Growth Plan Review

Commissioned by the Ontario Home Builders' Association

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Mr. Joe Vaccaro
Chief Executive Officer
Ontario Home Builders' Association
20 Upjohn Rd, Suite 201
North York; ON
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Dear Mr. Vaccaro,

Re: Review and Strategic Assessment of the *Growth Plan for the Greater Golden Horseshoe*

Deloitte Real Estate is pleased to provide the results of our review and strategic assessment of the *Growth Plan for the Greater Golden Horseshoe* (the *Growth Plan*). The review is being undertaken as input to the co-ordinated land use planning review being undertaken by the Province. As you know, the Provincial review is being supported by a six-member advisory panel that is set to report its recommendations for improvements and amendments in late 2015.

Our strategic assessment focuses on the issue of economic development and land development. The core finding is that a comprehensive and detailed assessment of the changing face of employment is required to ensure the *Growth Plan* maximizes future economic potential. A stronger Provincial role and commitment is also required to deliver the *Growth Plan* vision, in particular for financing new infrastructure. We welcome the opportunity to review our analysis, key findings and recommendations. If you have any questions, please feel free to contact me at sbotting@deloitte.ca (416.601.4686) or Antony Lorius at alorius@deloitte.ca (416.775.7010).

Respectfully submitted

Sheila Botting
Canadian Real Estate Leader

Growth Plan Review

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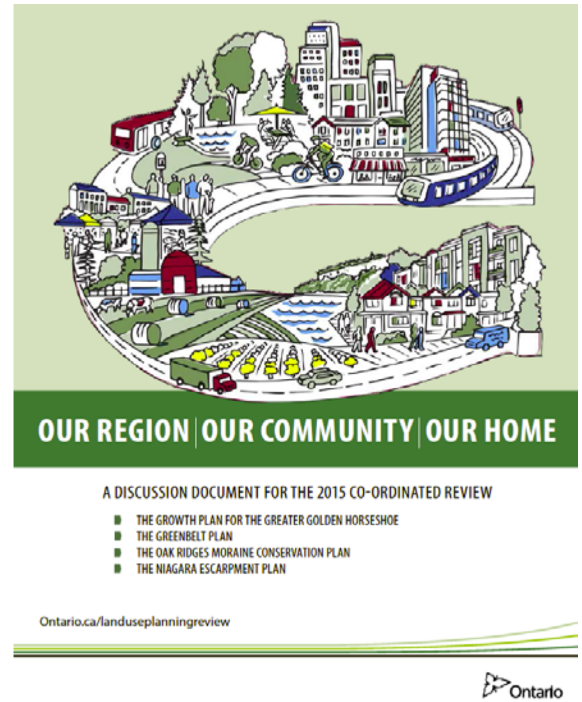
The Ontario Government is currently undertaking a coordinated GGH Growth Plan review

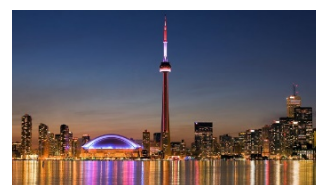
The Greater Golden Horseshoe (GGH) of Southern Ontario is one of the fastest growing and most **progressively planned** metropolitan regions in North America. Over the years the Province has established legislation, plans and policies that have guided the region's growth while simultaneously protecting environmental and heritage features. The main plans guiding growth include the *Growth Plan for the Greater Golden Horseshoe* (the *Growth Plan*), the *Greenbelt Plan*, the *Niagara Escarpment Plan* and the *Oak Ridges Moraine Conservation Plan.*

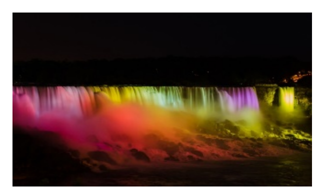
In accordance with applicable legislation, the Province is now undertaking a coordinated review of these plans. A **two-stage, consultative approach** is being taken to the review process with a supporting advisory panel in place to offer recommendations on how to amend and improve the plans. The first stage of the review was conducted in early to mid 2015. During this time, all key stakeholders were asked to provide feedback on how the plans can better achieve the following goals:

- Protecting agricultural land, water and natural areas;
- Keeping people and goods moving, and building cost-effective infrastructure;
- Fostering healthy, livable and inclusive communities;
- Building communities that attract workers and create jobs;
- Addressing climate change and building resilient communities and
- Improving implementation and better aligning the plans.

The second stage of public consultation will focus on potential amendments to the plans, and, ultimately, contribute to an updated policy framework. As input to this process, Deloitte Real Estate has been retained to undertake a strategic assessment of the *Growth Plan* from an economic development and land development perspective.







Deloitte Real Estate has been engaged by the Ontario Homebuilders' Association to provide a strategic assessment of the Province of Ontario's Growth Plan from an economic and land development perspective.

Executive Summary

Growth Plan Review

Three key themes have arisen from an economic and land development perspective

As part of the first phase of public consultation, a number of different stakeholders provided comments and responses to the Province including: **Municipalities, Developers, Environmental Groups, Professional Groups, Agricultural Groups, Industry Groups and Individuals.** Based upon our review of documents submitted, three key themes arise with respect to the *Growth Plan*: the density and intensification targets, planning for employment, and Provincial leadership and commitment to their vision.

1	**Density and intensification targets**	Concerns with the mandated density and intensification targets is a major theme in the comments provided to the Province. Key issues include the use of a single standard which does not take into account economic diversity across the region, the blending of population and employment densities which creates implementation challenges and the amount of time consumed by the land budgeting process which, in many cases, is seen to have 'taken away' from broader City-building objectives.
2	**Planning for employment**	Planning for employment was identified as another theme. The changing face of employment, including changes in the sectoral profile of growth and shifting employment densities, particularly with respect to declining densities in the industrial and goods movement sector, was identified as a key issue. The treatment of 'major retail' and planning for major office development were also identified as key issues that should be taken into account as part of the planning review.
3	**Provincial leadership and commitment**	Encapsulating the above and other themes, the need for a stronger Provincial role and commitment to implementing the Growth Plan vision was also identified. Lack of clarity and transparency in the land budgeting process, uncertainty and unpredictability with respect to infrastructure investment priorities and a less than ideal municipal 'tool box' for implementing the *Growth Plan* vision (particularly as it relates to the need for significant infrastructure financing) were repeatedly identified as impediments to economic development. The review reinforced a need to explore alternative funding models and sustainable funding sources, both of which become critical concerns.

