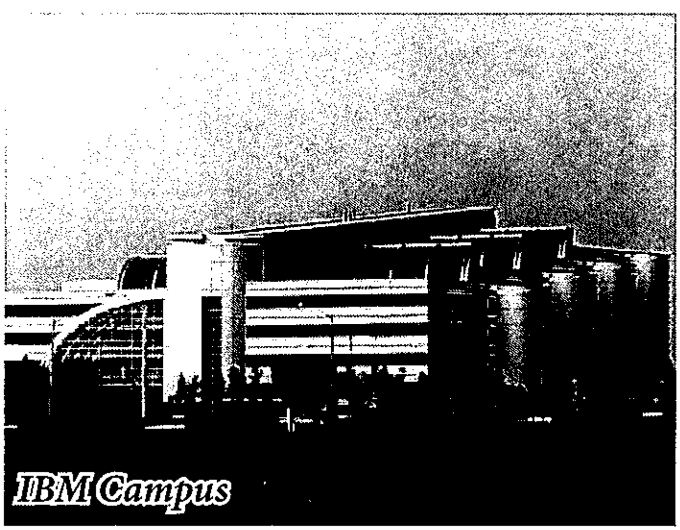
Location and Accessibility: The Town of Markham is located just northeast of Toronto, and is the most competitive office market in the east end of the GTA region. Office development in Markham has not historically clustered into strong office nodes, but rather dispersed along highways and major arterial roads. Most office inventory is in close proximity (10 minutes or less) to a major highway, and public transit options are limited to VIVA and local buses.

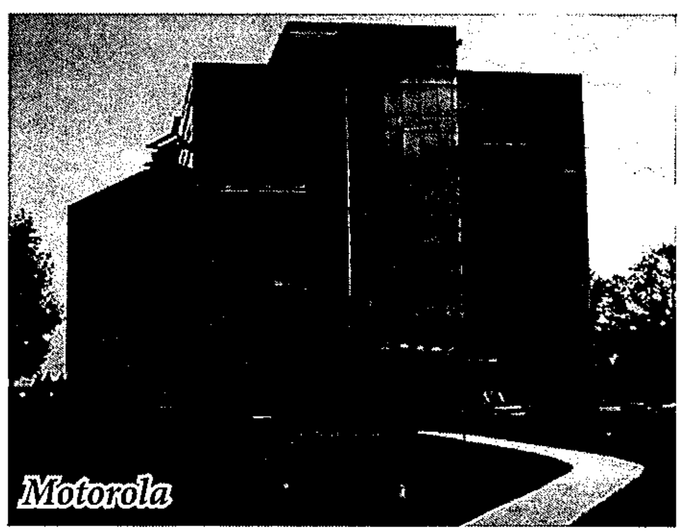
- **Inventory:** 3,583,513 SF
- **Vacancy:** 11.5%
- **Net Absorption:** -83, 297
- **Cost Structure (Existing Stock)**
  - **Average Net Rental Rate (per square foot):** $15.14
  - **Average Additional Rent (per square foot):** $12.16
  - **Municipal Development Charges:** $218.70 per square metre of GFA or $20.44 per square foot of GFA[14]
  - **Municipal Property Tax Rate:** 1.89% [15]



Tenancy: Billed as Canada's "high-tech capital", Markham is home to IBM, American Express, Motorola, Alcatel-Lucent, TD Waterhouse, Hewlitt-Packard, Johnson & Johnson, AMD, and Philips Electronics, among close to 800 other technologically oriented companies. The life sciences industry is the other key business sector in Markham, with approximately 115 companies operating in the town.[16]

Physical Characteristics: The Markham office environment is dominated by low to mid-rise office parks and "campus style" buildings, with a handful of 10+ storey structures abutting Highway 404, north of Highway 401, many of which are home to single tenants. There are several one-story, large floor plate buildings within the municipality. Age of inventory varies from entirely new facilities to buildings that are 20+ years old.



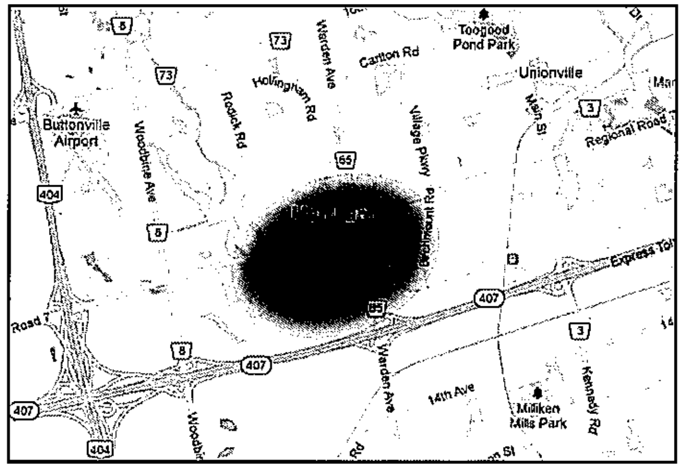


1.30

4.1) Downtown Markham

Location: The Downtown Markham project is a part of the broader Markham Centre precinct, which spans 988 acres. The development is located around the intersection of Highway 7 at Warden Avenue. It will be accessible via Highway 404 or Highway 407, Go Transit bus and train, and a future VIVA train line.

- **Inventory (Targeted):** 3,400,000 SF
- **Cost Structure:**
  - **Municipal Development Charges:** $218.70 per square metre of GFA or $20.44 per square foot of GFA[14]
  - **Municipal Property Tax Rate:** 1.89%



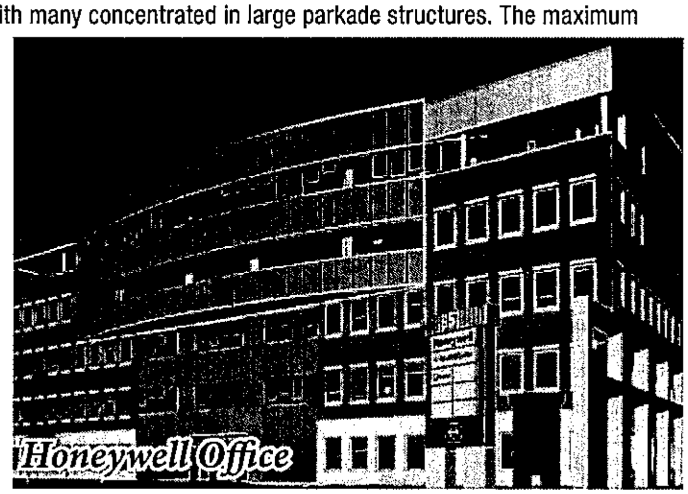
Vision: Downtown Markham is being developed as the largest mixed-use community in the nation, spanning 283 acres. It is intended to be a dynamic urban environment that serves as the financial and experiential core of the municipality. The $3 billion project, being funded, built and financed by Remington Group Inc., is currently under construction and adheres to the principles of sustainable growth and LEED design.

Proposed Program: According to the Remington Group, upon development, Downtown Markham will include 3,900 residential units, 3.4 million square feet of office space, 2 million square feet of retail, and 72 acres of parkland. Additionally, a 20,000-seat sports, events and cultural venue is being considered for the downtown.[17]

Development Status: Downtown Markham is well underway, with both the Motorola and Honeywell national headquarters completed, as well as initial residential offerings underway. The first phase of the retail component of the program also recently broke ground, and will be coming online with two buildings that accommodate 277,180 square feet of retail space, in addition to a 200+ room Boutique Marriott Hotel and VIP Cinema.[18]

Physical Characteristics: The goal is to develop Downtown Markham as a human-scaled, mid to high-rise community, with a high quality of urban design requirements. It is not clear at this preliminary point in the construction process if this goal will be met. At full plan build out, Downtown Markham will be home to the largest cluster of LEED office buildings in North America.[19]

There are currently 5,000 parking spaces planned for the Downtown, with many concentrated in large parkade structures. The maximum commercial parking ratio has been established at 2.5 spaces per 1,000 square feet.



Additional Notes: Stakeholders in the Downtown Markham development have pursued a district energy system, whereby four energy production plants will provide cost effective electricity, heating and cooling to the entire Downtown Markham area. Markham has also been exploring the use of Tax Increment Financing (TIFs) to establish a potential parking authority for Downtown Markham.

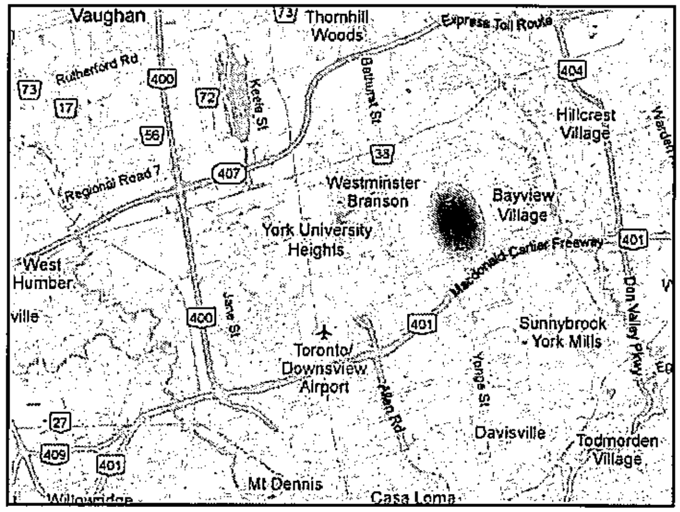
Development in Downtown Markham has been guided by the Markham Centre Performance Measures, created by the Markham Centre Advisory Group in 2002.[20]

1.31

5) North York Centre

Location and accessibility: The North York Centre node, also referred to as "North Yonge", is located along Yonge Street, between Finch Avenue and Sheppard Avenue. The area has direct subway and bus access, and is located directly north of Highway 401. Due in part to congestion from people traveling into Toronto, as well as the urban form of the area, this node is arguably the most difficult in the GTA North to access by automobile.

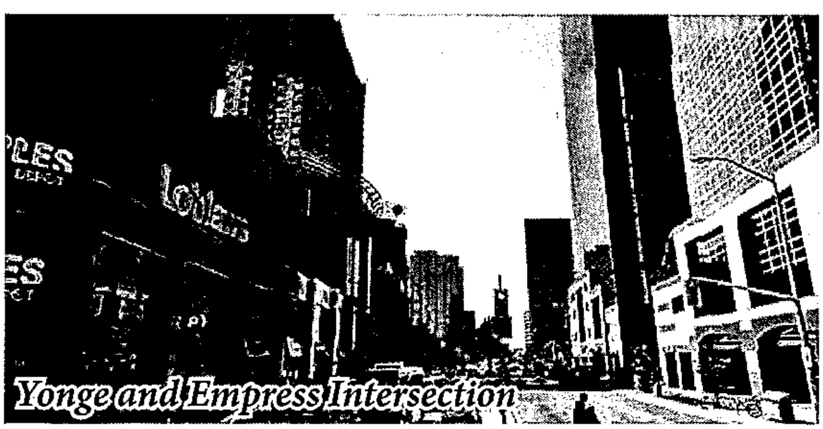
- **Inventory:** 8,494,845 SF
- **Vacancy:** 4.3%
- **Net Absorption:** -70,228 SF
- **Cost Structure:**
  - **Average Net Rental Rate (per square foot):** $17.78
  - **Average Additional Rents (per square foot):** $18.93
  - **Municipal Development Charges:** $107.91 per square metre or $10.18 per square foot of ground floor area only
  - **Municipal Property Tax Rate:** 3.18% (general commercial rate)



Tenancy: Major tenants in the node include the federal government, financial sector businesses, and insurance institutions (such as Scotiabank, Standard Life Assurance, Deloitte, RBC North Toronto). This node reinforces the notion that many bigger office players require "northern" offices, north of Highway 401, for service uses.

Physical Characteristics: The urban office node is comprised of mid to high-rise office towers (up to 24 storeys), many of which were developed between the late 1970s and mid-1990s. Office located within this node is dispersed between large concentrations of residential and retail uses. The parking ratios in the node vary from 1-2 spaces per 1,000 of leasable area. A majority of office parking is located below grade, much of which is paid parking. Some of the office towers have retail or entertainment at grade, however, this retail has been internalized and does not interact with the street.

Additional Notes: North York Centre offers proximity to exceptional lifestyle amenities such as recreation and cultural opportunities, eateries, bars and theatres, as well as civic or public space facilities. The North York Centre is also home to public and institutional uses, such as Mel Lastman Square, the North York City Hall, reference library, several schools, and specialized academies. Despite the clustering of countless amenities and high office and residential densities, the district remains void of street life and animation.



Yonge and Empress Intersection

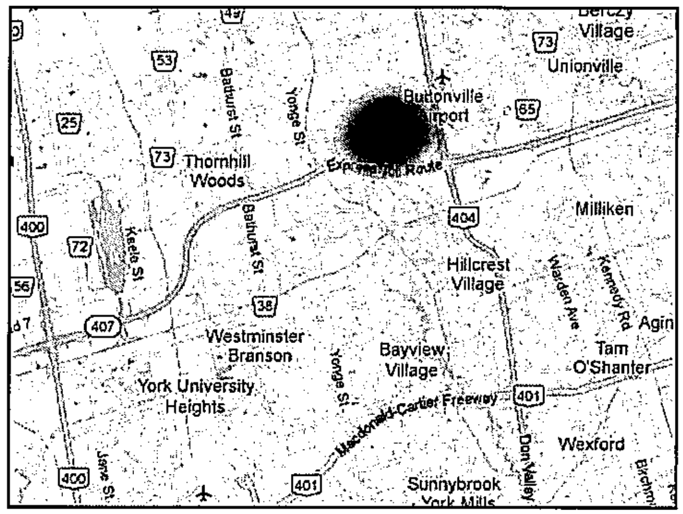

Internalized Retail at 3150 Yonge

1,32

6) Beaver Creek Node, Richmond Hill

Location and Accessibility: Concentrated immediately west of Highway 404 along Highway 7, the Beaver Creek area is comprised of multiple office parks and an entertainment node. It is connected to Downtown Toronto via Highway 404, and is accessible from Highway 7, as well as the Highway 407 toll road. Although VIVA and GO Transit buses both service the corridor, the node is predominantly automobile dependent. The office component straddles municipal borders, with Markham and Richmond Hill on either side of Highway 404.

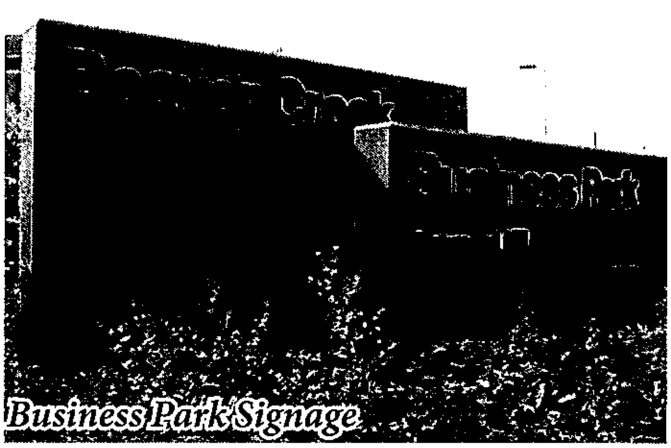
- **Inventory:** 2,840,483 SF
- **Vacancy:** 10.3%
- **Net Absorption:** -68,404 SF
- **Cost Structure:**
  - **Average Net Rental Rate (per square foot):** $15.04 (Richmond Hill avg)
  - **Average Additional Rent (per square foot):** $11.40
  - **Municipal Development Charges:** $198.56 per square metre of GFA or $18.73 per square foot of GFA
  - **Municipal Property Tax Rate:** 2.03% [21]

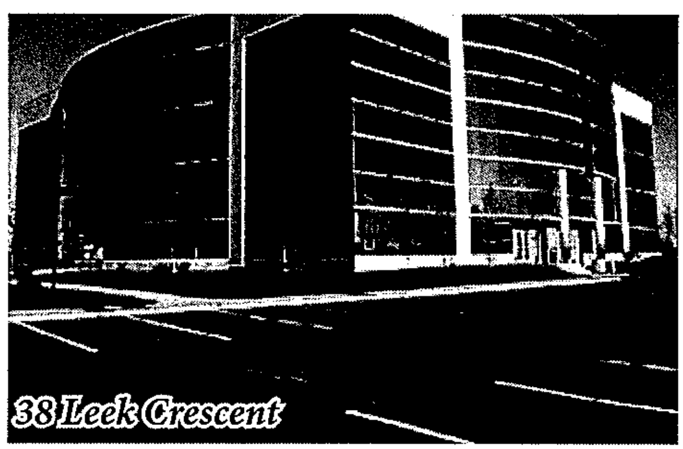


Tenancy: Key tenants in this node include the Town of Richmond Hill, Acklands Grainger, Suzuki Canada, BMW Canada, Siemens Enterprise, Lexis Nexis, and AMD (Advanced Micro Devices), among many other notable professional, technical and scientific tenancies. In total, the three business parks (Beaver Creek, Barker and Headford Business Park) are home to more than 1,500 businesses. [22]

Physical Characteristics: Office space in the node has been developed in traditional suburban, office park style. A majority of buildings within the East Beaver Creek Business Park in particular, are low to mid-rise structures surrounded by large areas of surface parking. Some offices do offer some structured parking in parkades.