The economic development themes arising from stakeholder submissions speak clearly to municipal competitiveness, the ability to attract and retain investment and potential for future growth and development.

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Growth Plan Review

Case studies illustrate constraints and challenges for major asset classes

In order to highlight the findings of the document review and market soundings, **representative case studies** were undertaken for the three major commercial real estate classes: major office, industrial and retail. The case studies illustrate some of the main **implications of the Growth Plan vision** from the private sector perspective of **managing risk**, **project feasibility** and ensuring **future success**. The case studies are summarized below.

Office

The *Growth Plan* seeks to encourage more intensive forms of development in the **Urban Growth Centres (UGCs)** including major office and institutional use. Current development economics, however, strongly favours greenfield business park office locations with ample areas for low-rise development and surface parking. Most major new office development in the UGCs is not feasible as a result of higher density construction costs, higher land costs, the need for structured or underground parking combined with other costs such as development charges and taxes and, in some cases, high design standards.

Industrial

Recent trends in **supply chain management** has led many firms to focus their efforts on cutting transportation costs while maintaining operational flexibility. These trends are leading to lower overall employment densities in new industrial buildings, particularly for goods movement and logistics in the central and western GGH 905 municipalities. New industrial development has also become increasingly sensitive to increases in development charges and other costs in the context of the net rents that can be achieved. The evolving form and economics of industrial development is a major issue from an economic development perspective.

Retail

The rise of retail **e-commerce platforms,** an increasingly empowered consumer and changes in the retail path to purchase have led many retailers to reevaluate their approach to delivering products to the customer. For many retailers, overall retail square footage has decreased and in some cases disappeared completely. Over the decades to come, “bricks and mortar space” will remain important but will play different roles in the eyes of the consumer. Retail uses will remain an important element of new communities but their form and function will continue to evolve. An understanding of this evolution needs to be a key element of future retail policy directions.

The development community is shifting the way commercial real estate is delivered to the market. The *Growth Plan* needs to recognize emerging challenges and opportunities to maximize the region’s economic potential.

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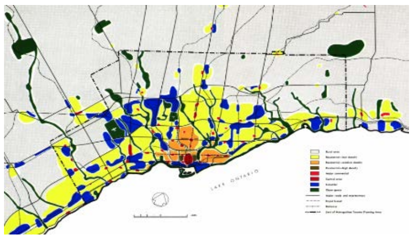
Growth Plan Review

Market soundings supplement case studies and confirm economic and land development issues

A market sounding process was undertaken to **explore and confirm key issues** with respect to potential opportunities, constraints and challenges. The market sounding was also used to verify the findings from the review and case study examples. Interviews were conducted with selected industry and agency stakeholders, including national and international real estate advisors to understand their concerns and identify any relevant opportunities. The following conclusions were derived from the market soundings:



Stronger Provincial leadership and commitment is required

Density and intensification targets have led to unintended consequences

Tenant preference dictates location and format of new office development

Infrastructure funding challenges need to be addressed. Siting of major institutional facilities needs to support the Growth Plan vision

The consensus view is that the **Province needs to show stronger leadership**, especially with respect to infrastructure investment. It was also confirmed that the focus on density and intensification targets has led to some unintended consequences, and has made other broader City-building objectives more difficult to achieve. The current economics of the office market clearly favour established central nodes, such as the City of Toronto, as well as suburban greenfield locations with ample areas for low-rise development and surface parking. Inconsistency in the siting of new major institutional facilities was also identified as a significant concern, particularly the development of major health care and secondary educational facilities outside of the UGCs identified in the *Growth Plan*.

There is a need for stronger Provincial commitment to implementing the Growth Plan vision, especially for financing infrastructure. Also required is more consistent process for locating new institutional facilities and an expanded municipal ‘tool box’ to overcome local economic and land development challenges.

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Five key challenges lead to strategic recommendations

1	Economic Opportunity	Future economic potential may not be realized if the Growth Plan cannot recognize economic diversity across the GTAH, particularly for employment lands
2	City-building Priorities	Continued focus on density and intensification targets has diverted attention away from broader City-building and economic development priorities
3	Infrastructure Investment	Challenges with municipal infrastructure investment threaten to erode the economic base
4	Major Offices in the UGCs	Office development in the Urban Growth Centres with significant density is largely not economically feasible without financial incentives to provide a catalyst for growth.
5	Provincial Role and Commitment	Without strong provincial leadership, it will be difficult to overcome current challenges, particularly with respect to addressing infrastructure funding and employment land development challenges

Section 1: Introduction

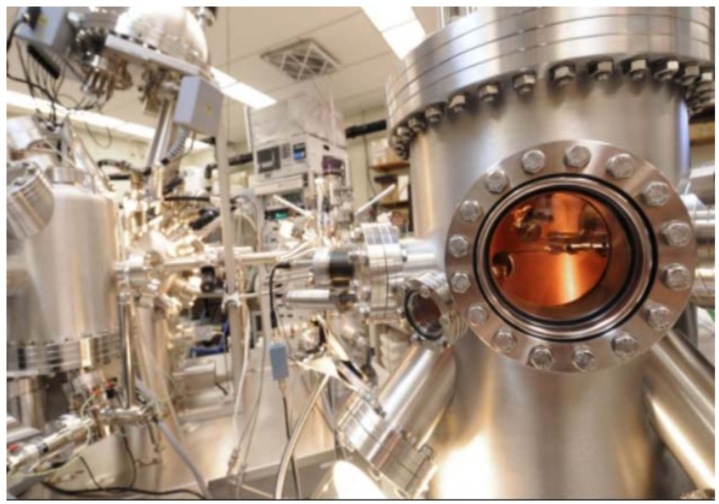
Section 1: Introduction

The Greater Golden Horseshoe

The Greater Golden Horseshoe has the potential to emerge as an economic super cluster

The Greater Golden Horseshoe (GGH) is one of the **fastest growing and most productive** regions in North America. Currently, the region is home to nine million people which represents more than 25% of Canada's population. Furthermore, the region generates roughly 25% of total Canadian GDP. The GGH is expected to see a significant increase in population levels over the next 25 years so that by 2041, an estimated **13.5 million** people will call the region home with employment expected to rise by 2 million jobs.