Additional Notes: In addition to office uses, the Beaver Creek area has emerged as an entertainment hub for both Richmond Hill and Markham. Full-service restaurants, cafes, bars and/or lounges, and quick food eateries have popped up in the area, but most of these are offered in a big-box or pad-like in format, and do not create a welcoming pedestrian environment.


Business Park Signage

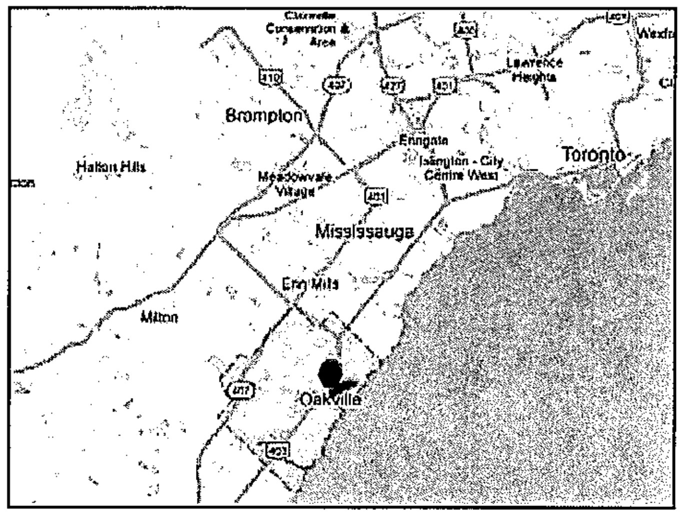

38 Leek Crescent

1.33

7) Oakville

Location and Accessibility: Office development in Oakville has not been concentrated into any one employment area, but spread along the Queen Elizabeth Way ("QEW") across town to maximize visibility. A majority of office areas are easily accessible by automobile and have highway visibility, but have limited or no transit connection. Downtown Oakville has not experienced significant office growth, however, offers a unique mixed-use urban village environment. The non-central location of Oakville in the west end is offset to some degree by the large numbers of high-income executives in Oakville.

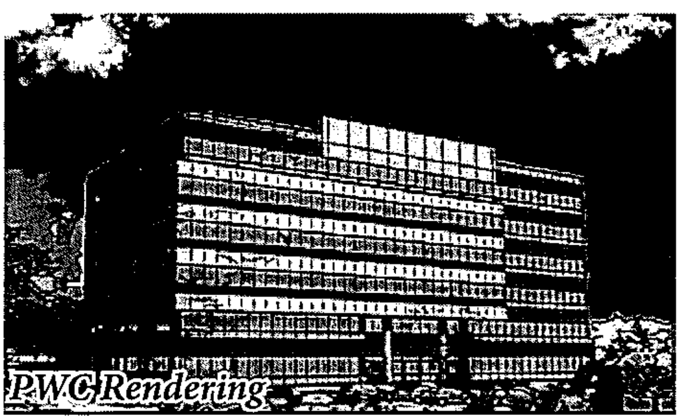
- **Inventory (All Oakville):** 2,915,874 SF
- **Under Construction:** 376,588 SF
- **Vacancy:** 15.8%
- **Net Absorption:** 1,475 SF
- **Cost Structure:**
  - **Average Net Rental Rate (per square foot):** $17.00
  - **Average Additional Rents (per square foot):** $10.11
  - **Municipal Development Charges:** $261.88 per square metre of the total GFA or $24.33 per square foot [23]
  - **Municipal Property Tax Rate:** 2.05 % [24]



Tenancy: Oakville is most notably home to the Ford Motor Company, and a cluster of advanced manufacturing and professional tenants. The town has landed many industry leaders over the years, including Siemens, Goodrich Landing Gear, AMEC, SNC Lavalin, and PricewaterhouseCoopers. The recent attraction of Siemens Canada and Canadian Tire Financial Services reinforces Oakville's position as a compelling office location within the GTA.

Physical Characteristics: Office inventory in Oakville generally dates from the early 1980s to present. It is characterized by predominantly low-rise, low-density, surface-parked office "campuses". Much of the newer office stock, such as the Great Lakes Business Park and Joshua Corporate Centre, is being constructed in low-rise, large floor plate (30,000 square feet+) format. Siemens Canada and PricewaterhouseCoopers are moving into 5-6 storey, 110,000-150,000 square foot office buildings with highway visibility along the QEW.

Additional Notes: The approximately 325,00 square feet of office development in 2011 is anticipated to add 2,200 jobs to the Town of Oakville. [25]


PWC Rendering

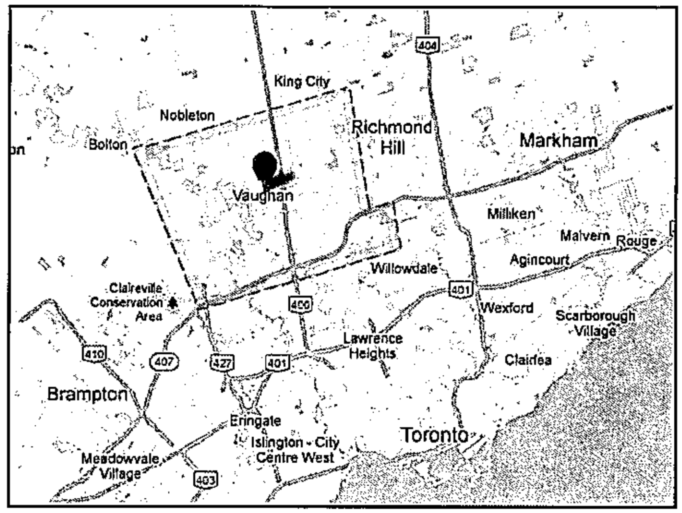

Canadian Tire Financial

1.34

Vaughan Sub-Market Overview

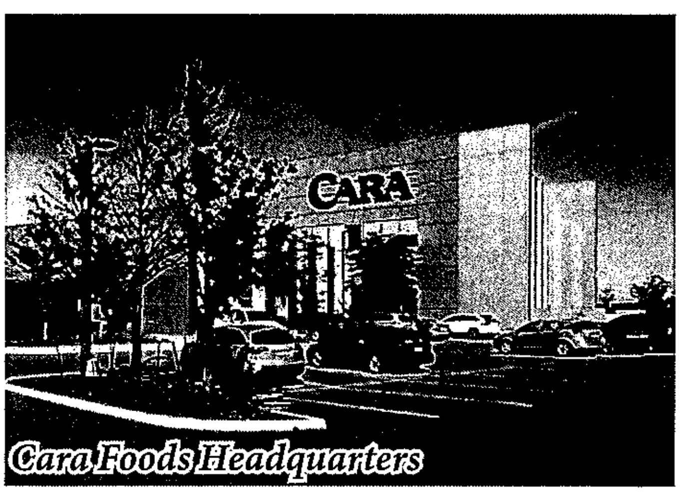
Location and Accessibility: Centrally located within the GTA, just 20 km north of Downtown Toronto and 15 km from Pearson International Airport. Vaughan is well serviced by provincial highways (400 and 407), as well as strong east-west and north-south corridor connections. With the development of the TTC Subway, Vaughan will arguably be the best-connected municipality in the GTA outside of Toronto. The City will be serviced by GO Transit (bus and train), York Region Transit/ VIVA and Zum, in addition to the TTC (bus routes and subway).

- **Existing Inventory (COV):** 2,156,434 SF
- **Under Construction (COV):** 42,496 SF
- **Vacancy (COV):** 10.1%,
- **Net absorption (COV):** -14,531 (Q1 2012)
- **Cost Structure (COV):**
  - **Average Net Rental Rate (per square foot):** $16.29
  - **Average Additional Rents (per square foot):** $11.40
  - **Municipal Development Charges:** $232.68 per square metre of GFA, or $21.95 [26]
  - **Municipal Property Tax Rate:** 2.03% [27]

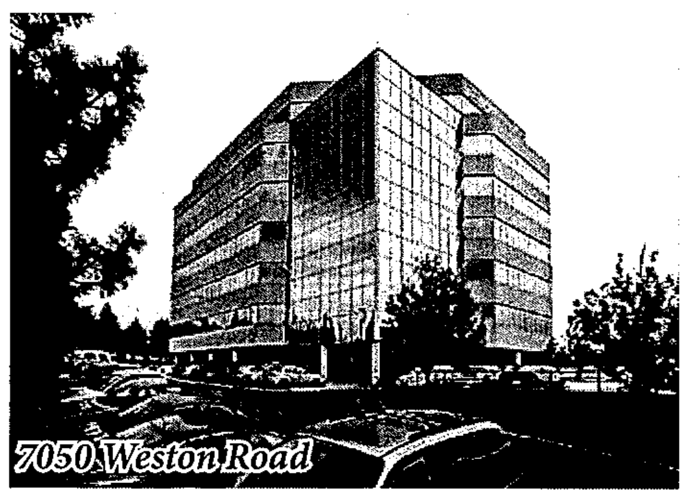


Tenancy: The City has historically been a hub for manufacturing uses, but is also home to a number of corporate offices, such as Deloitte, Cara Operations, Bausch & Lomb, and Adidas Solomon.

Physical Characteristics: Offices in COV have been primarily suburban in nature, offering surface parked buildings within a fragmented urban form. This built form, however, has kept the cost structure lower for office tenants. Class A office users are clustered predominantly along the highways, with some located along major arterials. It was noted by a commercial broker that as is the case across the GTA, there remains very little high-quality developable land to purchase within Vaughan.



Cara Foods Headquarters


7050 Weston Road

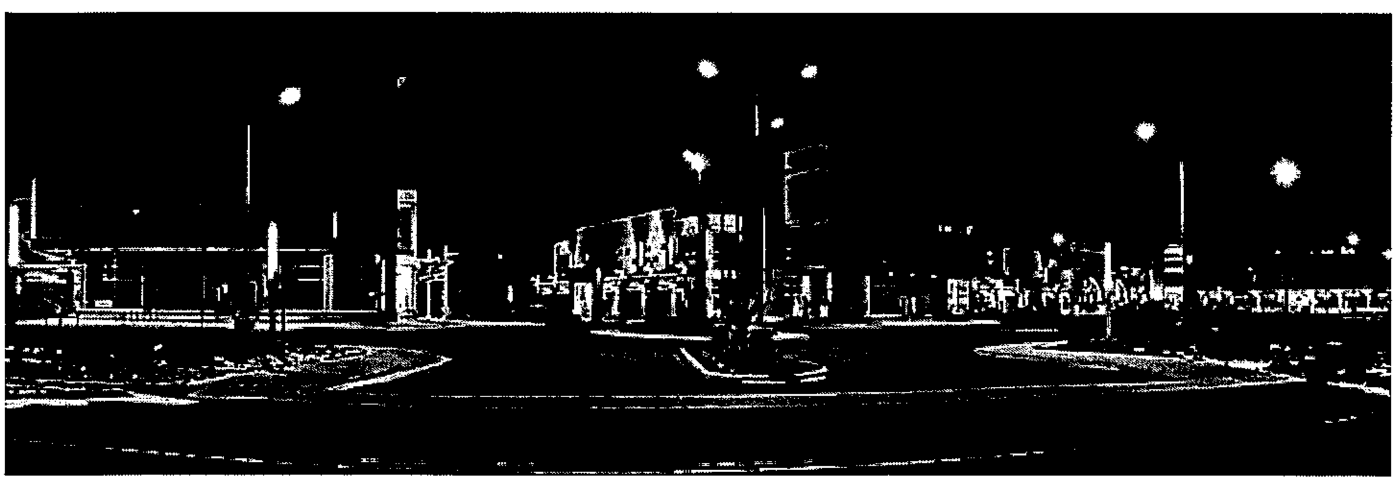
Determining the True Competitive Set

This section provides a summary analysis of the competitive set takeaways, as established through the sub-market profiles. Based on the factors outlined, the 905 sub-markets were evaluated against the VMC to determine the true primary competitive set:

Airport Corporate Centre: The Airport Corporate Centre remains one of the GTA's most prestigious business parks, attracting many premier office tenants. Although the low-density, automobile oriented employment area will not offer tenants the same integrated vision or urban fabric as the VMC, it provides ample parking and an increasing number of on-site amenities. Newer developments with major restaurant and retail components will especially be vying for top tier tenants. Hybrid buses running from some of the offices to Kipling Station will enhance subway accessibility, although the area will remain predominantly suburban in nature. Despite the different office products offered by the Airport Corporate Centre, its cost structure, quick approvals process in Mississauga, and accessibility is one of the primary reasons it will compete with the VMC for quality office users.

Downtown Markham: Downtown Markham presents arguably the most significant competition to the VMC. It has been envisioned as the mixed-use satellite city centre, and is gaining momentum, as it is further advanced in the development process and much more top of mind for office users. However, the lack of subway access and the initial implementation of campus style, single or multi-use office presents a disconnect between vision and implementation. Nonetheless, it is the "first to market" of the 905 downtown areas, and the Town has taken an innovative approach to development and cost sharing through a District Energy System and reduced development charges for mixed-use buildings.

North York Centre: The North York Centre is competitive in that it offers subway access and urbanity, and will likely have a similar cost structure to underground parked office space in the VMC. With a Toronto address and development charges applied only the ground floor area, this node has substantional appeal for some potential tenants and developers. However, congestion, limited development opportunities, and difficulty of access make this location less attractive for those looking to situate or consolidate services outside of Downtown Toronto. Further, although many of the buildings are mixed-use, they have been designed in a way that does ultimately result in a pedestrian-activated, mixed-use environment.



1.36

Secondary Competitive Set

Mississauga City Centre: The Mississauga City Centre is relevant to the VMC in that it is an example of a relatively dense central core outside of Downtown Toronto that is attempting to implement a true downtown through the Downtown21 process. This area, however, lacks an infrastructure framework to fund parking and infrastructure, resulting in little recent office development. Furthermore, while the master plan puts forward a vision for a mixed-use downtown, the existing conditions offer restaurants and commercial offerings in a scattered and unwalkable format or within an enclosed mall setting.

Meadowvale Business Park: Meadowvale provides an interesting example of clustering in an established business park setting, however, it is not directly competitive to the VMC. The park may include some tenants that would be ideal for the VMC, but offers a fundamentally different product in that it is (and will remain) highly suburban, low-density, and single-use, with a substantially lower cost structure. Meadowvale is also significantly less central than the VMC.

Markham: Markham does not, in general, present a major competitor to VMC, as it offers predominantly large, campus-style highway or arterial development. Moreover, tenants looking for an urban, mixed-use environment are more likely to locate within Downtown Markham rather than other areas across town.

Beaver Creek: The Beaver Creek area warrants consideration, however, on its own it does not seem to be directly competitive with the VMC. Since it located in such close proximity to Markham, however, these nodes together could increase the perception of the east end as a dominant office hub. The area offers a big-box, single-use product, a variety of dining options in addition to office space, significantly cheaper cost structure, and appears to have slowed in momentum.

Oakville: The Town of Oakville has managed to secure some prominent office tenants over the past 24 months, but remains a smaller office player within the GTA. The product offered is traditional single-use, automobile-oriented, suburban office space, with some higher quality Class A surface-parked buildings. Its highway visibility, educated workforce, and low-cost office space inventory are among key selling features for tenants, but the area is considered to be too far west for many. As such, Oakville is not a direct competitor to the VMC.

It should be noted that there are additional future developments, such as the Buttonville project being developed by the Cadillac Fairview Corporation, that include sizeable office components and may emerge as competitors in the near future. The mixed-use Buttonville project alone is expected to add 2.8 million square feet of office, adding to the Richmond Hill/Markham 404 cluster. Given the growing competitive market, the competitive market analysis should be regularly updated through the development of the VMC.