If these projections are achieved, the GGH will see its population increase by almost 50% and by 2041 will be roughly the current size of the Chicago Metropolitan Area. With **strong and growing clusters** in financial services, information technology, agri-food and food processing, life sciences, aerospace and other advanced industry, the GGH has the potential to emerge as an economic 'super cluster' within the Province, Canada and North American and global marketplace. A network of international and regional airports, rail lines, ports and intermodal yards is already in place, is a well as a well-developed 'innovation infrastructure' in the form of secondary education, technical colleges and research institutions, particularly in Toronto and Kitchener-Waterloo.



With rapid growth anticipated, strong and expanding clusters in financial services, advanced industry and the agri-food sector, the GGH has the potential to emerge as an economic super cluster.

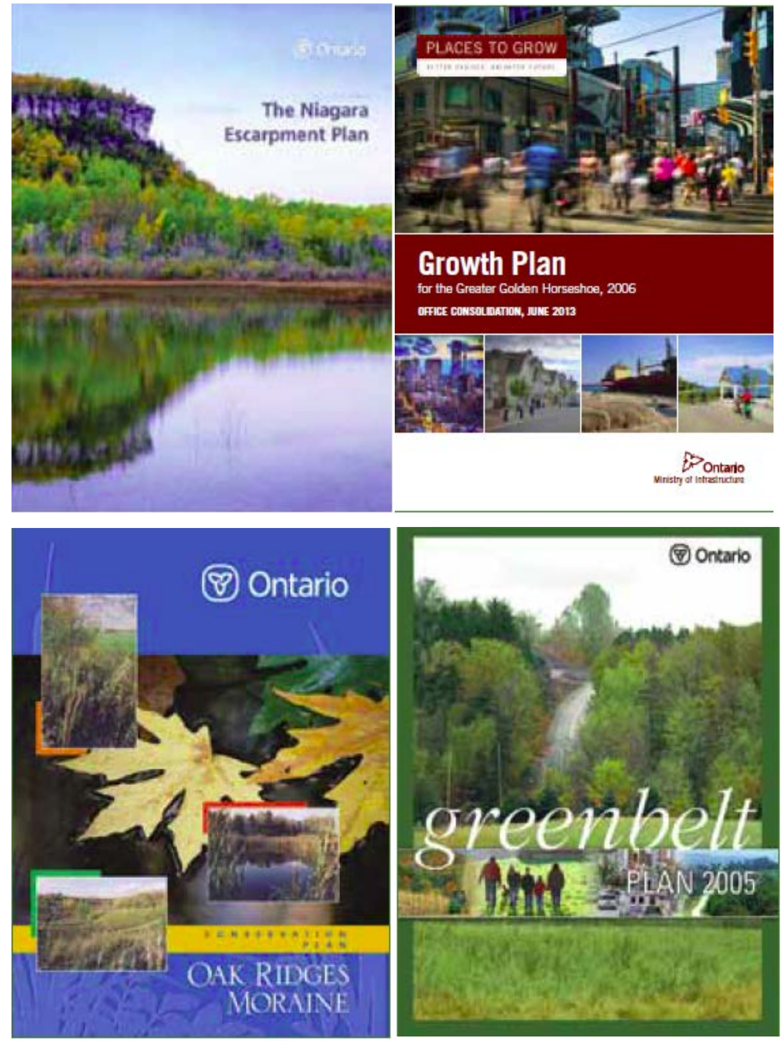
Section 1: Introduction

Provincial Plans for the Greater Golden Horseshoe

Four major plans currently guide growth and development

In the past, the province has established legislation, plans and policies that have guided the region's growth while simultaneously protecting environmental interests. The four relevant plans are detailed below:

- **Niagara Escarpment Plan (1985) -** protects approximately 480,000 acres (195,000 hectares) of land to support a continuous natural environment along the escarpment. It ensures that development on the Niagara Escarpment and in its immediate vicinity is compatible with protecting the natural environment.
- **Oak Ridges Moraine Conservation Plan (2002) -** protects approximately 470,000 acres (190,000 hectares) of the unique moraine landform. It protects the moraine's important surface water and groundwater resources, as well as its natural features and biodiversity.
- **Greenbelt Plan (2005) -** identifies where urbanization should not occur in order to provide protection to the agricultural land base and the ecological features and functions occurring on this landscape.
- **Growth Plan for the Greater Golden Horseshoe (2006) –** sets out the Provincial vision for growth including the population and employment forecasts that must be used for long-range planning purposes and direction on how that growth is to be accommodated; The Growth Plan seeks to encourage the development of 'complete communities' by reducing the amount of greenfield development while encouraging higher densities on residential and employment lands.



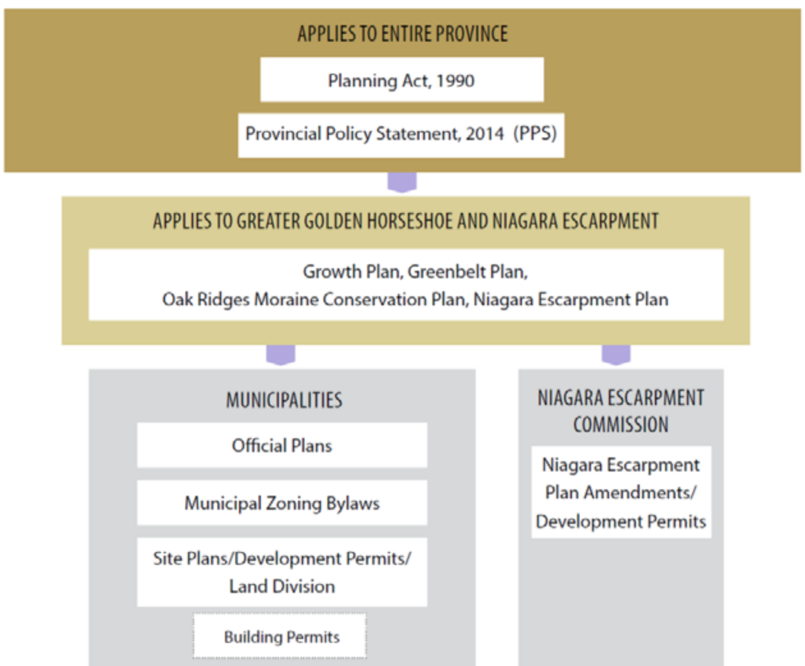
While the four plans were developed at different times and for different purposes, they work in concert to provide a broad, long-term planning framework for the region.