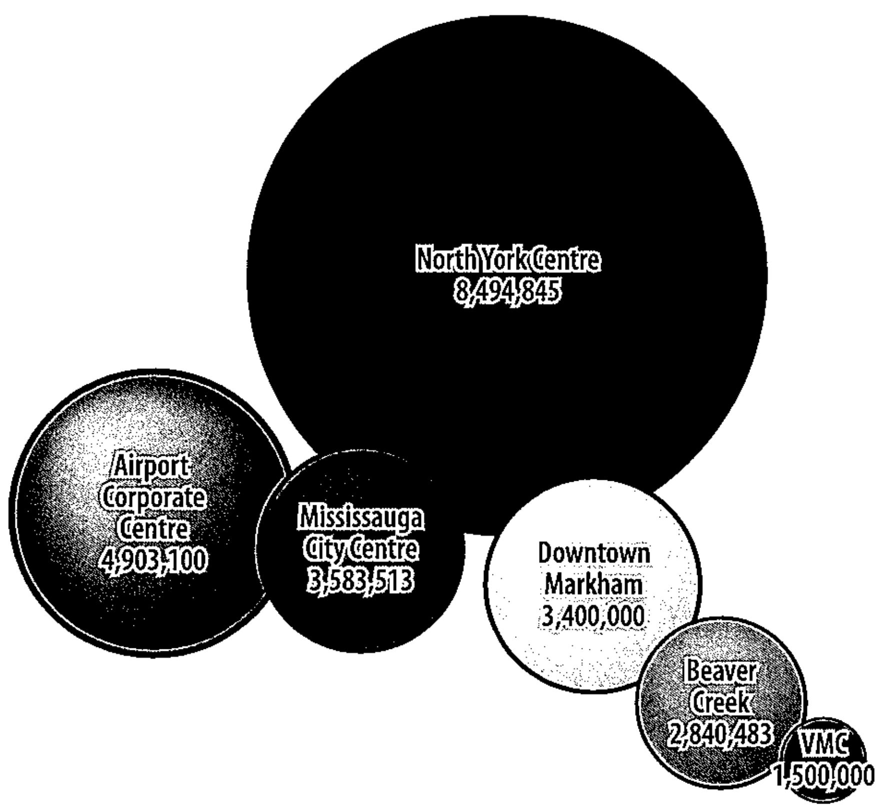
1 , 37

Reconsidering Critical Mass

A target of 1.5 million square feet of office space has been put forth for the VMC in both provincial and municipal plans. As plans and the vision for the VMC continue to evolve, it will be necessary to reexamine and reevaluate this target, particularly in light of the following:

- Given the density requirements for the VMC, 1.5 million square feet could be easily distributed amongst five office buildings of 300,000 square feet. This scale of office development (5 buildings) may not align with stakeholder expectations and ambitions for the VMC
- Although there is no predetermined square footage required to create an office cluster, the analysis of competitive office nodes within the GTA reveals, in most cases, a larger inventory of space within competing nodes
- Analysis of relevant TOD examples (see Appendix D: TOD Case Studies) also suggest that a larger critical mass of inventory may be required within the VMC
- Current residential momentum and suggested retail plans indicate that there is a threat that the office character of the area may be diluted or crowded out by retail and residential development, thereby reducing the ability to attract additional office tenants
- Successful realization of the VMC vision could create a very strong office node with the ability to attract additional office development beyond the 1.5 million square feet

Figure 4: Office Inventory (SF) in 905 Sub-Market Nodes



1.38

Evaluating VMC Office Potential: Interview Takeaways

In addition to providing insights into the competitive commercial market, brokers and landowners interviewed brought up the following important points of reference during the interview process:

- It was noted by all interviewees that while the subway presents a unique advantage to the COV in attracting office tenants, higher-order transit is a necessary, but not sufficient, catalyst to urban format office development.
- The COV should consider the dynamic between competing land uses within the VMC, particular with respect to land use within walking distance (typically less than 500 metres) of the subway station.
- Phasing and direct connections to the transit station must be carefully considered for any prospective office tenants, as the VMC will be under construction for the next 10-15 years.
- Parking presents the biggest challenge for landowners. Parking requirements will have an enormous impact on office rents, and landowners are not convinced that these rent expectations are reasonable in a market outside of Toronto.
- The first class office tenants that must be attracted to the VMC will be looking for office product that meets sustainability requirements based on LEED standards, and will exceed the quality of all existing office stock within the COV.
- Potential tenants for the VMC will likely include: banks, law and accounting firms, insurance companies, communications firms, advertisement agencies, high-tech tenants, and retailer head offices. Corporations can also leverage COV's central location when consolidating offices from across the GTA. There is potential for some creative and/or cultural users, however, these tenants may not be able to support rents that will be required for office space within the VMC.
- While zoning allows for 30-40 storey buildings, it is likely that landowners will risk taking on a maximum of 15-storey buildings to mitigate risk associated with taller towers. A 15-storey building would still require well over 150,000 square feet of pre-leasing to reach the threshold required for project financing. Due to the risk-averse nature of investors, spec buildings will generally have at least one anchor tenant in place, at least 60% of pre-leasing completed, and will not be larger than 200,000 square feet in size. [28]
- Managing perceptions and educating the public is key to advancing the development. People have certain perceptions of the existing COV office market, and there is very little known about the future VMC.
- Prospective tenants generally require their premises to be ready within 2 years of lease signing. Certainty regarding the project schedule is, in turn, contingent on clarity regarding infrastructure, approvals and other development plans within the VMC.
- The notion of public investment, and locating of public facilities within the VMC, was raised on several occasions. The strategy of locating public facilities in the downtown to kick-start development is one that has been utilized by a number of transit-oriented developments (see *Appendix D: TOD Case Studies*).
- Infrastructure considerations for the VMC include the benefits and challenges of public vs. private parkland in the development. While there can be a number of positive advantages of privatizing new park space, there are also management and operational issues that should be more closely examined in short order.

Office Development Opportunity

The research process utilized to develop this report has established that the VMC will have several advantages and opportunities that position the area as an attractive location for office development. Of the opportunities that were identified, the following were established as the primary opportunity drivers for the VMC:

- **Geographic location**
  The central geographic location of COV and the VMC within the GTA presents best-in-class accessibility and business-functionality for prospective tenants. Tenants looking to locate their services north of Highway 401 have little choice but to consider VMC, due to its position directly north of the City of Toronto. Additionally, tenants seeking to consolidate their operations from disparate locations (in the east and west) across the 905 will be attracted to the centrality of the VMC, which will minimize employee attrition resulting from the office relocation. This prime geographic location, couple with the accessibility factor of two major highways and a subway connection, are among the key differentiators and opportunities for the VMC to leverage.

- **Create a downtown for COV**
  There is wide consensus within the brokerage and development communities that a diversity of retail and dining opportunities in a walkable environment will create a strong amenity for prospective office tenancy. Although competing office nodes profess to achieve these objectives, none have created a compelling suite of commercial offerings and overall pedestrian experience to date. The VMC can truly differentiate its office offering by creating a vibrant urban environment, with the ancillary benefit of creating a beloved destination and gathering place for the broader community and the City of Vaughan.

- **Develop a dense, differentiated office offering within the downtown**
  Tenants are attracted to high-profile office clusters with a critical mass of prestigious tenants. Co-tenancy creates a business community and brand-enhancement for prospective tenants. Creating a denser, differentiated urban office product than what has traditionally been offered in the COV office market will better position the VMC to reach the critical mass of inventory that will help to drive future office absorption.

- **Create economic value**
  The higher densities associated with urbanized office development also drive improved fiscal performance for the COV. Development charge revenues and tax assessment per acre are significantly higher than lower density suburban development formats due to higher density ratios. Additionally, compact form promotes infrastructure cost sharing, and TODs are believed to reduce long-term operating expenses as compared to suburban format office development. Further, by providing an urban alternative to COV's existing suburban office development inventory (land and existing buildings), the VMC will allow COV to capture office space and economic activity that would otherwise accrue to other municipalities in the proximate region.

- **Build a case for transit-oriented development in the Greater Toronto Area**
  The expansion of the subway into the VMC presents the opportunity to showcase the downtown as one of the few true TODs outside of downtown Toronto. By testing this suburban transit model, VMC has the opportunity to meet and/or exceed transit ridership targets, reduce car dependency, and promote a healthier, pedestrian-oriented lifestyle than in sprawled neighbourhoods. The compact urban form is also believed to reduce municipal costs due to shared infrastructure benefits from the densification of the site. An analysis of relevant TODs was completed for the VMC, and can be found in *Appendix D: TOD Case Studies* for relevant examples of TODs in Canada and the United States.

I. 40

Key Challenges

Although there are many advantages and opportunities offered by the VMC, the City and stakeholders will also face challenges in attempting to urbanize the new downtown core.

- **Existing conditions**
  In its current condition, VMC has a highly fragmented urban fabric and built form that may be challenging to reconcile with the proposed plans for the site. In addition, the area has little or no market recognition as an office node. A Secondary Plan for the site is in the process of being refined, but landowners have stated that there are items in the VMC plans that require meaningful discussion to fully implement the vision. The nature and location of some existing uses, as well as the existing water table conditions are among the top challenges associated with developing the plan in its current form. Further, excessive truck traffic that utilizes Highway 7 as a major arterial can significantly hinder the VMC experience if not factored into the design and planning and mitigated where possible.

- **Infrastructure**
  Infrastructure issues raised by City staff and landowners primarily focused on the need to expedite infrastructure progress, clarify policy, and achieve agreement between the stakeholders on shared infrastructure within the VMC. There is some concern that a delay in infrastructure delivery highlights the lack of understanding on current positive market conditions, and the idea that these can change quickly. Delays in delivery can, in turn, negatively impact leasing momentum and the market viability of the project in the event of an economic downturn.

- **Regulatory framework**
  From a planning and approvals perspective, both landowners and City staff have faced some difficulties due to highly prescriptive policies and complex regulatory processes currently in place. Landowners often have to submit multiple applications for approval based on COV plans, increasing the amount of time required for each application to receive approval. City staff then faces the challenging task of weighing the realities of the applications with prescriptive policies. This regulatory framework can be an impediment to advancing development, and should be reviewed in full consideration of the development and placemaking implications of policy requirements.

- **Differing business models**
  Creating a vibrant and dynamic mixed-use centre requires business processes, approaches and expertise most frequently employed in high-density, urban development contexts. Where VMC landowners and developers have a more fully developed skill set in more suburban modes of development, additional strategies will be required to reconcile the different approaches, time frame of business models, and methodologies of urban development with their standardized business practices.

- **Market dynamics**
  The office market dynamic at play in the VMC is perhaps the most central of all items identified, and forms a central focus of this report. Due largely to underground parking requirements, site development costs, and municipal/regional development charges, future office deals within the VMC will be subject to a significantly higher cost structure than office space being offered within competitive '905' sub-market areas. It is estimated that future office deals (including LEED Gold+ rating, additional VMC DCs, and underground parking) could require gross rents of approximately $50 per square foot, which is similar to existing rents in areas of Midtown, and even Downtown Toronto. Understanding the VMC competitive offering in the context of this cost structure is critical to the emergence of the VMC as a major office node within the GTA.

1.41

Office Economics

Cost Structure

The VMC will primarily compete for prospective tenants with new-build and existing Class A office space in the 905 areas identified. Where tenants are seeking new build, LEED Gold is considered the minimum design requirement. Discussions with brokers and developers suggest base rents in the range of $25 per foot and gross rents in the high $30s per foot or higher will be required to support Class A, surface parked, LEED Gold construction. Existing Class A space is available in competing developments within the Airport Corporate Centre and Vaughan in the $18-22 per foot base range. The urban development format proposed for the VMC, with structured or underground parking, taller buildings, and high-quality urban amenities, will necessitate significantly higher rents. Interviews with market participants suggests base rents in the high $30s or more and gross rents in the high $40s or more will be required to profitably develop the office space envisioned for the VMC.

Required VMC Class A Rents

The required rental premiums to support office development in an urban format are driven by the increased cost structure of the proposed VMC vision, primarily:

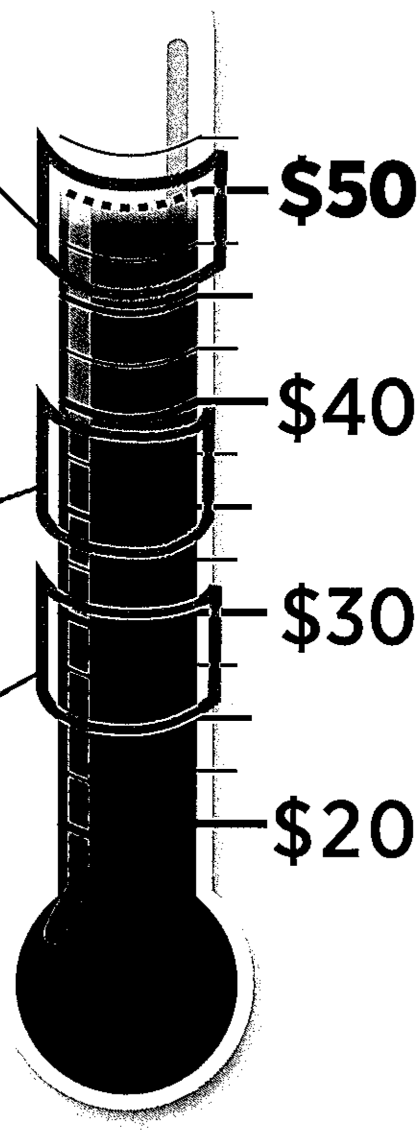
- ❑ Costs associated with structured parking
- ❑ Increased construction and financing costs associated with taller buildings
- ❑ Increased construction costs related to water table and other site conditions
- ❑ Development charges and soft costs

New-Build LEED Gold+ Rents

Gross rental rates required to support new construction of LEED Gold or higher, Class A office in a suburban format (i.e. largely surface-parked, lower building heights).

Existing 905 Class A Rents

Gross rental rates per square foot for Class A in the '905' region, ranging between $27.60 (GTA East) and $31.93 (GTA North).



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

Note: Diagram is based on gross rent figures

1.42

Solving the Office Development Equation

There are several strategies available to facilitate and accelerate office development within the VMC. Broadly speaking, these strategies either lower the cost of office development, thereby lowering the required rents, or increase the real or perceived value of locating within the VMC, thereby increasing tenants' willingness to pay higher rents. Employing both strategies will bridge the gap between the VMC rental rates and rates in competing existing and future office buildings

Cost Mitigation Strategies

Reduced parking requirements

- Lowering the quantity of parking required for the VMC will significantly reduce the overall infrastructure costs associated with office development and the required base rents to achieve viable development
- Tenant acceptance of lower parking ratios is critical.
- Establishing a quantitative baseline for modal split at the VMC and other TTC-connected office developments will promote acceptance of lower ratios.

Example: The required parking ratio in the North Yonge corridor ranges from 1-2 spots per 1,000 square feet of leasable area

Infrastructure frameworks and partnerships

- Mixed-use cores create savings through shared infrastructure. Parking and public space built to serve one use at one time of day can serve other uses during other periods, provided the governance structure allows shared parking
- Identifying the appropriate partnerships and infrastructure funding regime can also reduce the up-front infrastructure costs to office developers

Example: The City of Brampton and the Region of Peel added an underground municipal parking garage to an affordable housing project developed in the downtown. Downtown Markham is using district energy to reduce on-going operating costs in the downtown area

Development charges and incentives

- The development cost structure can be directly reduced by decreasing development charges for desired uses or by providing Tax-Increment-Financing or similar tools. Provisions for the administration of these tools through Community Improvement Plans (CIPs) is in place in Ontario. These tools have been most widely used in the context of brownfield redevelopment projects.

Example: The City of Toronto, in a bid to promote non-residential development, applies Development Charges to only the ground floor of non-residential uses. Markham is contemplating the use of TIF to establish a municipal parking authority.

Increasing the Value of the VMC

Achieving higher rents through superior product and value offering

- The quality of the commercial amenities, and the connections to them from office buildings, will impact the perceived value of locating with the VMC and the achievable rents. Creating a vibrant and walkable mixed-use environment will increase the amenity provided to office tenants.
- Proximity to the subway station will impact the perceived amenity of the transit connection and the level of achievable rents. Preservation of lands in the immediate area surrounding the transit station will promote higher office rents.

Achieving higher rents through clear, compelling marketing

- Strong economic development efforts can establish the brand awareness and perceptions of the VMC, convey municipal support for the VMC and its initiatives, and help target prospective tenants to locate in the area. These outcomes will help drive demand to locate within the VMC and the levels of achievable rents
- A clear, compelling and plausible narrative regarding the evolution of the VMC will help bridge the ambitious vision with the existing conditions prospective office tenants will encounter today
- A clear, compelling and plausible narrative regarding the initial phase of development within the VMC is important to attracting office tenants. Creating tangible progress towards the realization of this vision (e.g. committed funding, agreements in place) will help dissuade skepticism and drive demand

I-44

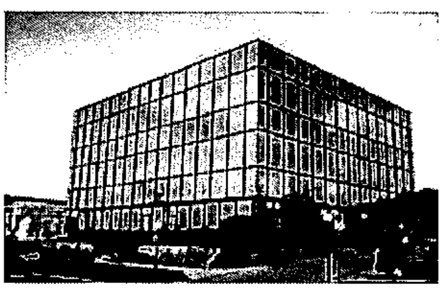
Fiscal Impact

Urbanization of the VMC will create positive financial impacts for the COV and York Region. Although a wide body of literature exists on the positive long-term impacts of intensification (including lower infrastructure life-cycle costs, improved health outcomes, and lower vehicle kilometres travelled) this analysis will focus exclusively on the revenue implications for the COV and York Region. Please note, the figures provided herein are intended to demonstrate order-of-magnitude differentials in revenue. Significant variance from these figures can be expected in both actual development and the simulation of development scenarios. This analysis is also not intended as a holistic cost-benefit analysis, and merely presents the revenue potential associated with different office formats and configurations.

Scenario A

Existing, class A office space in the COV. Surface parked, low density Class A space.