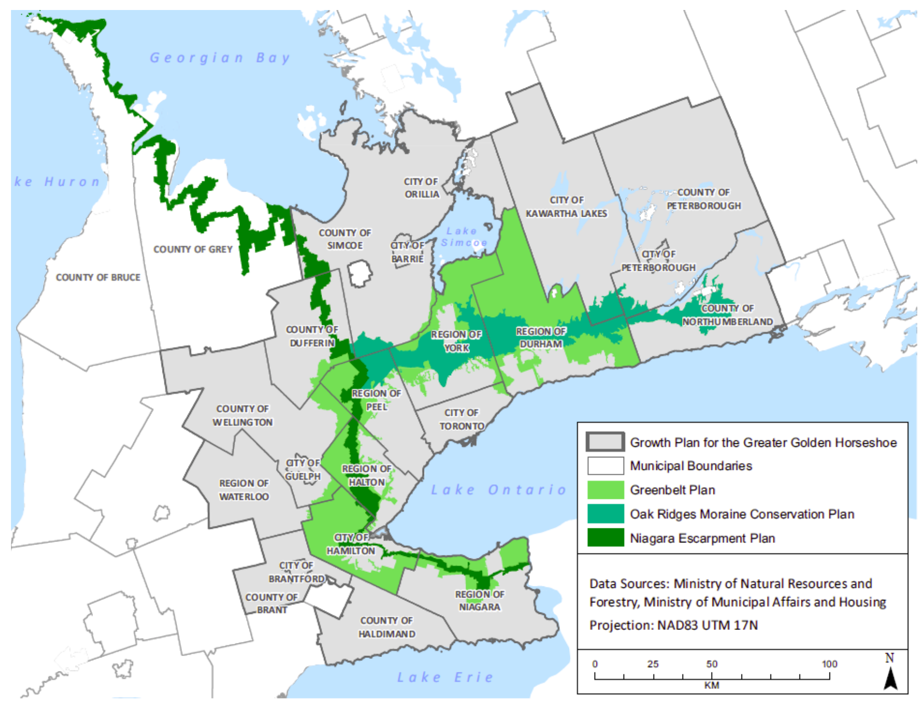
Section 1: Introduction

Rationale for Co-ordinated Review

Now is the time for a coordinated review

In the nine years since its inception, the Growth Plan for the Greater Golden Horseshoe (Growth Plan) has been amended twice. **Amendment 1** came into effect on January 19, 2012 and applies to the Simcoe Sub-area. **Amendment 2** came into effect on June 17, 2013, and updates and expands the **growth forecasts to 2041**. Based on a review of the public literature the *Growth Plan* has generally been viewed as a success, although a number of issues related to implementation have arisen over the years, including the density and intensification targets, definition of some key terms (notably 'major retail') and the conformity timelines which proved difficult to meet. There was also a sense of potential conflict between the Growth Plan and other plans, suggesting a need to take all four plans into account. As a result, in February 2015 the Province initiated a coordinated review to address **new and evolving challenges** while **capitalizing on opportunities** that will ensure that **growth is accommodated in an appropriate and sustainable manner.**





The Province hopes to achieve recommendations that 'protect our important and finite agricultural lands and natural features, contributes to compact and complete communities & supports our economy and quality of life.'

Section 1: Introduction

Co-ordinated Review Process

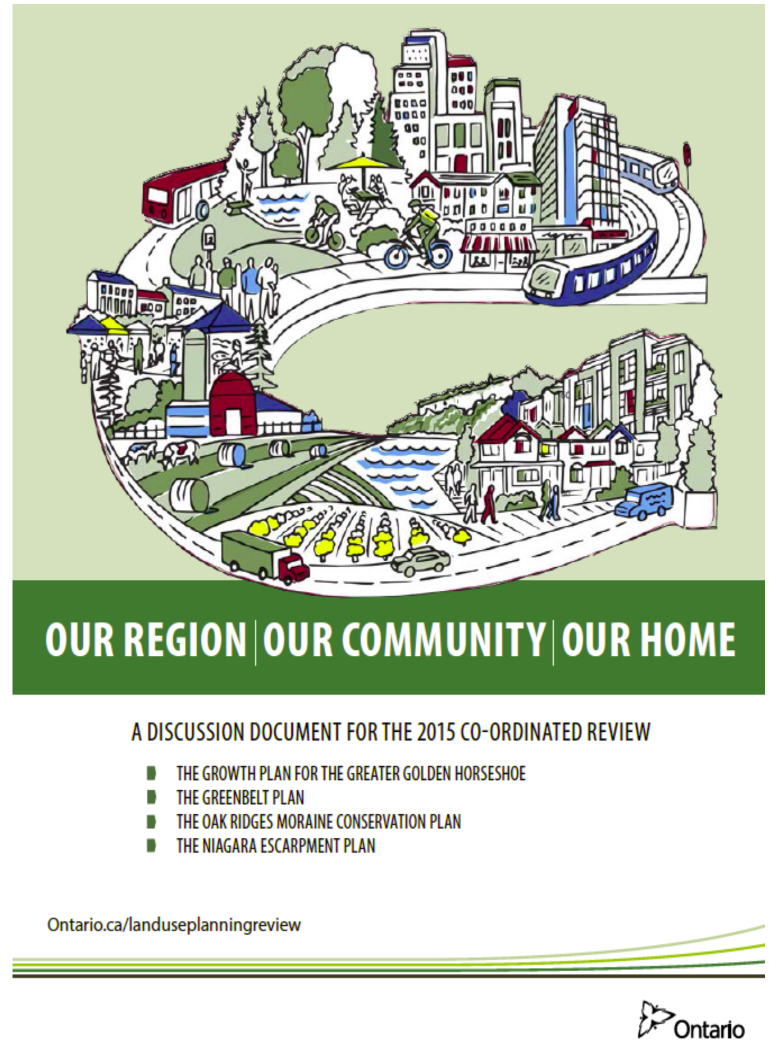
A two-stage approach is being taken to the review process

The province has taken a **two-stage**, **consultative approach** to the process with a supporting advisory panel due to offer recommendations on how to amend and improve the plans on September 1, 2015.

The **first stage** of the review was conducted in **early to mid 2015**. During this time, all key stakeholders have been asked to provide feedback on how the plans can better achieve the following goals:

- Protecting agricultural land, water and natural areas;
- Keeping people and goods moving, and building cost-effective infrastructure;
- Fostering healthy, livable and inclusive communities;
- Building communities that attract workers and create jobs;
- Addressing climate change and building resilient communities and
- Improving implementation and better aligning the plans.

All Regions and large municipalities within the GTAH and other relevant organizations have responded with a number of **key themes** emerging. **Town hall meetings** were held across the region where individuals were asked for their feedback. The Review Panel will be taking this input into account as they make their recommendations and potential amendments. **The second stage** of public consultation will focus on obtaining feedback on potential amendments to the plans.



The Province has identified this review as an opportunity to consider how well the plans support and align with broader provincial initiatives, legislation and long-term goals for the region.

Section 1: Introduction

Deloitte's Role and Work Plan

Purpose of this assignment for Ontario Home Builders' Association (OHBA)

Deloitte Real Estate has been engaged by the Ontario Homebuilders' Association (OHBA) to provide a **strategic assessment** of the Province of Ontario's Growth Plan from an economic development perspective. Based on a review of the public literature the Growth Plan has been generally regarded favourably by the planning community, some key **issues and impediments** to economic development and land development have been identified by the municipal sector and development industry. This report seeks to identify these issues and impediments, identify the key challenges and make strategic recommendations to be considered by the Province.

Work Plan

The overall project work plan is shown in the chart below. The first phase consisted of **document review** while clarifying the overall objectives of the assignment. Phases 2 and 3 were comprised of **case study preparation** and **market soundings** which helped drive the **preliminary conclusions in Phase 4**. Deloitte Real Estate has committed to consistent engagement with OHBA throughout the mandate in the form of meetings to discuss relevant approvals and conclusions.

Engagement Start-up and Document Review	Case Study Preparation and Market Review	Market Soundings	Reach Preliminary Conclusions
➢ Meet with OHBA to confirm work program and identify any items relating to the success of the assignment ➢ Read and assess available documents, plans and any other outstanding items ➢ Summarize key issues arising from initial review including such matters as intensification, Greenfield urban expansion, intensification, brownfield redevelopment	➢ Prepare 2 to 3 case studies of development projects including office, industrial and retail ➢ Identify implications of the Growth Plan and the role of the public and private sectors in managing project risk, feasibility and future success ➢ High-level market review ➢ Identify key opportunities and constraints on development feasibility and ability to achieve Provincial economic objectives	➢ Under the direction of the OHBA, develop a telephone survey to be reviewed and approved by management, to explore and confirm key issues with respect to potential opportunities, constraints and challenges ➢ Conduct 5 to 8 telephone interviews with industry and agency stakeholders ➢ Obtain any additional feedback and input from OHBA representatives	➢ Strategic assessment of key issues identified through document review, case studies and market soundings ➢ Identify alignment between market and growth opportunities with Provincial policy and implications for economic development. ➢ Recommendations required to capitalize on opportunities including those related to employment land, density and intensification targets, financing infrastructure and other key issues

Section 2: Key themes in submissions from stakeholders

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Introduction

Deloitte Real Estate has identified three key themes

Following a review of available documents, plans, background reports and other materials, from an **economic development and land development perspective**, the following **key themes** emerged:

1	**Density and intensification targets**	The mandated Growth Plan targets are a major concern due to issues with the overall land budgeting framework. Key issues include the use of a single intensification standard (40%) difficulties in recognizing economic diversity across the region and the use of a blended population and jobs density target, which creates implementation challenges and consumes excessive time in the conformity process.
2	**Changing face of employment**	The need to better plan for employment is another overarching theme. The changing face of employment in industrial, commercial and retail sectors, the need for sector based growth outlooks, the treatment of major retail, declining industrial densities and the need to protect areas where office developments could be located have been highlighted as some of the key issues.
3	**Provincial leadership and commitment**	Closely tied to the above two themes is the need for a stronger role and commitment by the Province in such matters as clarifying the land budget process, providing predictability of infrastructure investment priorities, and supporting municipalities from a planning and infrastructure investment perspective to ensure they are able to successfully implement the Growth Plan vision.

While beyond the scope of this assessment, a range of other themes were also included in responses from stakeholders:

1. **Harmonizing plans:** The perceived potential for conflict and layers of approval highlights a need for harmonization. A coordinated and concurrent review of the plans is required in addition to integration with other documents such as the Big Move.

2. **Better protection of agricultural lands, water and natural areas:** Directing new development to existing urban areas was identified consistently by municipalities as an area for improvement.

3. **Issues with the Greenbelt:** There is currently no administrative and decision-making process to consider, confirm, or correct changes to the Greenbelt Plan designations and boundaries. And there is a need to permit additional uses within the Greenbelt.

4. **Climate change and building resilient / inclusive communities:** the need for greater clarity was identified.

5. **Measuring success:** Divergent stakeholder points of view indicate that the actual progress is not well understood.