Parking	Surface
Floor-Area-Ratio	0.5
Gross Sq Ft Per Acre	21,780
Assessed Value Per Sq Ft Above-Grade	$190



Revenue Per Acre	
Vaughan DCs	40,000
Vaugan 20-yr Taxes	244,000
Vaughan Revenue	284,000
Vaughan Revenue Factor	NA
York and Ed DCs	431,000
York & Ed 20-Yr Taxes	1,435,000
York & Ed Revenue	1,866,000
York & Ed Revenue Factor	NA

Scenario B

Higher density, new construction Class A office space with a mix of surface and structured parking

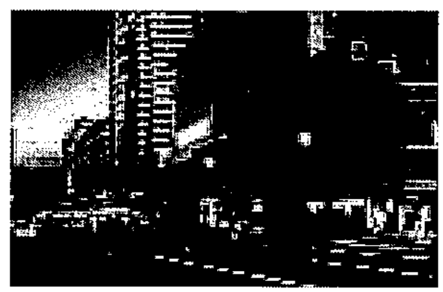
Parking	Hybrid
Floor-Area-Ratio	2
Gross Sq Ft Per Acre	87,120
Assessed Value Per Sq Ft Above-Grade	$285

Revenue Per Acre	
Vaughan DCs	162,000
Vaugan 20-yr Taxes	1,461,000
Vaughan Revenue	1,623,000
Vaughan Revenue Factor	6
York and Ed DCs	1,723,000
York & Ed 20-Yr Taxes	8,610,000
York & Ed Revenue	10,333,000
York & Ed Revenue Factor	6

Scenario C

High density Class A urban office development with underground parking.

Parking	Underground
Floor-Area-Ratio	6
Gross Sq Ft Per Acre	261,360
Assessed Value Per Sq Ft Above-Grade	$300



Revenue Per Acre	
Vaughan DCs	485,000
Vaugan 20-yr Taxes	4,615,000
Vaughan Revenue	5,100,000
Vaughan Revenue Factor	18
York and Ed DCs	5,169,000
York & Ed 20-Yr Taxes	27,190,000
York & Ed Revenue	32,359,000
York & Ed Revenue Factor	17

Source: City of Vaughan and York Region June 2012 Development Charges and 2011 Property Tax Rates
Note: Figures do not include any special area charges

[. 45

Although, as established, the analysis presented is both rudimentary and preliminary, there are several implications for the VMC which should be considered as infrastructure investment is implemented.

Public Benefit

In the scenarios analyzed, urbanized development produced tax and Development Charge revenue per acre fourteen times greater than existing suburban development. This demonstrates the potential to increase short and long-term revenue for both the COV and the Region.

Revenue Realization

Development charges are paid by the developers up front and are earmarked for specific investments into infrastructure. The stream of property tax payments are largely a pass-through expense born by the office tenants and take place over time. Property tax payments, as part of general revenues, have fewer constraints on how they are spent. Both the timing, and the particulars Development Charges and property taxes have implications for the City of Vaughan, the developers, and the tenants within the VMC.

Regional and Provincial Partnerships

The revenue potential for the VMC is greater for the Region of York than it is for the COV. Given the stakes for the upper-tier government, and the significant investments by the Region and the province into the subway connection, close collaboration should be pursued throughout the planning and development of the VMC.

Investment Flexibility

Although the analysis has focused on the Development Charge and property tax revenue potential, no specific investment vehicle is implied by this analysis. Municipalities have employed a diversity of tactics to shape and incent development, any of which may or may not be appropriate for the VMC. A few of these options are addressed on page 36 of this document.

The "But For" Test

Underlying the philosophy of tax increment financing is the "but for" test. This indicates that TIF is a mechanism that should only be employed to fund development that will generate tax revenue that would not occur but for the investment being made. This basic philosophy should be considered throughout all discussions around infrastructure investment.

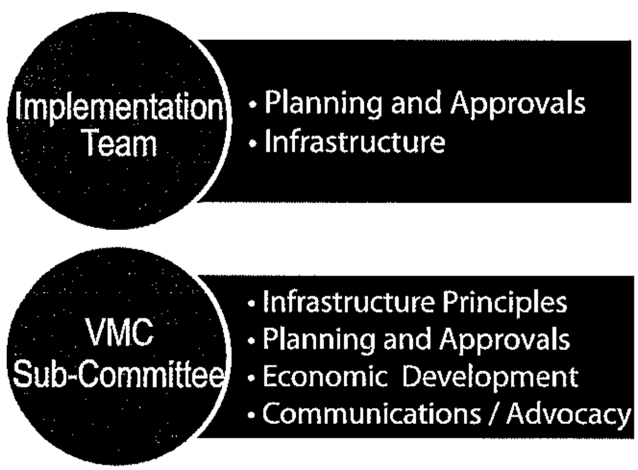
1.A6

Strategic Approach

As the analysis of office market potential suggests, there are several hurdles towards achieving value maximization in the implementation of the VMC. The subway, while an unequivocally strong value-added amenity for prospective office users, must be considered in the context of the significant rent premium that will be required in the VMC in relation to other 905 Class A office space.

The development of a downtown, especially one in which there are numerous landowners, is a complex process that presents several opportunities and challenges, and extends beyond single disciplines. As a result, the approach to the VMC must be a highly collaborative and comprehensive one. Measures have been taken by COV to facilitate the implementation process, particularly with the formation of the VMC Sub-Committee and VMC Implementation Team. As the development of the VMC progresses over the coming months, there may be additional areas for these groups to focus on, in order to fully realize the potential for the VMC.

Figure 5: Outlined Scope of VMC-Specific Groups



The VMC Sub-Committee's mandate covers key priority areas, from planning policies and economic development strategies, to infrastructure principles and approvals. The Sub-Committee's role is advisory, and the team is able to provide high-level strategic direction to COV staff on various aspects of the development.

The VMC Implementation Team's focus, on the other hand, is more concentrated on parking and transportation issues, streetscape and open space, and cultural facilities. The Implementation Team meets on a monthly (or as-required) basis, and reports regularly to the VMC Sub-Committee and COV senior staff. One of the strengths of this team is the interdisciplinary expertise, and presence of both senior staff as well as regional representatives, to tackle vital issues that the region could help work through, such as development charges and parking challenges.

To maximize the impact of these groups, the following should be considered in the VMC strategy moving forward:

- **Collaborating Extensively with Landowners**
  The complexities of building a downtown require full alignment on vision, strategy and tactics from internal COV staff and leadership, as well as external stakeholders. The COV will be able to guide the development of the VMC but, given limited direct control due to land ownership, will need to work with the landowners to achieve buy-in from those who will be directly implementing the vision. Feedback from COV staff and VMC landowners indicates broad support for increased collaboration and communication as part of this process.

- **Creating a Consensus-Based Plan**
  Several landowners the within the VMC are in the process of creating plans for their sites, or will be commencing the planning process in the near future. These planning exercises are occurring in parallel, with some level of collaboration taking place between a handful of landowners. Notwithstanding the importance of creating site-specific plans, it is necessary to have all landowners come together to produce the overall master plan for the VMC that addresses the externalities and adjacencies of each site's development. A consensus-based plan will result in greater integration of uses and a more achievable plan based on landowner realities and City expertise.

- **Establishing a New Approach to Downtown Development**
  If the VMC is to become the downtown for Vaughan, it must be approached differently than other developments within the City from an economic development perspective. As a determining factor of VMC success, the attraction of office tenants must continue to be top of mind for COV staff and leadership. The VMC must be marketed and addressed as a whole and economic development must have resources and tools to focus on the VMC, promoting the downtown and targeting all appropriate tenants.

  Accordingly, exploring alternate economic developments models could contribute to the success of the downtown. There are several models for economic development that can be explored to augment the business attraction process for VMC. Stakeholder-funded models were not studied in great detail, primarily because these groups typically focus much of their energy on raising the necessary funds to cover their operations, diverting them from the achievement of their core mission.

Table 4: Economic Development Models[29]

	In-House Model	Arm's Length Model
Description	The economic development obligations and functions are established within the local government.	An economic development entity that is funded (in whole, or in part), by local government. Can function as a non-profit or private corporation.
Examples	Majority of economic development departments across the province: Vaughan, Mississauga, Markham, Richmond Hill, Oakville	Invest Toronto, Invest Ottawa, Economic Development Winnipeg, Enterprise Greater Moncton
Advantages	• Greater accountability to residents and government • General support of municipal staff and leadership • Increased responsiveness to issues and greater coordination due to connectedness to other municipal departments	• Additional resources to commit to attracting tenants • Ability to focus on one area without conflict of interest with larger economic development mandate • Greater flexibility and control over spending • Power to execute mandate with limited influence from government staff or leadership • Can seek input and expertise from public/private Board of Directors • Better positioned to leverage multiple funding sources
Disadvantages	• Tension between City-wide economic development mandate and need to focus and innovate within the VMC • Difference in value proposition between VMC and broader COV requires different messaging and marketing approach • Less flexible due to bureaucratic process and accountability factor (subject to Freedom of Information Requests) • Viewed as regulatory body, rather than pro-business entity and physically disconnected from the business community • May be influenced by government staff and leadership	• Less accountable to constituents and COV • Physically disconnected from local government, therefore likely less influence over policies and decisions • Institutional priorities can displace pursuit of core economic development mission

There are benefits to each model, however, in the discussion of an in-house vs. arms-length model, there must be serious consideration given to the level of autonomy and operations of an arms-length model. An alternate solution might be a hybrid model, whereby a VMC-focused task force or team is created within the COV Economic Development Department. This approach will preserve the accountability of the economic development function while eliminating many of the barriers to successfully attracting office tenancy to the VMC.

1.49

Recommendations and Next Steps

Based on the strategic objectives outlined in the previous section, it is recommended that COV consider certain measures or tactics in order to enhance the implementation process. These proposed recommendations are as follows:

1) Create a VMC Working Group

At the core of all components outlined in the previous section is the need for consistent collaboration and discussion with the VMC landowners. Liaison and coordination with the landowner group will require a greater focus as landowners and developers move through the master planning, business planning, leasing, marketing, and construction cycles. It is suggested that the COV lead the formation of a Landowner Working Group to enable and encourage direct communication with the landowners in a manageable way. The group would, together with COV, make progress on items such as a cohesive marketing strategy and infrastructure development plan, and facilitate decision-making on all items related to the VMC. Solutions to any given issue (parking, infrastructure, economic development) and on any given parcel of land within the VMC will have repercussions throughout the VMC. Consequently, creating one venue for the various city departments and landowners to address opportunities and challenges is an effective strategy.

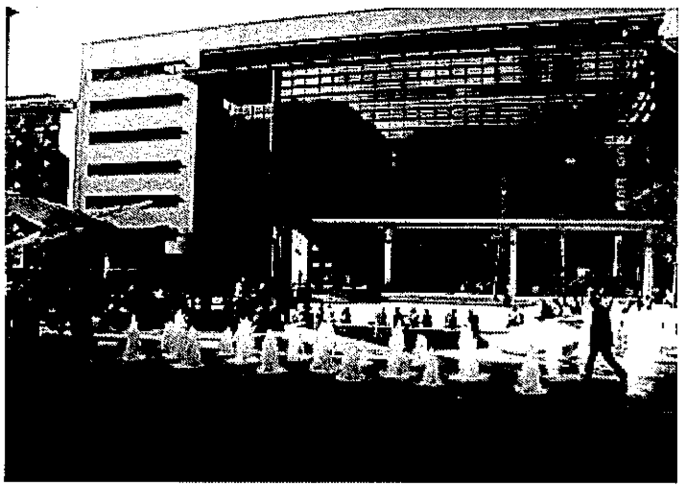
This Landowner Working Group could be an extension or sub-set of the existing Implementation Team, or interact directly with a newly formed task force. Given that many of the senior COV staff are required on such as team (namely the department commissioners), it would be preferable for the Landowner Group to interface with an Implementation Team sub-set, who are then able to report out to the VMC Sub-Committee. In addition to working directly with landowners, the Implementation Team could explore the opportunity to set up meaningful discussions with upper-tier levels of government for discussions on infrastructure and related financial implications.

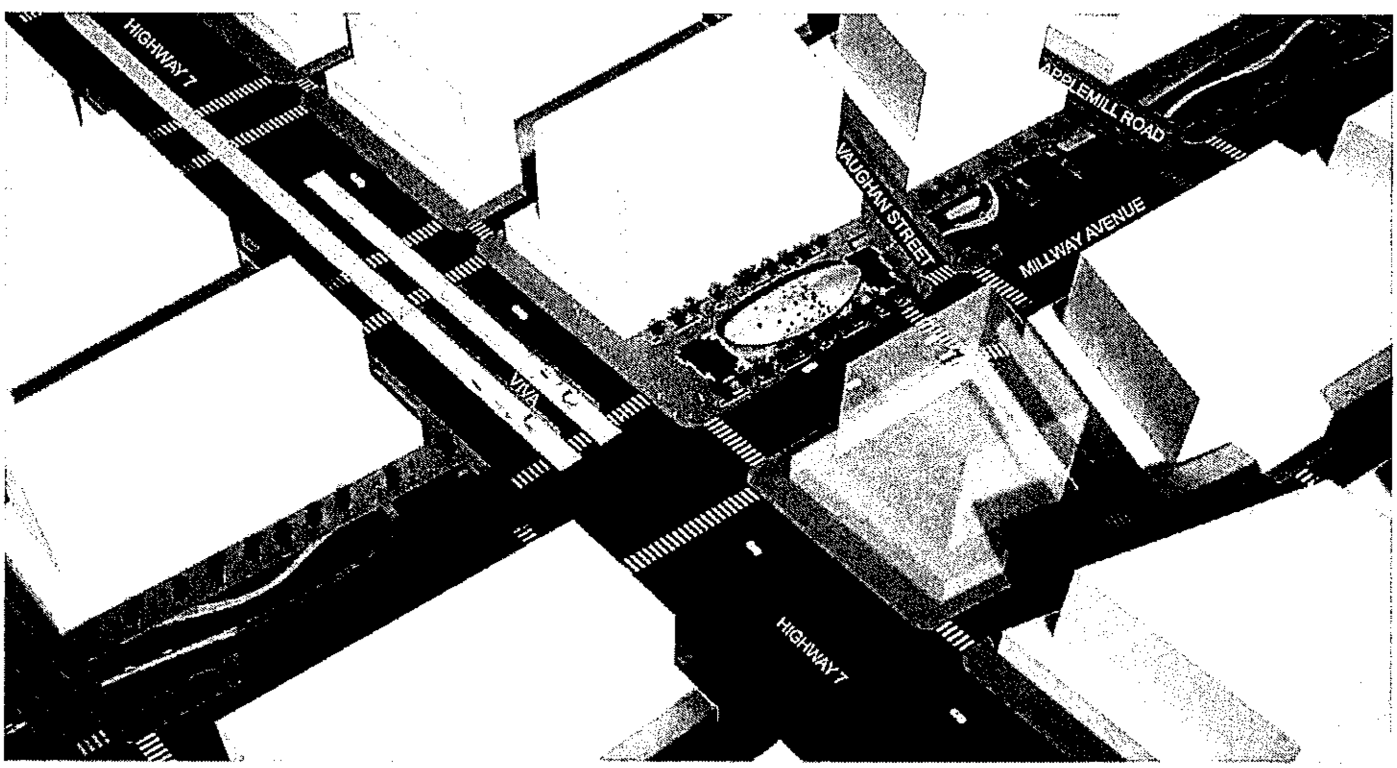
2) Establish a Phase I Plan

The build out of the VMC will take place over decades, however, the establishment of a Phase 1 of sufficient scale and quality will signal the ambition and reality of the VMC and drastically impact the course of development. Clearly defining the elements and the scale that this Phase 1 must achieve to truly shift market perceptions of the VMC is a critical initial step. With construction underway on several projects, and additional applications likely, establishing this Phase 1 vision must be a top priority. A detailed Phase I site specific plan should be created to identify and articulate this initial phase of the development to ensure the seamless phasing of the project, and help the COV maximize the potential for each site.

The first phase of the VMC must be high impact, introducing sufficient scale and quality to the downtown to create momentum for the rest of the project. This is especially important when considering the office development cycle and the possibility that the VMC may not see substantial non-residential uses developed for years to come. Given that the VMC will be undergoing construction for several years, careful attention should be provided to phasing and construction access.