Section 2: Key themes in submissions from stakeholders

Density and Intensification Targets

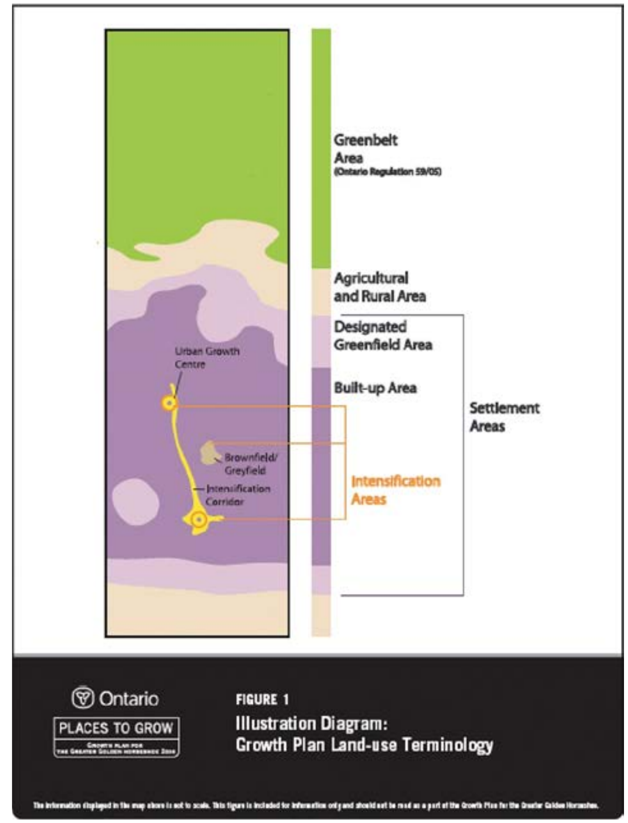
Intensification target can be very difficult to achieve

The land budgeting process is driven by the density and intensification targets as well as the population and employment growth forecast for the different municipalities included in the Growth Plan. The key issue revolves around **the difficulty in implementation** and municipalities' ability to actually achieve the targets and forecasts.

a) The Growth Plan sets a single intensification target of a minimum of 40% for all new residential development occurring within the built boundary, with some municipalities provided with alternative minimum targets to reflect local circumstances.

- With municipalities like Oshawa where only 28% of new units were constructed within the built boundary in 2013 and 2014, the 40% intensification target has been difficult to achieve. The issue is largely because this standard does not account for housing diversity including differences in size, maturity of growth and demographics in the different municipalities.
- Further there is little direction on the consequences if municipalities cannot achieve the mandated targets. It is generally stated through submissions that an ad-hoc approach is followed in relaxing the targets for some suburban municipalities like Brantford, but there is no structured process to allow for exceptions or a process for a staged achievement of the targets over time.
- There is also lack of guidance from the Province on how it intends to assist municipalities in achieving this target.

b) The Growth Plan imposes two density targets – one for designated greenfield areas (DGAs) and the other for Urban Growth Centres (UGCs). The DGAs are defined by the Growth Plan as settlement areas as "area within a settlement area that is not built up", while the UGCs are the downtowns and city centres identified in the Growth Plan and can be viewed as the new "suburbs".



400 people & jobs combined per hectare	200 people & jobs combined per hectare	150 people & jobs combined per hectare
Downtown Toronto	Downtown Brampton	Downtown Barrie
Etobicoke Centre	Downtown Burlington	Downtown Brantford
North York Centre	Downtown Hamilton	Downtown Cambridge
Scarborough Centre	Downtown Kitchener	Downtown Guelph
Yonge-Eglinton Centre	Uptown Waterloo	Downtown Peterborough
	Downtown Milton	Downtown St. Catharines
	Markham Centre	
	Mississauga City Centre	
	Newmarket Centre	
	Midtown Oakville	
	Downtown Oshawa	
	Downtown Pickering	
	Richmond Hill/Langstaff Gateway	
	Vaughan Corporate Centre	

Section 2: Key themes in submissions from stakeholders

Density and Intensification Targets

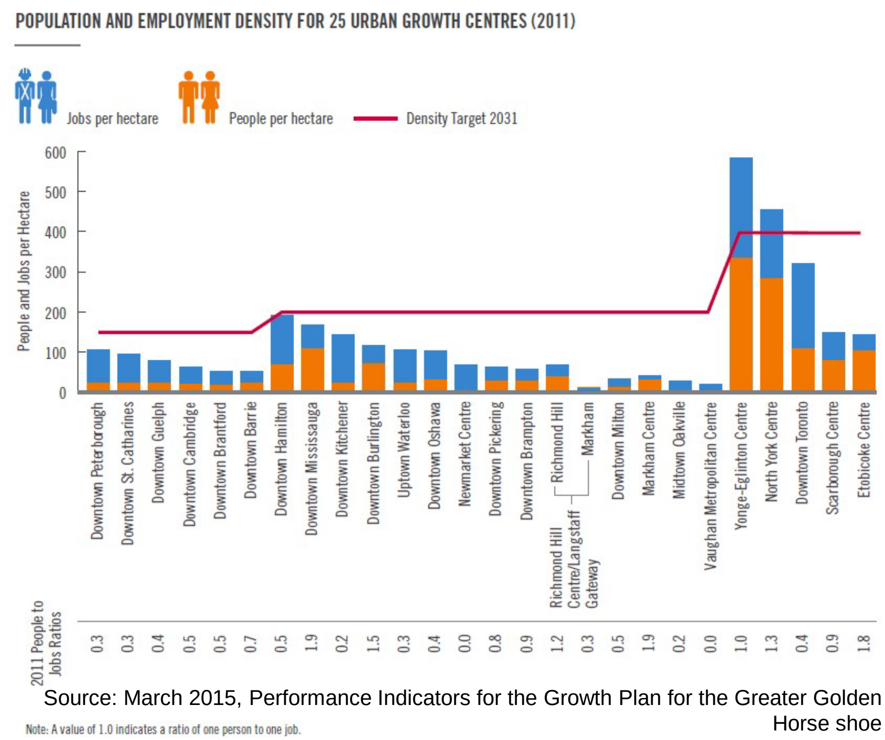
Use of single density standard is problematic

Under the Growth Plan, designated greenfield areas must be planned to achieve a **minimum density of 50 people and jobs combined per hectare** with some municipalities having alternative targets to reflect local circumstances. The 25 **UGCs** are required to achieve minimum **gross density targets** by 2031, which **range from 150 to 400 people and jobs combined per hectare**. There are three fundamental challenges that have been identified through the review submissions with this approach:

- There is a **single standard applied over a wide range of jurisdictions**, not accounting for the municipal diversity including different forms of employment and their land requirements, economic strengths and market characteristics. In some cases it is felt that the **UGC density targets are too low**, particularly around planned subways or higher order transit stops.

- This single standard reflects a **gross density measure**, which means that **the calculation** includes all public uses and may also include natural heritage features and major infrastructure which might vary from one municipality to another. **The ability to achieve the targets is therefore influenced by the local land base and the 'take-outs'** (i.e. the heritage and infrastructure identified previously). In determining the take outs, there is ambiguity with direction regarding calculations for open space, hydro corridors, natural areas, etc in the non-developable land base. Further there is lack of clarity on when **DGAs** are required to meet the density targets.

- In order to achieve the targets, **unique situations** like low employment densities in warehouse and distribution locations **require high residential densities, which is sometimes not supported by market demand** especially in suburban locations.



Source: March 2015, Performance Indicators for the Growth Plan for the Greater Golden Horse shoe

Section 2: Key themes in submissions from stakeholders

Changing Face of Employment

Economic diversity needs to be taken into account

The ‘Changing face of employment’ was another recurring theme in the submissions from stakeholders. Key issues identified include the changing sectoral **composition of employment** and shifting densities and building forms in the industrial, office and retail sectors. A number of submissions spoke to the lack of specific direction on the type of employment growth expected by geography. Some stakeholders suggested that the review provided an opportunity to **establish a new economic vision** as part of the Growth Plan. The **definition of Major Retail**, retail policies and evolution of the sector have also been voiced as issues that need to be considered in planning for the economic future of the region along with the vision for major offices:

Major Offices

i. Lands for employment uses, specifically **office uses need to be protected** as they are not competitive with other uses such as high density residential or retail

ii. It is **challenging to attract office to new planned areas**, compared to residential and retail uses, especially the UGCs where development costs are higher.

iii. **Office development is contingent on market demand** and municipalities closer to Toronto‘s strong office market and transportation infrastructure may be able to attract greater office employment compared to those further away.

iv. **The demand for office use is changing** as increasingly companies choose to offer teleworking and agile work environments, ultimately resulting in less space per worker and reduced demand. These changing demand factors need to be considered in Growth Plan implementation strategies.

v. **Economic impacts may be a better measure of economic health than number of jobs**, alternatively a measure of density that does not penalize municipalities with a predominance of lower density employment needs to be developed.

Section 2: Key themes in submissions from stakeholders

Changing Face of Employment

Better definitions and sub-area assessments are required

Industrial

i. Multiple stakeholders identified the need for the Province **to undertake the sub-area assessments** described in policies 2.2.6.8 and 5.3.4a) of the Growth Plan to identify provincially significant employment areas including prime strategic employment areas. The main concern is over the investment attraction **challenge of finding large contiguous development parcels** for major industrial users.
ii. Such factors as **declining employment land densities,** broader economic factors, and market demand for employment lands should be taken into account rather than relying on a total number of jobs in Provincial forecast.
iii. There is a lack of **infrastructure investment** and access to affordable housing in the new employment areas to attract workers.
iv. Allowing for minor adjustments in conversion of employment lands to non-employment uses, outside the comprehensive municipal review, by **setting thresholds** would help the economy stay competitive and give municipalities greater control locally.
v. There is a need to ensure a sufficient supply of **low density employment** lands to be able to meet the needs of all economic sectors.
vi. The **blended density** target is an issue for municipalities where significant industrial development is anticipated over the period to 2041.

Retail

i. Several submissions highlighted that **major retail** has not been defined in the Growth Plan
ii. The evolution of major retail is not well understood or reflected in current policy framework for employment. The government needs to look comprehensively at **retail employment** and policy and evolution over time including mixed use opportunities.
iii. Policies that require retail to be designed to be pedestrian friendly and accessible are not supported by appropriate **municipal tools**.
iv. High **parking standards** required when including retail in mixed-use areas makes it difficult to achieve the required densities.

Section 2: Key themes in submissions from stakeholders

Provincial Leadership and Commitment

Province has not done the “heavy lifting”

The final recurring theme from a review of the submissions - from an economic and land development perspective - is the need for stronger Provincial leadership and commitment to the Growth Plan vision. There is a broad perception that the **Province has not done the heavy lifting that is required** to implement such a progressive policy regime. Key issues are identified below.

Land Budgets and Long Range Infrastructure Planning

i. There is a need for additional guidance and **clarity regarding the preparation of land budgets**. The Province’s Projection Methodology Guideline is now dated and does not reflect latest assumptions in the Growth Plan.

ii. Accordingly there is **inconsistency** between municipalities around their assumptions for exclusions for un-developable lands such as hydro corridors, golf courses, roads and cemeteries.

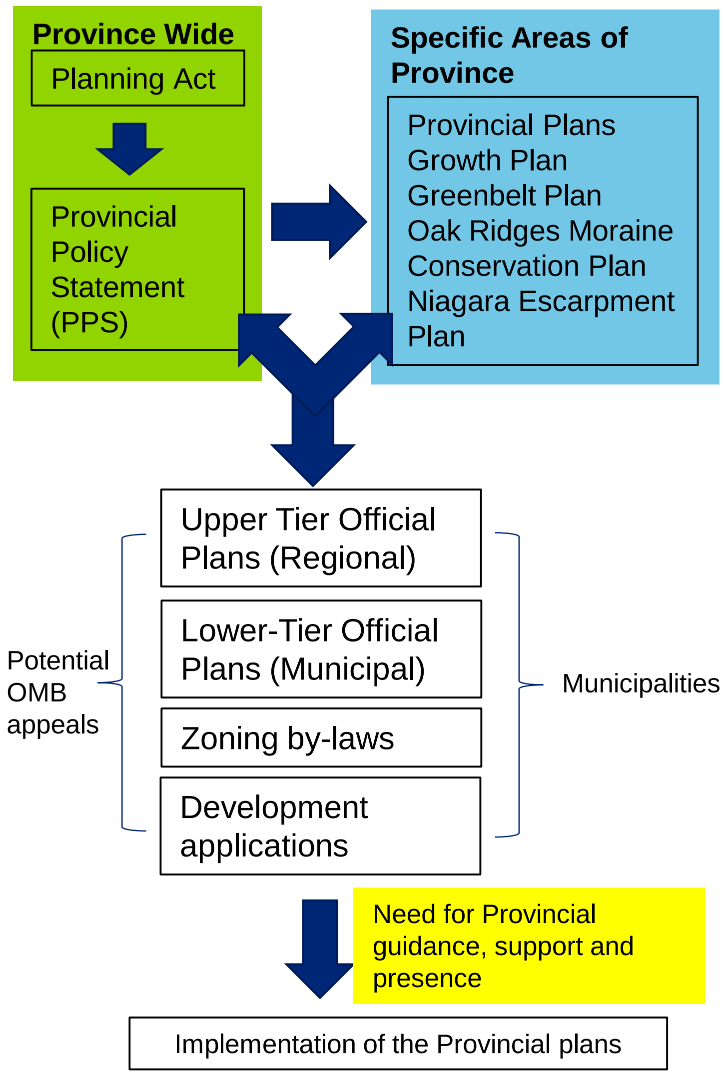
iii. Infrastructure improvement priorities and timing needs to be identified by the Province first to allow municipalities to plan for intensification.