1.50




HIGHWAY 7
APPLEMILL ROAD
VAUGHAN STREET
MILLWAY AVENUE
VIVA
HIGHWAY 7

(.51

Appendices

1.52

Appendix A: Land Ownership in the VMC

1 Zzen Developments Ltd.

2 Bentall LP

3 Berkley Commercial (Jane) Inc.

4 Cortel Group

5 First Liberty

6 First Vaughan Investment

7 Hilton Garden Inn Toronto/Vaughan

8 Metrus (Terra) Properties Inc.

9 Midvale Estates Ltd.

10 Mircom Technologies Ltd.

11 Residence Inn by Marriott Vaughan

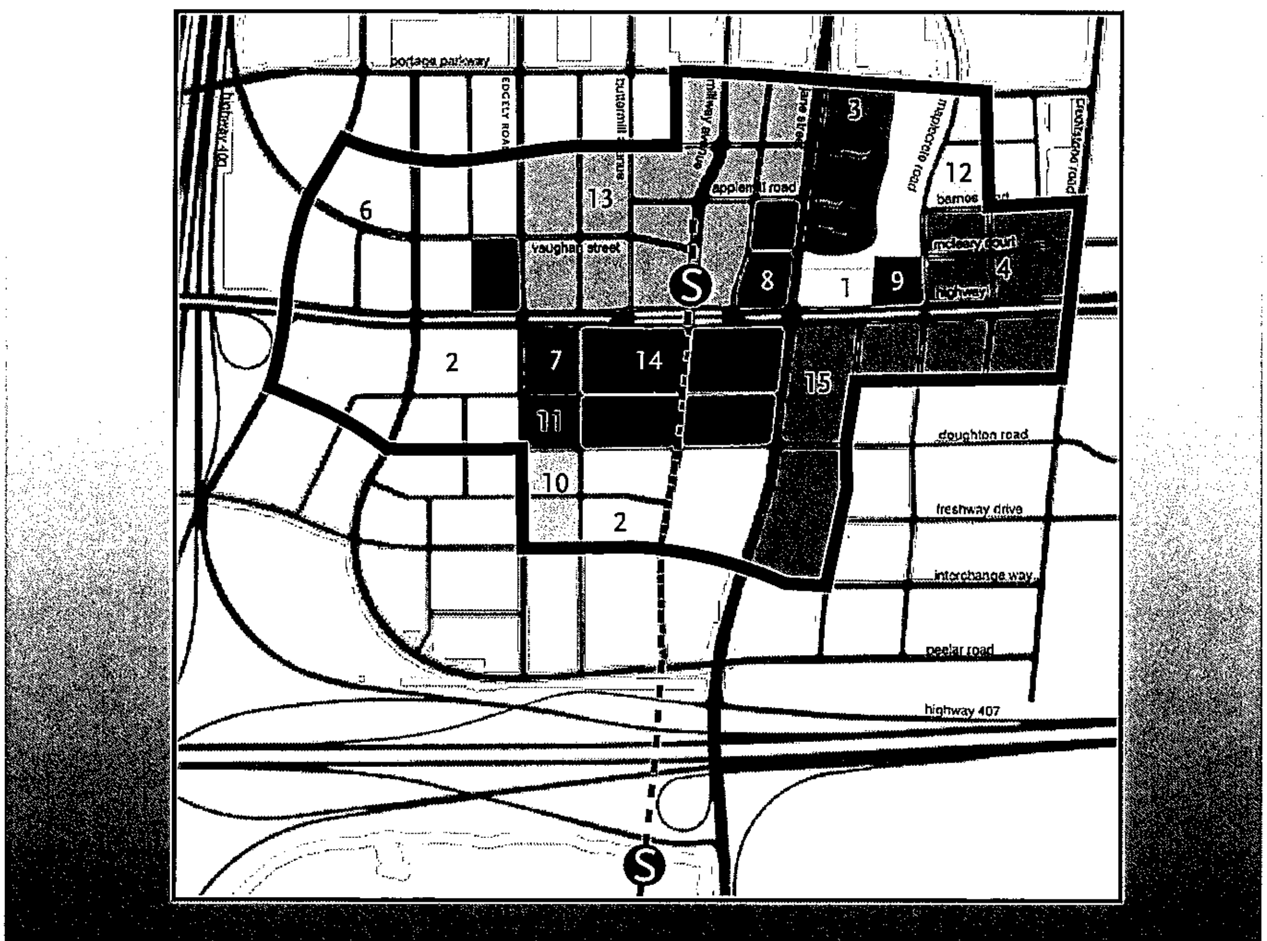
12 Sherwood Electromotion

13 Smart!Centres

14 Toromont Industries Ltd.

S Future Subway Terminal

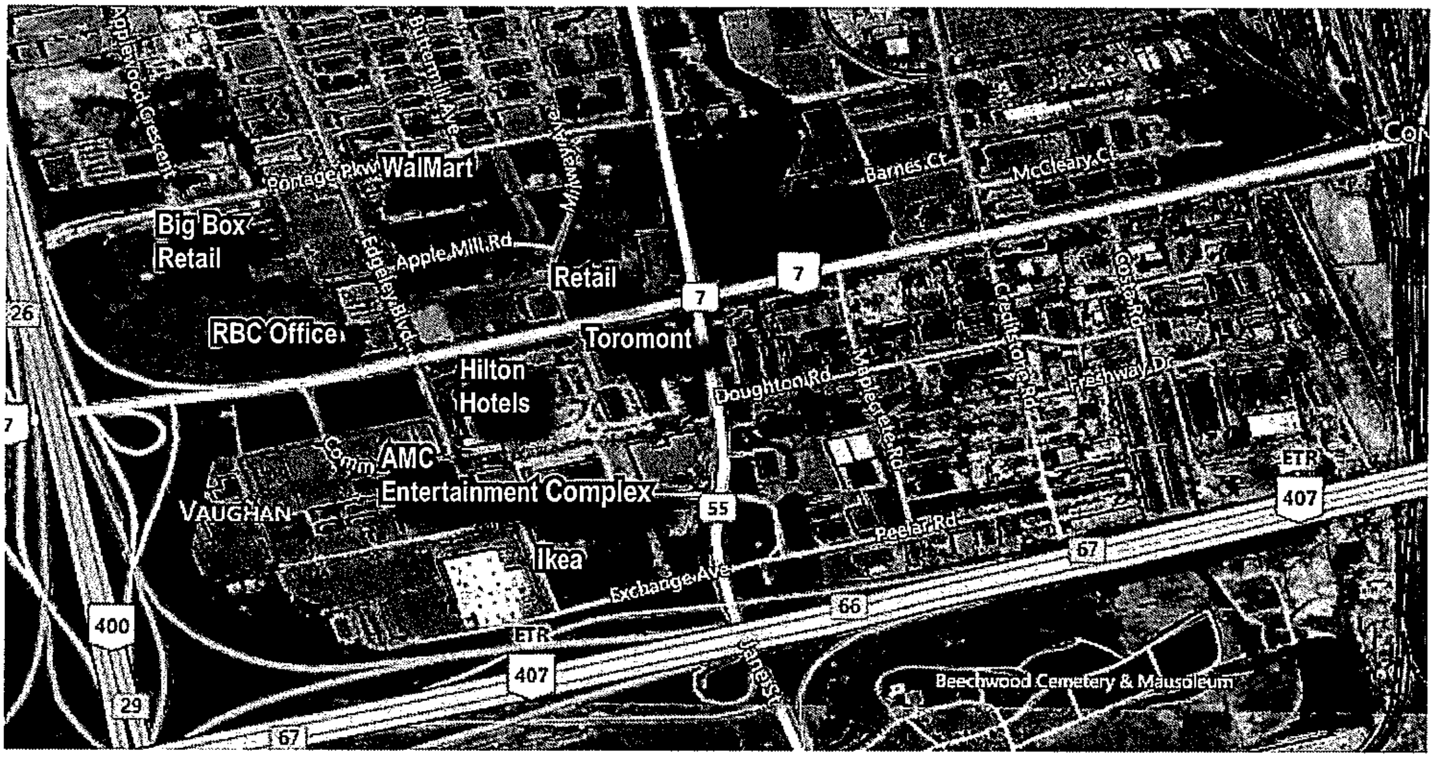
15 Small Individual Ownership



© CITY OF VAUGHAN 2011

1.53

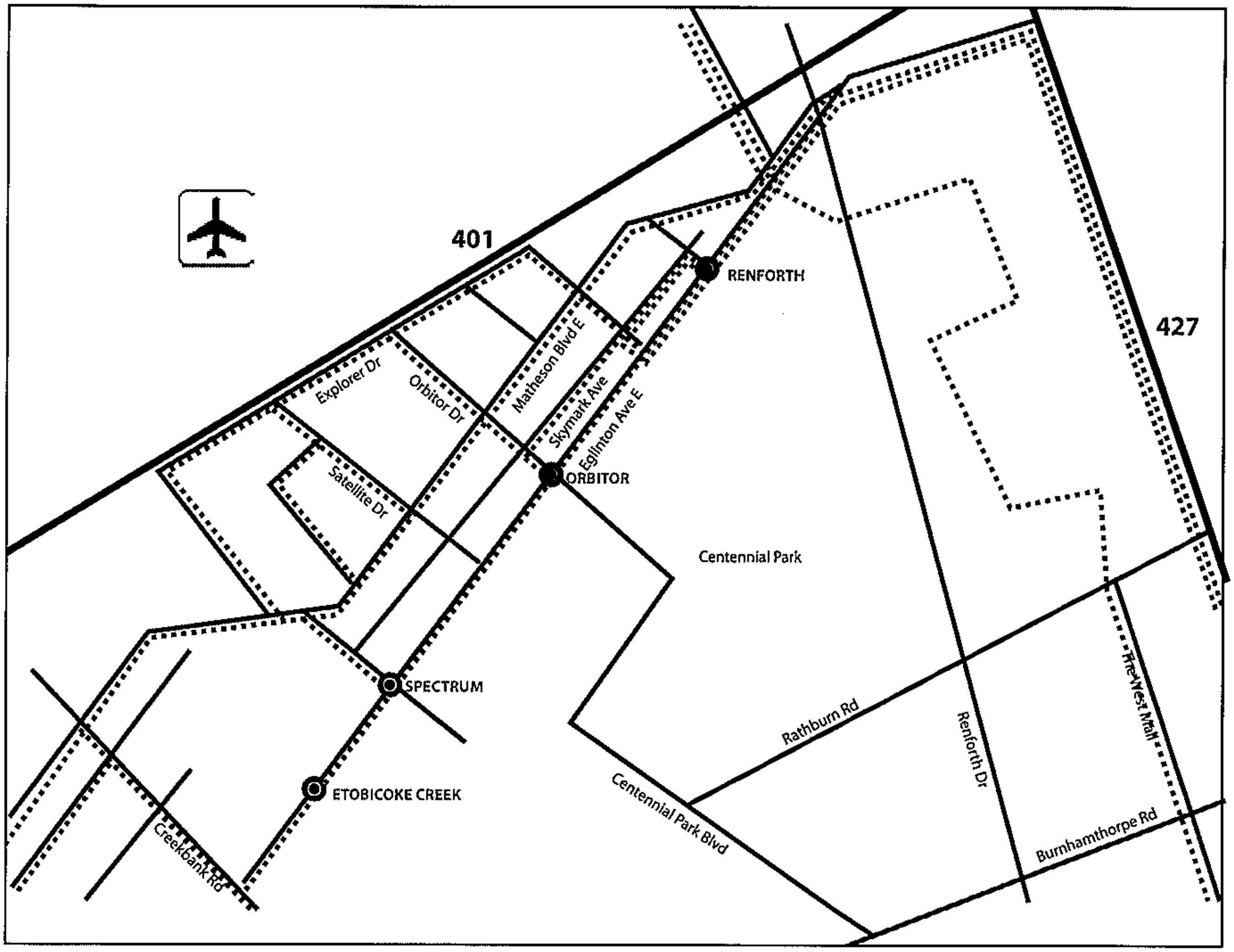
Appendix B: VMC Existing Uses



1,54

Appendix C: Transit Access- Competitive Nodes

Airport Corporate Centre



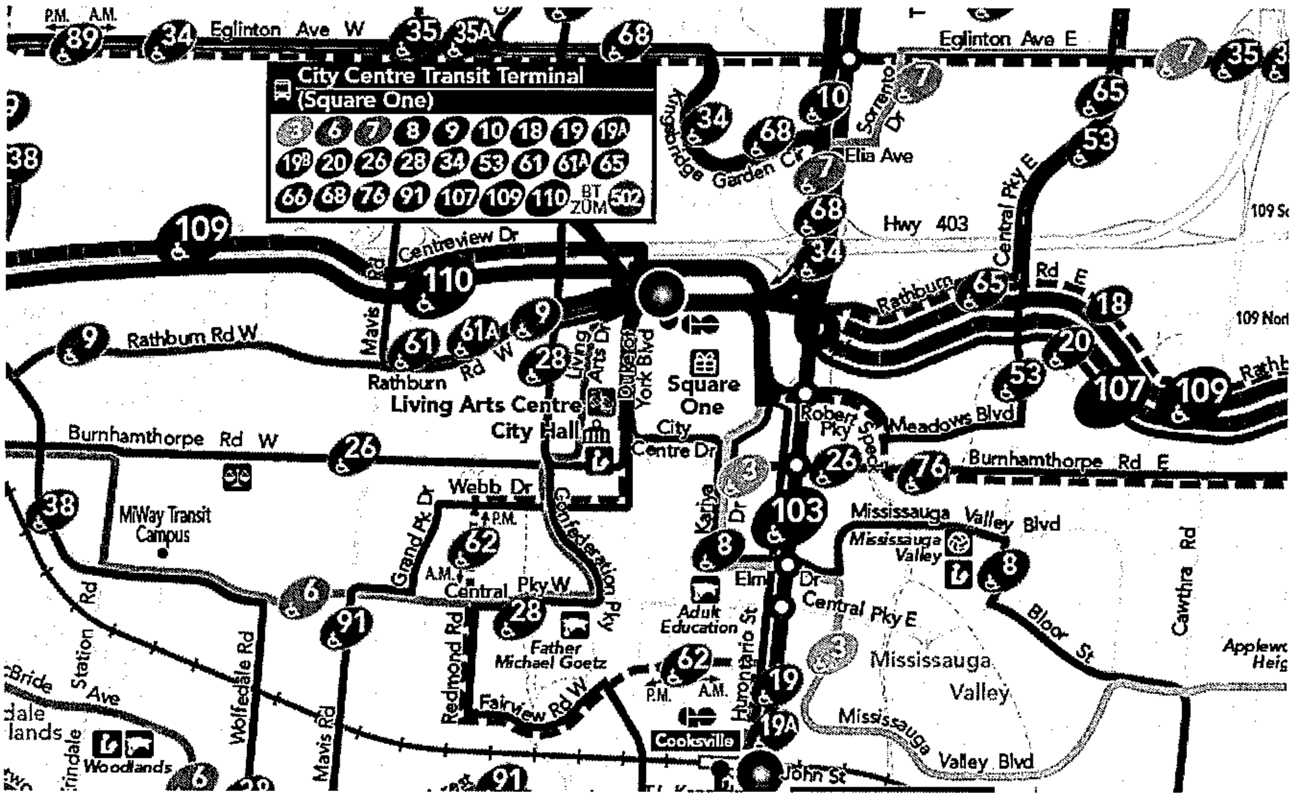
BRT STOPS

MISSISSAUGA BUS ROUTES

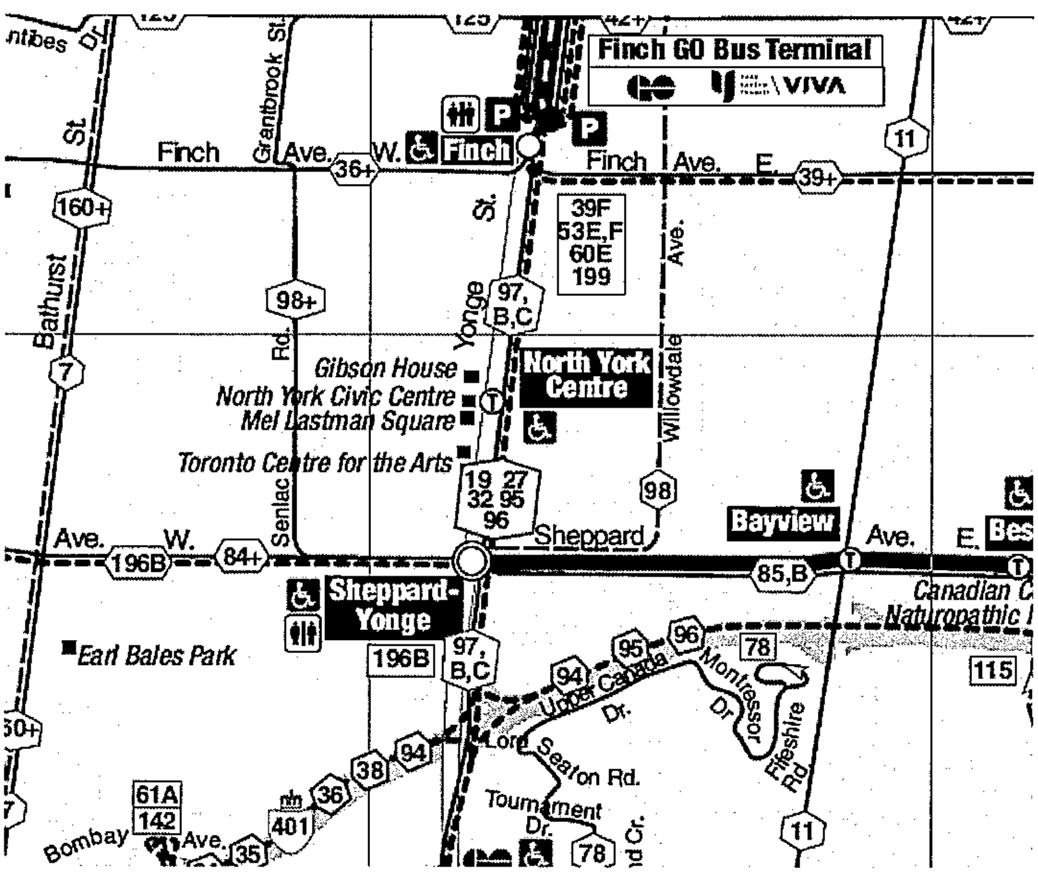
TTC BUS ROUTES

1.55

Mississauga City Centre

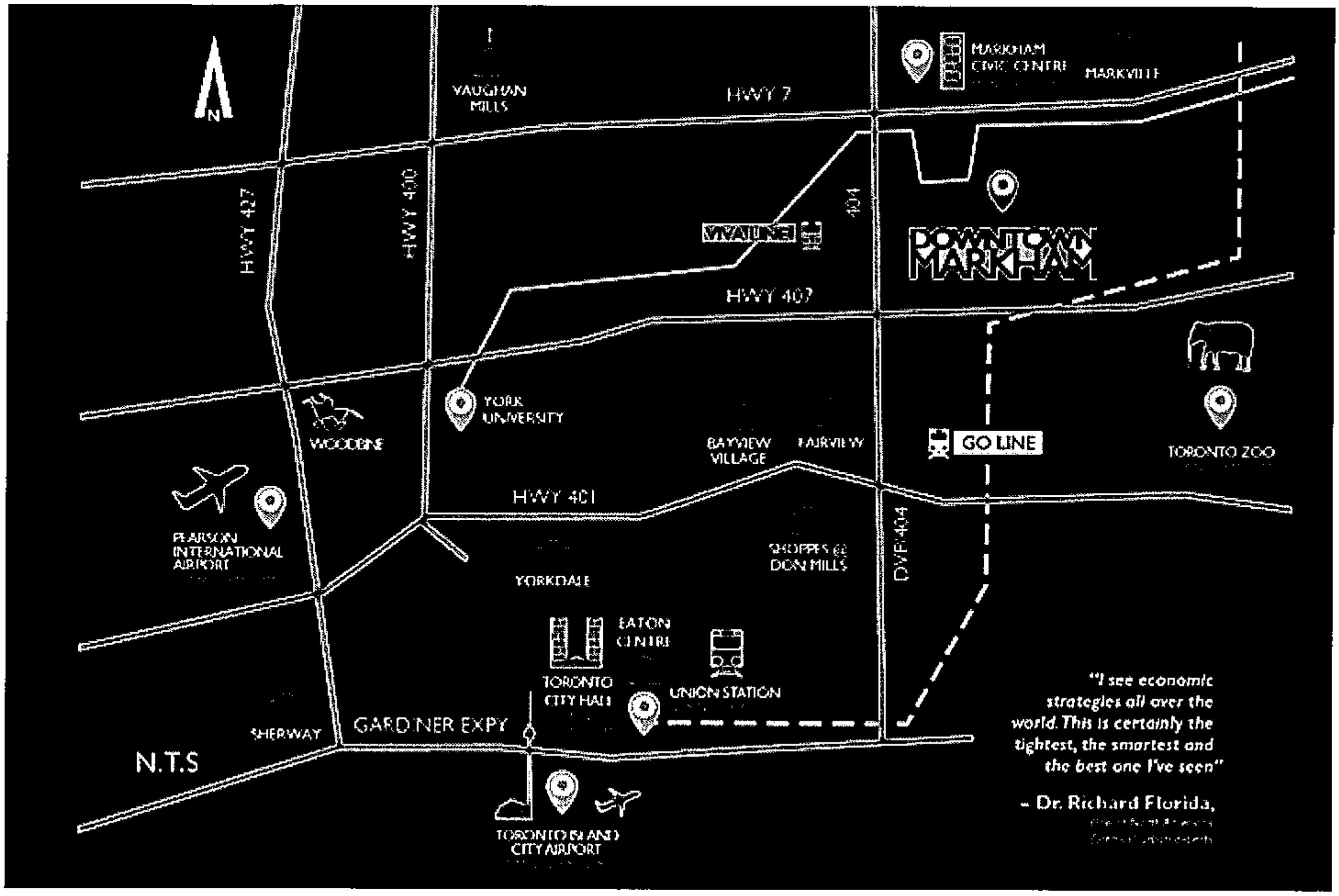


North York Centre

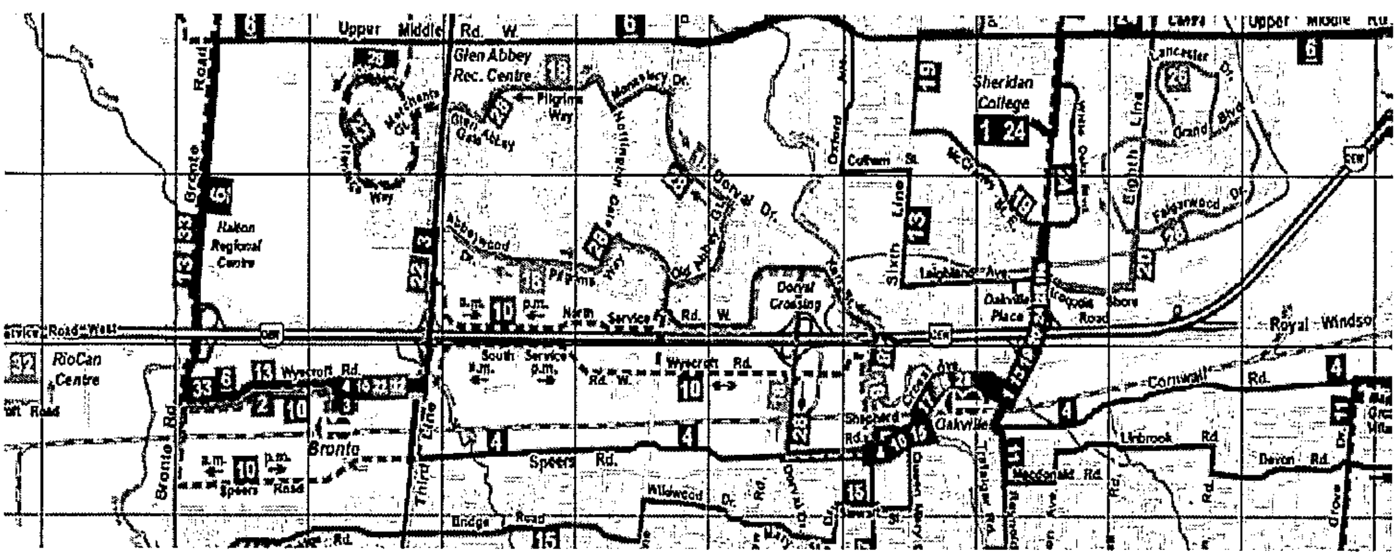


1.56

Downtown Markham



Oakville



1.57

Appendix D: Transit-Oriented Development

Transit-oriented development ("TOD") is the notion of creating density around major transit nodes to maximize access to, and amplify the positive impacts of, the node on the surrounding community. The model is based on the premise that people within a certain radius (generally a half-mile) of a major transit node are more likely to utilize transit in their daily lives.

Well executed transit-oriented development can provide many positive benefits associated with healthy, livable communities, including a diversity of housing types, mix of different uses, alternative and active transportation methods, and an increased sense of community and place. It has also been widely argued that TOD is more environmentally and economically sustainable, reducing carbon emissions and increasing value for landowners, businesses, government, and other stakeholders.

The merits of TOD have become widely accepted across the industry in recent years, and as such, there has been a push towards implementing TOD policies in cities across the world. Two TODs have been selected, based on similarities in vision or existing conditions to the VMC, for initial evaluation with further study suggested as a component of subsequent stages of work on the VMC.

Rosslyn-Ballston Corridor, Arlington, Virginia

History

Thirty years ago, the Rosslyn-Ballston Corridor was a declining, low-density commercial strip located less than 5 miles west of Washington DC. During the planning process for the Washington Metropolitan Transit System, residents rallied to have the metro line run along the existing commercial corridor, rather than running above ground in the interstate right-of-way. This shift significantly increased costs of construction, but preserved Arlington's strong single-family neighbourhoods and has resulted in perhaps the most successful case of TOD to date.[30]

Program and Transit Infrastructure

- 5 metro stations within a 3-mile proximity (Rosslyn, Court House, Clarendon, Virginia Square/GMU, Ballston/Marymount)
- Jobs: 98,500 jobs (vs. 22,000 in 1970)
- Office space: 21.7 million square feet
- Office absorption: 285,789 square feet (Q1 2012)[31]
- Office vacancy: 12.7%
- Residential: 28,643 units
- Retail: 2,842,169 square feet

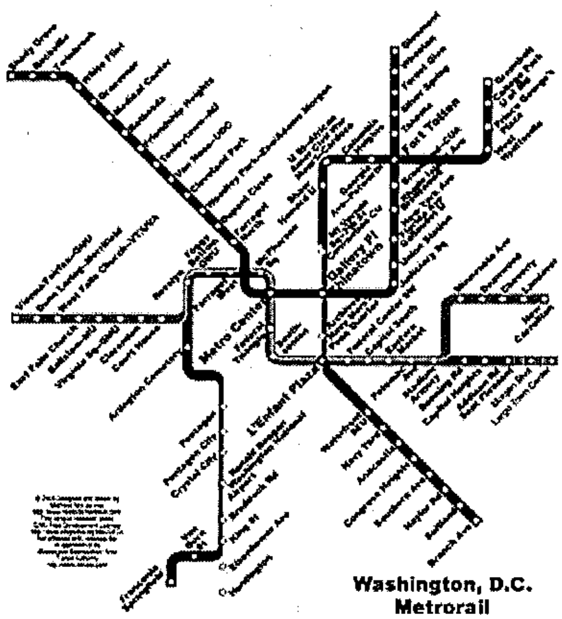
Facts

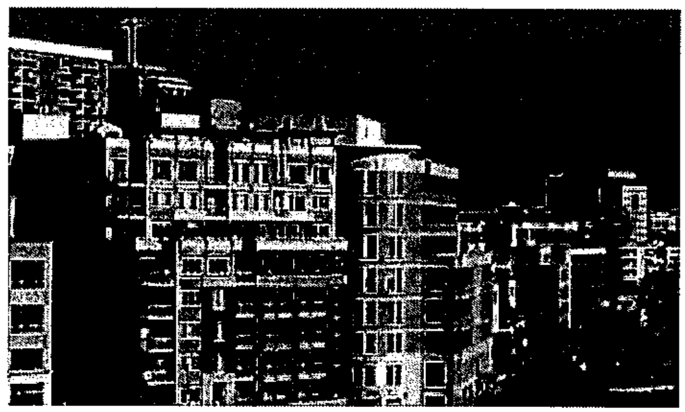
- Metro ridership: Close to 100,000 daily entries and exits between 5 stations
- Approximately 50% of residents in the metro corridor use transit to travel to work
- Assessed value of land around the stations has increase 81% in 10 years
- 8 percent of county land generates 33 percent of county revenues – allowing Arlington to have the lowest property tax in Northern Virginia [32]
- The construction and maintenance of the Metrorail project cost the County $100 million. The Corridor now has an assessed real estate value of over $10 billion [33]

1.58

Key Takeaways

- The County recognizes the importance of investing in office development, and pushes to achieve a 50/50 tax base between residential and office development
- A range of travel options, coupled with the metro, must form the transportation network to make it convenient for people to use
- Pedestrian realm should be a top priority, rather than a secondary consideration. In many areas of the Corridor, there is a low quality of design, which the County is now looking to improve.
- Public participation and consensus is key to gaining momentum at the front end of a project, and if maintained, can be instrumental in realizing the full development potential of the area
- Planning tools have been instrumental to the success of the Corridor. Planners kept the density lower in bylaws, so each development approval would have to go through review process. Meanwhile, they had a site plan with densities closer to those that they were looking to achieve. This allowed them to be able to closely review each application, but still have an overall plan to refer to.





1, 59

Metrotown, Burnaby, BC

History

Prior to the development of the SkyTrain in Burnaby in 1985, the city developed a comprehensive master plan that called for a sustainable, urban core [34]. However, just a few years later, a megamall that was not consistent with the City's plans was under construction in the heart of the proposed town center. The Metrotown Mall was opened to the public in 1986, and has since become one of the most successful shopping and entertainment centres in the country, attracting more than 25 million annual visitors. Although the mall itself does not provide an ideal physical environment for TOD, the areas surrounding the transit station and shopping centre have experienced tremendous growth over the past 25 years. Metrotown remains a prime location for residential and office development within the Vancouver region, with a number of projects currently under construction.

Program and Transit Infrastructure

- Metrotown station stop sits on the Skytrain Expo line
- **Area:** 735 acres
- **Population:** 25,610 (2006)[35]
- **Office space:** 2.75 million square feet
- 900,000 square feet of office space between Metrotown I and II towers. There will be an additional 900,000 square feet in the three additional towers that are being developed
- **Employment:** 26,000+ [36]
- **Retail:** 3.5 million square feet[37]
- **Parking spaces:** 10,500 in core – 90% are located underground or in parking structures

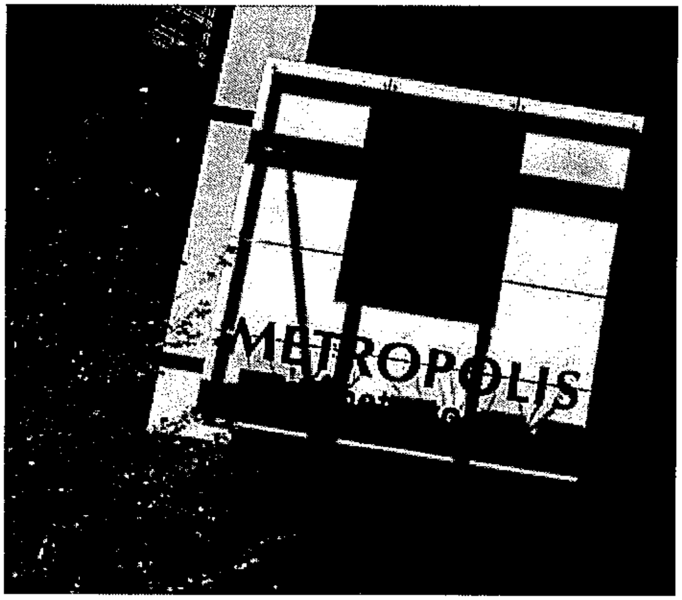
Facts

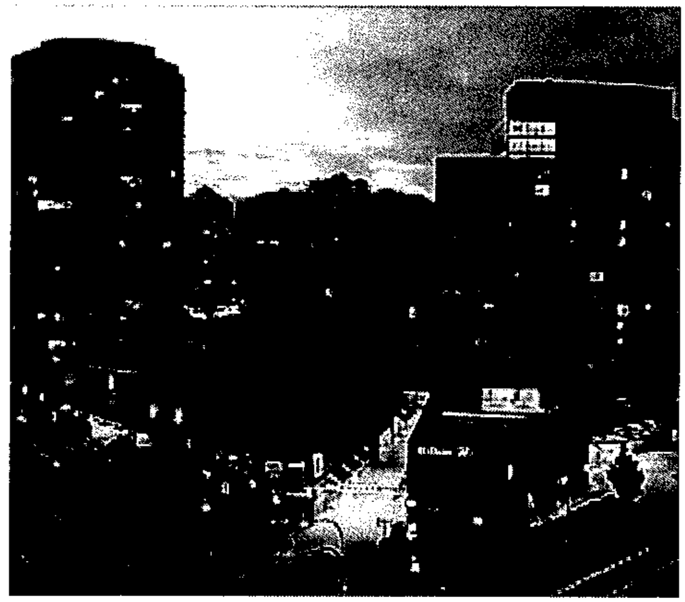
- Metrotown is the busiest station on Expo line - 30% of patrons use transit, compared to the 11% regional average

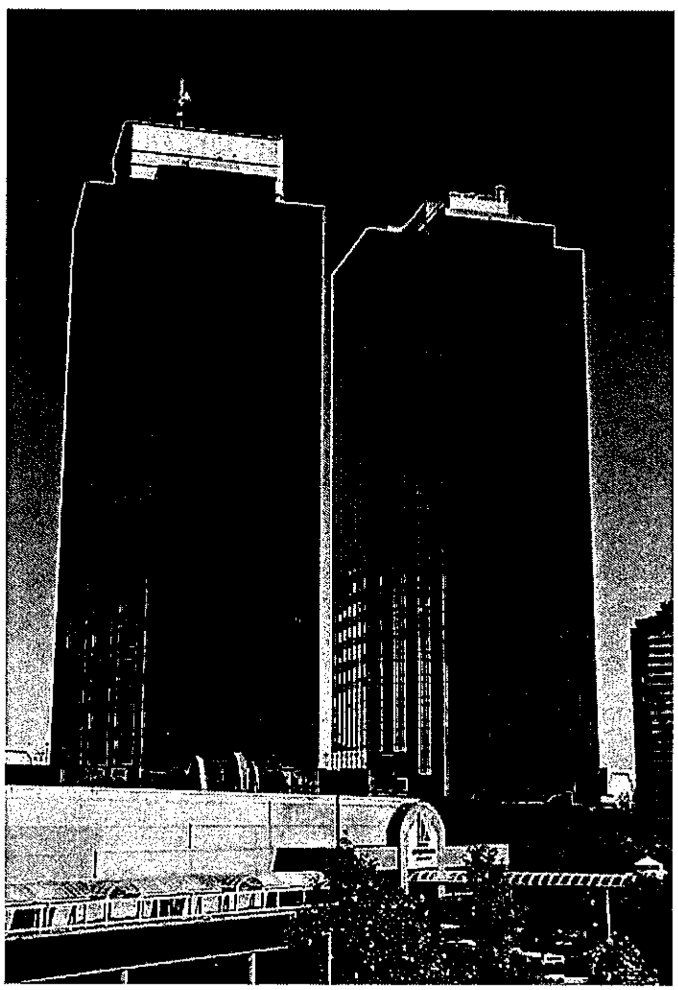
Key Takeaways

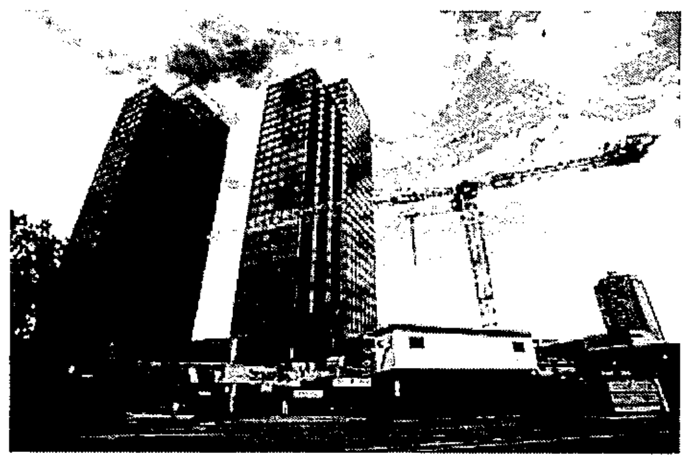
- The City of Burnaby was heavily involved in the development of Metrotown. The City not only provided dedicated park space and other amenities, but relocated government offices to the core, and had economic development staff pursue an aggressive tenant attraction strategy outside of BC
- There is a strong need to improve the street grid and significantly enhance the public realm. Newer development projects are attempting to address this hostile and inactive pedestrian environment with animated uses at grade, such as retail and restaurants.
- Studies on Metrotown and other Vancouver TODs have revealed that the success of office developments is higher when they are within 500 metres of transit stations than for those further away. For examples, in Richmond, the office vacancy rate for buildings within 500 metres of a Canada Line station was 3.35 per cent. Outside that range, the vacancy rate was 23.6 per cent, according to CBRE's First Quarter 2012 Metro Vancouver Office MarketView report.

1.60









1, 61

END NOTES

[1] - City of Vaughan. *Vaughan's Downtown Vision: Vaughan Metropolitan Centre.*

Retrieved from http://www.city.vaughan.on.ca/index.php?option=com_content&task=view&id=490&Itemid=478

[2] - Interview with Commercial Broker. 15 May 2012.

[3] - Canadian Urban Institute (March 2011). *The New Geography of Office Location and the Consequences of Business as Usual in the GTA.*

[4] - Marr, Garry (15 May 2012). *Toronto office market poised for new boom.* Published in Vancouver Sun.

Retrieved from http://www.vancouversun.com/business/commercial-real-estate/Toronto+office+market+poised+boom/6623854/story.html

[5] - Smith Company (January 2012). *Office Market Update: Downtown Toronto.*

Retrieved from http://www.smithcompany.ca/trends/Toronto-office-market-update_2012-01.pdf

[6] - City of Mississauga (July 2010). *Market Conditions Profile.*

Retrieved from http://www.mississauga.ca/file/COM/Market_Conditions_July_2010.pdf

[7] - DTZ Barnicke (2012). *Q1 2012 Office Report: Greater Toronto Area.*

[8] - City of Mississauga (2012). 2012 *Final Tax Rates.*

Retrieved from http://www.mississauga.ca/portal/residents/taxrates

[9] - Avison Young (8 February 2011). *Greater Toronto Area West office availability and vacancy rates retreat as 2010 finishes strongly.*

Retrieved from http://www.newswire.ca/en/story/788743/greater-toronto-area-west-office-availability-and-vacancy-rates-retreat-as-2010-finishes-strongly

[10] - City of Mississauga (2012). *2012 Final Tax Rates.*

Retrieved from http://www.mississauga.ca/portal/residents/taxrates

[11] - Canadian Urban Institute (April 2008). *Mississauga Office Strategy Study.*

[12] - ibid

[13] - City of Mississauga (2010). *Mississauga Data: 2010 Employment Profile.*

[14] - City of Markham (July 2011). *Managing Growth in Markham to 2031.* CIP/API Conference Presentation.

[15] - Town of Markham (2012). *2012 Tax and Clawback Rates.*

[16] - Town of Markham (2012). *Markham is Canada's High-Tech Capital.*

[17] - Remington Group (2012). *Downtown Markham*

Retrieved from http://www.remingtongroupinc.com/retail-commercial/downtown-markham/dac7fbe8-064d-1-b74-f5f3-f0c2ae4ca2c8/Downtown-Markham/index.html

[18] - Town of Markham (2011). *Markham Centre: Status of Development.*

1,162

[19] - City of Markham (July 2011). *Managing Growth in Markham to 2031.* CIP/API Conference Presentation.

[20] - Town of Markham (April 2003). *Markham Centre Fast Facts: Advisory group guides key development decisions in Markham Centre.*

[21] - Town of Richmond Hill (2011). *2011 Tax Rates.*

Retrieved from http://www.richmondhill.ca/documents/finance_2011_tax_rates.pdf

[22] - Town of Richmond Hill (June 2011). *Business Parks Profile.*

Retrieved from http://www.richmondhillonline.com/Business_Information/resources/Business%20Park%20Profile%202011.pdf

[23] - Town of Oakville (2012). *Purpose of Development Charges.*

Retrieved from http://www.oakville.ca/assets/general%20-%20town%20hall/Feesdev-DCbrochure-North.pdf

[24] - Town of Oakville (2012). *2012 Final Tax Rates.*

Retrieved from http://www.oakville.ca/residents/taxes-rates.html

[25] - Town of Oakville (9 March 2012). *Oakville's 2011 economic development annual report released.*

Retrieved from http://www.oakville.ca/economicdevelopment/ednr-12mar09.html

[26] - City of Vaughan (18 June 2012). *Development Charge Schedule.*

Retrieved from http://www.city.vaughan.on.ca/vaughan/departments/reserves_investments/development_charges/pdf/2012_City-wide_DC.pdf

[27] - City of Vaughan (August 2011). *Vaughan Comparative Property Tax Rates.*

Retrieved from http://www.city.vaughan.on.ca/images/stories/business/pdf/Comparative_Property_Taxes_Commercial_2011.pdf

[28] - Canadian Urban Institute (March 2011). *The New Geography of Office Location and the Consequences of Business as Usual in the GTA.*

[29] - Union of British Columbia Municipalities (April 2010). *Evaluating the Economic Development Role of BC Local Governments: A Snapshot of Community Effort and Opportunity.*

Retrieved from http://www.ubcm.ca/assets/Library/Policy-Topics/Community-Economic-Development/UBCM%20ED%20REPORT%204-14.pdf

[30] - Weaver Research and Consulting Group (January 2011). *Large Community Case Study: Rosslyn-Ballston Corridor, Arlington, Virginia.*

Retrieved from http://www.longislandindex.org/fileadmin/Reports_and_Maps/2011_Index/Case/Case_Study_Rosslyn-Ballston_Corridor.pdf

[31] - Arlington County (May 2010). *40 Years of Transit- Oriented Development. Presentation to Reston Land Use Task Force.*

1,63

Retrieved from http://www.fairfaxcounty.gov/dpz/projects/reston/presentations/40_years_of_transit_oriented_development.pdf

32 - Arlington County (May 2012). *Arlington County Economic Indicators: Information on Arlington's Economy from Arlington Economic Development.*

Retrieved from http://www.arlingtonvirginiausa.com/index.cfm/linkservid/8CBD27F2-1D09-08FB-3B16404COD-D82AE3/showMeta/0/

33 - Reconnecting America. *Encouraging Transit-Oriented Development: Case Studies that Work.*

Retrieved from http://www.epa.gov/dced/pdf/phoenix-sgia-case-studies.pdf

34 - Arlington County Department of Environmental Services. *Rosslyn-Ballston Corridor, Arlington VA: 30 Years of TOD.*

Retrieved from http://www.dullescorridorrail.com/pdf/TOD_Leach_ArlCo.pdf

35 - Pereira, David. *Metrotown.*

Retrieved from http://davidpereira.ca/projects/burnabys-town-centres/metrotown/

36 - Metro Vancouver (2011). *Burnaby-Metrotown.*

Retrieved from http://www.metrovancouver.org/planning/development/livablecentres/Pages/burnaby.aspx

37 - City of Burnaby (2004). *Metrotown: Regional Town Centre. Presentation to University of Calgary Urban Design Program.*

Retrieved from http://www.ucalgary.ca/ev/designresearch/projects/2004/EVDS683.99/Metrotown_Univeristy_of_Calgary_(041101).pdf

38 - Funk, Carl (May 2012). *Walkability of transit-oriented development: Evaluating the pedestrian environment of Metro Vancouver's Regional City Centres.*

Retrieved from http://qspace.library.queensu.ca/jspui/bitstream/1974/7212/1/Funk_Carl_R_201205_MPL.pdf

39 - Norbury, Keith (7 May 2012). *Office space booming around Vancouver's transit hubs.*

Retrieved from http://www.renx.ca/Detailed/REOC_-_REITs/Office_space_booming_around_Vancouver_s_transit_hubs_26585.html

2.1

VAUGHAN METROPOLITAN CENTRE SUB-COMMITTEE JUNE 28 2012

UPDATE ON DEVELOPMENT OF A COST SHARING FRAMEWORK FOR THE VAUGHAN METROPOLITAN CENTRE

Recommendation

The City Manager and the Commissioner of Planning in consultation with the Senior Management Team recommend:

1. THAT this report on the status of the development of a cost sharing framework be received for discussion purposes;

2. THAT staff be authorized to consult with landowners on the development of principles of cost sharing arrangements to be established amongst Vaughan Metropolitan Centre owners and to report back to the Vaughan Metropolitan Centre Sub-Committee of Council in Fall of 2012 with a status update of the formation of such cost sharing arrangements and implications for processing of development applications; and

3. THAT the Vaughan Metropolitan Centre Sub-Committee endorse staff's proposed initiatives to engage services of qualified professionals to assist with such an initial program to provide advice and recommendations regarding any future initiatives towards the preparation and implementation of appropriate landowner cost sharing arrangements within the Vaughan Metropolitan Centre in the absence of an agreed upon landowners' trustee willing to undertake such work.

Contribution to Sustainability

Cost sharing arrangements amongst landowners is a requirement for approval of development applications in the Vaughan Metropolitan Centre (VMC) as per the Council approved VMC Secondary Plan. Typically such arrangements are documented in Cost Sharing Agreements (CSA) developed by a group of landowners choosing to work together to fund and/or construct future public infrastructure within a development block . One of the prime purposes of a CSA is to facilitate fair and equitable financial distribution of the costs of infrastructure, facilities, and support services amongst both initially participating owners, and the owners of lands which are not initially members of the group. Municipalities are not typically parties to such CSAs however rely on the CSAs in finalizing engineering or development agreements thus assuring that the infrastructure required to service the planned growth areas is appropriately implemented.

CSA(s) will help to inform the development of more detailed financial strategies to address the City's needs within the VMC. Landowner CSAs will allow the City to work with owners to implement the redevelopment of the VMC, and provide sustainable development to fulfill the goals and objectives of *"Green Directions Vaughan"*, the City's "Community *Sustainability and Environmental Master Plan"*, specifically:

Goal 1: To significantly reduce our use of natural resources and the amount of waste we generate.

Objective 1.3 "To support enhanced standards of stormwater management at the City and work with others to care for Vaughan's watersheds"

Goal 2: To ensure sustainable development and redevelopment.

Objective 2.2 "To develop Vaughan as a City with maximum greenspace and an urban form that supports our expected population growth"

2.2

Economic Impact

Based on preliminary findings of infrastructure studies, the cost of future City and Regional infrastructure, facilities and support services required in the VMC outside of rapid transit investments, is estimated to exceed $250 million dollars over a 20-year period. A cost sharing framework will inform where and when these necessary investments will need to be made and will provide an equitable framework for distributing costs amongst all of the benefiting private owners including initial developers, other participating owners, and initially-non-participating parties.

Communications Plan

To date, there have been two meetings of the VMC Sub-Committee where the necessity of cost sharing agreements amongst landowners within VMC has been raised. Further consultation with stakeholders, including landowners and development groups is proposed to take place over the next few months. All current property owners within the VMC will be invited to participate in the development of principles of a cost-sharing agreement(s). Appropriate communication strategies will be developed in the future, as these initiatives will inform financial matters pertaining to development applications, guide formation of conditions of development application approval, support the development charges update process, and provide input into the consideration of other future funding opportunities.

Purpose

The purpose of this report is to provide a status update on the City's efforts to facilitate the organization of a landowners group and procurement of equitable cost sharing arrangements within the VMC recognizing the Council requirement that such arrangements be in place and reflected in future approvals of development applications in the VMC.

Staff is recommending that the City take a more formal leadership role on this issue by facilitating a series of meetings between City Officials and the VMC owners during the Summer and early Fall of 2012 with an objective of the preparation the principles of a cost sharing framework, leading to the eventual negotiation of CSAs. Also, such CSAs will inform the approvals of initial development applications in late 2012 and throughout 2013, assuming all technical and policy requirements are satisfied.

Also, so as to assist with this initiative, staff is of the view that some appropriate consulting services should be procured within discretionary spending authority of a City Commissioner.

Background - Analysis and Options

The VMC is one of 25 provincially designated "Urban Growth Centres", identified as having the greatest potential for intensified growth over the next 20 years, most of which will occur through re-development of existing facilities and land uses. The VMC will emerge as the City's "downtown" with a full suite of urban amenities and high quality public and private spaces.

The Vaughan Metropolitan Centre Secondary Plan (VMCSP) projects that by year 2031, employment will grow to at least 11,500 jobs, inclusive of some 5,000 new office jobs and 1,500 new retail/service jobs.

Today there are no residential units within the VMC plan area. However, the VMCSP expects that some 12,000 new residential units will be constructed by year 2031 accommodating about 25,000 residents. Already, development applications have been received for 16 mixed use primarily residential buildings totaling over 4000 new residential units. In addition, applications for new office and commercial buildings are expected shortly. Public and private infrastructure facilities will be required to support this new population and employment as well as assisting to implement the findings of City studies including the 'Active Together Master Plan', the 'Open Space Strategy', 'Black Creek Renewal' project and other infrastructure initiatives.

To support the quality of life in the new downtown, the VMCSP expects and promotes the location of various governmental, institutional, educational, cultural and recreational facilities in the VMC. To accommodate such ambitious growth, considerable public funding has already been, and more still will be, committed to fund the necessary new or enhanced community infrastructures and servicing projects. These costs include hard costs and operation and maintenance costs once parks and public facilities are constructed either by the City or private sector developers and assumed by the City. The nature, timing and scale of the proposed redevelopment projects will influence the timing and location of such expenditures. Preliminary estimates arising from recent infrastructure studies and from the development charges review process currently underway indicates that City, Region, and private sector investments will be in excess of $250 million dollars.

In addition to previously committed expenditures, there will be a requirement to accommodate the nature and scale of the planned development anticipated over the next 20 years within the VMC. Pursuant to specific provisions of the VMC Secondary Plan, VMC landowners who will directly benefit from the many economic opportunities resulting from such new or enhanced facilities, are expected to contribute towards the costs of such improvements.

<u>General Characteristics of Landowners' Groups</u>

Landowner groups are typically formed when 2 or more owners in a certain geographical area require common planning approvals and must share infrastructure. Some of the typical reasons for landowner group formation include:

- Out of necessity – owners in a similar geography share in a common objective to optimize value & opportunity;
- Reduces timing risk –forum to resolve and discuss issues outside of Planning Act & EA Act processes;
- Vehicle for distributing up front costs and reducing financing burdens on individual owners/early developers;
- Reduces land requirements: common infrastructure is more efficient than infrastructure on several individual sites (e.g., several temporary ponds site by site = throwaway costs <u>vs.</u> 1 permanent pond);
- Facilitates dialogue between owners, municipalities and agencies;
- Proven method for accelerating community redevelopment.

Landowners' Groups usually include the following members:

- Landowners or their representatives;
- Trustee/Group Manager;
- Group Lawyer;
- Other consultants/experts;
- Designated manager(s) to liaise with the municipality and agencies.

Landowners' Groups typically prepare Development Agreements that include:

- Definitions including descriptions of geography and objectives;
- Basis & Principles for sharing Community Uses/Lands;
- Implementation matters – decision making and voting delegations of authority via Trustee/Group/Subcommittee including dispute resolution mechanisms.

Greenfield Owners and Landowner Groups

There are a number of distinct differences between landowner groups in greenfield areas versus regional centres like the VMC. These are outlined in the following table:

Greenfield Landowners	Regional Centre/ Downtown Landowners
• Shorter term build out; • Longer history of practice across the GTA; • Ground related product – often viewed as a 2 dimensional community • Typically Net Developable area (NDA) basis for Development Agreement; • Front Ending of servicing and infrastructure by most owners; • Type of infrastructure and community uses are generally well understood and are brand new; • Typically community design and density (Community Vision) does not change significantly post Secondary Plan, Block Plan, zoning & draft plan of subdivision approvals; • Less precision required to calculate land values; • Less change in value over time due to typical shorter term build out/absorption; • Must include disciplines with natural heritage/cultural heritage expertise to resolve regulatory requirements regarding the natural environment.	• Longer term build out due to mixed uses with different absorption rates and evolving market; • Shorter history of practice in GTA; • Higher densities – viewed as 3 dimensional community or **vertical subdivision**; • Per unit or square footage being used as basis for Development Agreement • Front ending often by a few motivated owners; • Greater infrastructure and services required to support density e.g., Transit, existing services usually must be upgraded to support growth; • Community Uses – smaller footprint due to high land values; • Need for greater precision in land area/density calculations in High Rise community; • Greater change in value over time recognizing lead time for high rise projects; • Must engage disciplines with greyfield/brownfield expertise to resolve historic contamination and necessary infrastructure upgrades.

Benefits of a Landowners' Group for the VMC

Since Vaughan Council's adoption of the VMCSP in September 2010, there has yet to emerge any specific initiatives by landowners in the VMC, in respect of pursuing CSA outside of a specific cost sharing approach on certain studies. Throughout the GTA there are numerous examples of successful cost sharing arrangements amongst various landowners in projects ranging in size from under 100 ac to over 5,000 ac. These landowner groups have appreciated that in their common particular circumstance, it is imperative that they must act in unison so as to achieve development and infrastructure approvals.

From the municipality's perspective, additional benefits of having CSA in place would include:

- Provides a framework for addressing services that cross multiple properties and/or they are services that are entirely on lands owned by others;
- A means of ensuring equitable treatment for all development interests;
- A coordination of activity required to service growth;
- Provide a sophisticated understanding of how expenditures are to be phased to inform the DC process;
- Provide an understanding of what infrastructure would be required;
- Provide an understanding of what works ought to be front-ended by development groups;

- Would inform the City's multi-year budget planning process; and
- Assist in achieving the realization of high quality, city cultural, social and recreational resources within the VMC.

The VMCSP provides that, as an alternative to a lack of landowner sponsored cost sharing initiatives, the City may implement other arrangements specifically to address cost sharing matters. However, before considering such default actions, it would be beneficial for the City to further engage the VMC landowners and promote/facilitate the pursuit of formal CSA arrangements amongst such parties.

VMC Financial Strategy

The Regional and City development charges process constitutes the basic financial strategy for the VMC for collectively identifying and funding the public sector infrastructure necessary to serve the VMC. However, in addition to the levying of specific development charges, it is specifically referenced in the City approved VMCSP (i.e., Section 10.7.1) that VMC landowners may be required to enter into an agreement or agreements so as to coordinate development projects and specifically address matters such as the equitable distribution of the cost of shared infrastructure such as roads, water and wastewater services, parkland, storm water management facilities, as well as land/space for schools and other community services.

To establish an appropriate VMC Financial Strategy, considerably more detailed information is required on the nature and cost of the proposed infrastructure based on in-progress studies, the nature and timing of development proposals and other factors. Furthermore, City and Regional development charges and cost sharing discussions involving private sector landowner groups, the Region, utilities, School Board, transit agencies and other stakeholders will be required to advance timely and equitable development of the VMC.

Immediate Next Steps

As referenced above, it is proposed to actively pursue during the next few months, meetings with the VMC landowners so as to gain a better assessment of their current and planned future development activities and determine the levels of servicing/infrastructure requirements and project timing. Willing and/or interested landowners would be invited to participate in the development of common principles which would inform the future negotiation of appropriate CSAs. Such landowners would also be looked to for input regarding the City's policy requirements and mechanisms for securing financial contributions to the costs of municipal infrastructure from those developments that might be approved prior to the finalization of CSA(s).

Staff is of the view that it would be very helpful in pursuing these immediate next steps, to engage professional consultants having relevant experience with landowner cost sharing matters; experience with development matters in Regional Centres or Urban Growth Centres; and with suitable experience in working with public organizations, community interests and private sector developers. The consultants could prepare a framework for a CSA that reflects City interests and that could then be finalized by VMC owners.

Furthermore, the engagement of qualified consulting support with this initiative would be beneficial in assisting staff to determine the scope of any subsequent further actions that the City may need to pursue.

Based on the above referenced scope of work during these next few months, it is expected that the costs for such interim professional services can be arranged within the parameters of Commissioners discretionary expenditure authority.

Relationship to Vaughan Vision 2020/ Strategic Plan

This report is consistent with the priorities set out in the Vaughan Vision 2020 Strategic plan, through the following initiatives, specifically:

Service Excellence:
- Lead & Promote Environmental Sustainability
- Preserve our Heritage & Support Diversity, Arts & Culture

Organizational Excellence:
- Manage Corporate Assets
- Ensure Financial Sustainability
- Manage Growth & Economic Well-being

Regional Implications

The Region of York is a vital stakeholder in this process. In addition to its work on the subway extension and the Viva Next projects and its ongoing role in the transportation studies, the Region has participated in all City of Vaughan initiated streetscape plan studies completed to date. This work will support key elements of the Region of York Official Plan, adopted by Regional Council on December 16, 2009 and approved by the Minister of Municipal Affairs and Housing on September 7, 2010. Specifically, the implementation of the plan's following objectives stated in Section 7.2, Moving People and Goods:

> *"To ensure streets support all modes of transportation including walking, cycling, transit, automobile use, and the efficient movement of goods."*
>
> *"To plan and protect future urban and rural streets to accommodate transportation demands."*

Based on informal discussions with Regional Planning staff, that are part of the VMC Implementation Team, Regional staff have indicated support for a CSA amongst owners in the VMC.

Conclusion

Staff has collaboratively prepared this report in order to recommend the advancement of cost sharing arrangements among VMC owners that will contribute to developing a detailed financial strategy for the VMC and the development charges review currently underway. Based on the outcome of such an interim step, as recommended herein, staff will be better informed in respect of recommending any necessary subsequent initiatives and processes towards securing appropriate CSA in the VMC.

Attachments

n/a

Report prepared by:

John MacKenzie, Commissioner of Planning, ext 8445

Respectfully submitted,

CLAYTON D. HARRIS
City Manager

JOHN MACKENZIE
Commissioner of Planning

/lm

3.

3. PRESENTATION – UPDATE ON INFRASTRUCTURE AND PLANNING STUDIES BEING UNDERTAKEN BY THE CITY OF VAUGHAN

Presentation of the Commissioner of Engineering and Public Works with respect to the above.

4.1

VAUGHAN METROPOLITAN CENTRE SUB-COMMITTEE JUNE 28, 2012

SECTION 37 - A DEVELOPMENT TOOL FOR INTENSIFICATION AREAS WITHIN THE CITY

Recommendation

The City Manager, the Commissioner of Planning in consultation with the Senior Management Team recommend:

1. THAT the presentation and report on the use of Section 37 of the Planning Act in the Vaughan Metropolitan Centre - "Potential Vaughan Metropolitan Centre Community Benefits" BE RECEIVED for input and discussion.

Contribution to Sustainability

The use of Section 37 to enhance the environment of the Vaughan Metropolitan Centre (VMC) contributes to the goals and objectives within *"Green Directions Vaughan"*, the City's *"Sustainability and Environmental Master Plan"*, specifically:

Goal 1: To significantly reduce our use of natural resources and the amount of waste we generate.

Objective 1.3 "To support enhanced standards of stormwater management at the City and work with others to care for Vaughan's watersheds"

Goal 2: To ensure sustainable development and redevelopment.

Objective 2.2 "To develop Vaughan as a City with maximum greenspace and an urban form that supports our expected population growth"

Goal 3: To ensure that getting around in Vaughan is easy and has a low environmental impact.

Objective 3.1 "To develop and sustain a network of sidewalks, paths and trails that supports all modes of non-vehicular transportation"

Goal 4: To create a vibrant community for citizens, businesses and visitors.

Objective 4.1 "To foster a city with strong social cohesion, an engaging arts scene, and a clear sense of its culture and heritage"

Objective 4.2 "To ensure that the City of Vaughan attracts businesses and investment that will result in well-paying jobs for Vaughan citizens, a sustainable tax base, and continuing prosperity into the 21st century"

Goal 5: To be a leader on sustainability issues.

The use of Section 37 can help to promote goals which directly relate to those of *Green Directions Vaughan*, specifically:

- Communicate a streetscape and open space framework that is both resilient and adaptable to support short, medium and long term urban transformations;
- Integrate transit infrastructure with the emerging urban fabric;
- Support the pedestrian, cyclist, transit and motorist experience for all ages and abilities;

4.2

- Define catalytic public realm design strategies and tactics that will promote cultural, social, commercial and recreational activities within the urban core, and enhance overall quality of life;
- Identify opportunities and implementation strategies to incorporate public art into the public realm;

Economic Impact

There are no immediate budgetary impacts resulting from this report and presentation. However, the use of Section 37 of the Planning Act may help the City offset capital expenditures for planned community benefits in the VMC and other intensification areas. For example, in exchange for increases in height and density at certain locations, the City could through a Section 37 agreement secure a consideration of enhanced landscaping or public art that would otherwise be difficult to fund. In addition, the use of Section 37 agreements could help to achieve Active Together Master Plan objectives in the VMC including helping to upgrade and achieve a library and community centre in a preferred location. A Section 37 agreement could be used to achieve affordable housing objectives above that which is required of a specific development, and for community and social services which may be needed.

Communications Plan

The Policy Planning Department plans to consult with stakeholders on the updated VMC Secondary Plan in Summer of 2012 and to bring forward a report to Council on the modified VMC Secondary Plan in Fall of 2012. Section 37 policies will be included in the modified Official Plan. A Committee of the Whole (Public Hearing) will be held on the VMC Secondary Plan. This will allow stakeholders to consider updated Section 37 policies prior to them being recommended to the Region for review and approval. A full report on the draft principles for the use of Section 37 on a City-wide bases will be brought forward to a future Committee of the Whole (Working Session) meeting.

Purpose

The purpose of this report is to discuss principles and potential community benefits that would form a proposed Section 37 policy for the VMC Secondary Plan prior to finalizing the VMC Secondary Plan policies, and to introduce principles around the use of Section 37 prior to bringing a more detailed report back to the Committee of the Whole (Working Session).

Background - Analysis and Options

Planning Commission staff have held a number of pre-application consultation meetings and in some cases are in receipt of development applications which are proposing to exceed the height limits established in the current Official Plan and the Council adopted Vaughan Metropolitan Centre Secondary Plan. This situation is both a challenge and an opportunity towards achieving the City building objectives of the VMC Secondary Plan. Section 37 of the Planning Act could be applied to obtain tangible benefits in exchange for an increase in height and density to further these objectives.

Section 37 of the Planning Act permits the City to authorize increases in permitted height and/or density through the zoning bylaw in return for community benefits, provided that there are related Official Plan policies in place (Section 10.1.2.9) of the Vaughan Official Plan 2010 (VOP 2010) as well as certain area-specific policies). The Council adopted VMC Secondary Plan (section 8.1.12) allows for the provision of Section 37 of the Planning Act.

4.3

Section 37 of the Planning Act is worded very broadly and states that:

- a municipality may, through a zoning by-law, approve increases in height and/or density beyond what the zoning by-law would otherwise permit, in return for facilities, services or matters (community benefits) as are set out in the by-law.

Section 37 of the Planning Act also states that:

- the Official Plan must first contain provisions authorizing the use of Section 37, and community benefits may be secured in an agreement that may be registered on title.

Current Section 37 Bonusing Policies: VMC Secondary Plan and VOP 2010

The VMC Secondary Plan contains policies that provide for the application of Section 37. Policy 8.1.12 provides as follows:

"The City anticipates the use of bonusing provisions under Section 37 of the Planning Act to secure a range of public benefits in the VMC. In addition to the community benefits identified in Policy 10.1.2.8 of Volume 1 of the Official Plan that may qualify for bonusing, the following benefits may also qualify:

- secondary subway entrances in Millway Park;
- indoor public bicycle parking facility;
- contributions or facilities for the School Boards that optimize the size and use of school sites;
- emergency services facilities;
- structured parking (below or above grade) to be transferred to a public authority for use as public parking.

It is proposed that these policies be reviewed and further articulated to address the emerging needs of the VMC. It is recommended that this process be guided by the draft principles and implementation considerations set out below.

Draft Principles and Implementation Considerations

There have been numerous Ontario Municipal Board (OMB) hearings on the use of Section 37 of the Planning Act to obtain community benefits. As a result a number of general principles for application have emerged that have been adopted by municipalities including the Cities of Toronto and Ottawa. Recently, the Town of Richmond Hill secured affordable housing and other benefits in an intensification project on Yonge Street. Such principles could be applied for the Vaughan Metropolitan Secondary Plan and other Intensification Areas identified in the Vaughan Official Plan. Principles for consideration include:

1) Section 37 must be implemented through a zoning by-law. This is usually a site-specific zoning by-law amendment permitting a height and/or density increase for a specific development.

2) The community benefits must be set out in the site-specific zoning by-law.

3) Section 37 is a planning tool; it is not a revenue tool. There should be a reasonable planning relationship between the secured community benefits and the contributing development. A planning relationship exists if both the contributing development, as well as the local community, benefits from the Section 37 facilities. Based on this principle, community benefits within the local area, are most supportable.

4) The proposed development must represent good planning. An owner/developer should not obtain inappropriately high density or height increases by offering community benefits and the City should not approve development simply to get community benefits.

5) Community benefits should be durable - as durable as the bigger and/or taller building that is accommodated, in exchange. As a result, Section 37 benefits should be capital facilities. Cash-in-lieu of capital facilities is only acceptable where the cash is secured for specific local capital facilities. Operating, programming, and maintenance funds are not durable and are not appropriate community benefits. Section 37 is not a vehicle to generate general revenue within a Ward or local community for non-specific or indeterminate purposes. The contributing owner/developer should be committed to providing specific capital facilities, or cash contributions to achieve specific facilities.

6) There is no set "formula" based on the value of increased density contained in the Section 37 framework. Most Section 37 agreements are negotiated on a case-by-case basis, and the amount or value of the community benefits varies across the City.

7) The specific community benefits secured in a development are the result of discussions between the City and the owners/developers based on the policies of the relevant Secondary Plan and supporting studies.

8) Matters required to support a development are not considered to be eligible Section 37 community benefits, and should be provided by the developer.

9) Good architecture and good design are expected of all developments. They are not eligible Section 37 benefits.

Ontario Municipal Board Decisions

The OMB has made many decisions over the years involving Section 37 in the City of Toronto. They have ruled in a number of circumstances that:

- the City cannot be arbitrary in determining a dollar value of benefits that a developer/owner should contribute under Section 37 , but must justify the basis for and reasonableness of cash contributions;
- the City cannot impose an agreement that is not supported by the Official Plan policies;
- the City cannot rely on implementation guidelines, but must have Official Plan policies;
- the benefit need not relate directly to the site or development but should relate to a specific area where the development is located.

In light of the principles established through numerous OMB rulings staff recommends that the City of Vaughan prepare a more detailed Official Plan policy in the modified Vaughan Metropolitan Centre Secondary Plan that discusses specific capital facilities and objectives within an overall strategy. In addition staff recommends that a Committee of the Whole (Working Session) on the draft principles and framework for Section 37 in the Fall/Winter of 2012 to inform on Section 37 application City-wide. Cash should always be viewed as "in-lieu" of some specific facility or in support of a plan or strategy that is tangible such as the Vaughan Metropolitan Centre Open Space Master Plan, or Active Together Master Plan.

Relationship to Vaughan Vision 2020/ Strategic Plan

This report is consistent with the priorities set forth in Vaughan Vision 2020 Strategic Plan, through the following initiatives, specifically:

Service Excellence:

- Lead & Promote Environmental Sustainability
- Preserve our Heritage & Support Diversity, Arts & Culture

Organizational Excellence:

- Manage Corporate Assets
- Ensure Financial Sustainability
- Manage Growth & Economic Well-being

Regional Implications

The Region of York is a vital stakeholder in the process, and has encouraged the use of Section 37 in its recent work including: *best practices guide for planning CENTRES + CORRIDORS*.

Conclusion

Staff has collaboratively prepared this report on the use of Section 37 in the VMC to help inform the development of a broader City-wide policy for consideration at a future Committee of the Whole (Working Session). The use of Section 37 of the Planning Act to achieve City objectives would reinforce and support the City's commitment to building a world class City that is sustainable over the long term.

Attachments

n/a

Report prepared by:

John MacKenzie, Commissioner of Planning, ext 8445

Respectfully submitted,

CLAYTON D. HARRIS
City Manager

JOHN MACKENZIE
Commissioner of Planning

/lm