iv. Strategic infrastructure corridors need to be identified early so that they can be protected in the lower tier and upper tier municipal plans.

iv. Lack of long term provincial funding sources for major transit investments is a major issue. Integration of long range transit infrastructure planning with land use planning is needed to build transit supportive communities.

v. Stakeholders also raise the issue of **insufficient direction** for urban areas to develop higher density, transit supportive communities to provide a mix of housing types and tenure to meet the needs of all residents.

i. There is no commentary on how affordable housing, student accommodation at post-secondary institutions, live-work units and opportunities to age-in-place could help achieve policy directions.



Section 2: Key themes in submissions from stakeholders

Provincial Leadership and Commitment

A new infrastructure funding model is required

Funding Local Municipal Infrastructure

i. The need for **alternative funding mechanisms** for water and wastewater infrastructure is raised repeatedly in submissions.

ii. The notion of municipal ownership and operation of these facilities is questioned, with some suggesting that they "**be run like private businesses"** not only including recovery of costs, but providing for a competitive return to the investors.

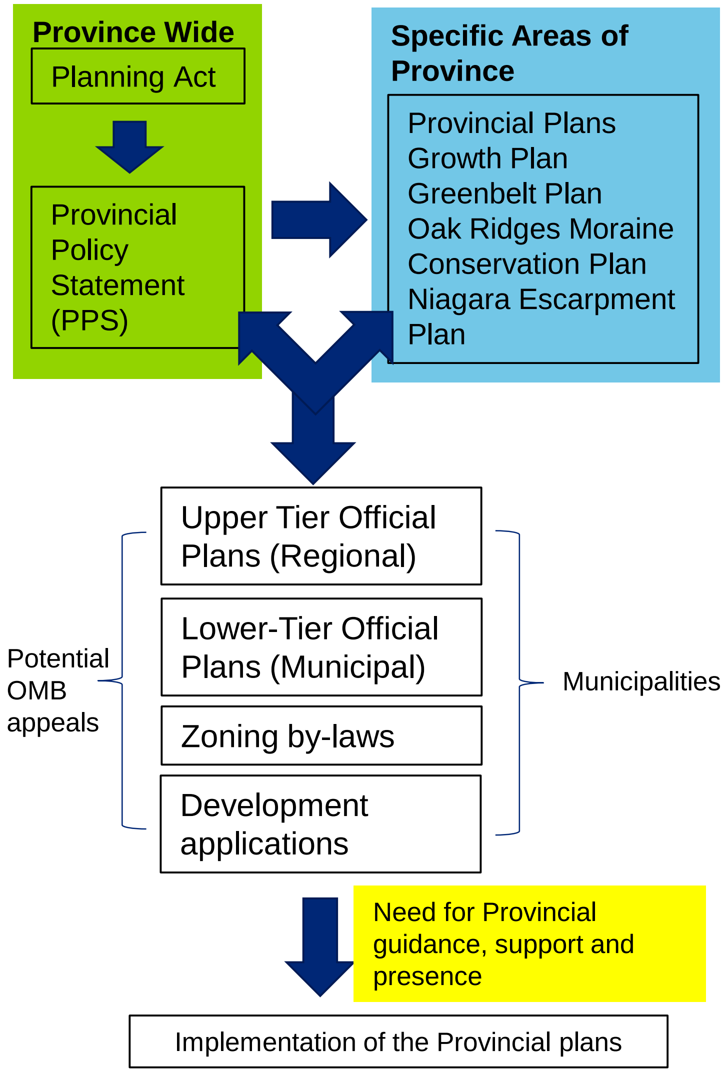
iii. Challenges related to provision of water and wastewater infrastructure requirements result in **delayed capital projects and servicing allocation** (e.g. York Region UYSS). Traditional delivery models are creating cost implications, and are becoming a challenge with local governments who require financial commitments from development industry to front-end the infrastructure costs.

iv. A Utility Model was identified as one option to fund infrastructure, similar to the energy and gas industry, so that its benefits are equitably paid for by all users over the full infrastructure lifecycle.

v. There is a **lack of tools** for the municipalities to plan for growth, due to unequal opportunity for funding infrastructure in greenfield and intensification situations.

vi. Without essential transit and transportation infrastructure in place, many municipal stakeholders feel it is impractical to comply with Provincial plans.

vii. Stakeholders such as the Region of Halton are of the view that current **policies do not allow municipalities to collect the full cost of growth,** and without any changes going forward it will be difficult to plan for new growth. Stakeholders also claim that due to Provincial downloading and amendments to the DC Act, the **Province is not paying its fair share of municipal operating costs**.



Section 2: Key themes in submissions from stakeholders

Provincial Leadership and Commitment

Lack of economic vision is a concern

Economic Development and Strategic Employment Lands

i. The **lack of an "economic vision"** was identified by some stakeholders as a key issue that will need to be addressed.

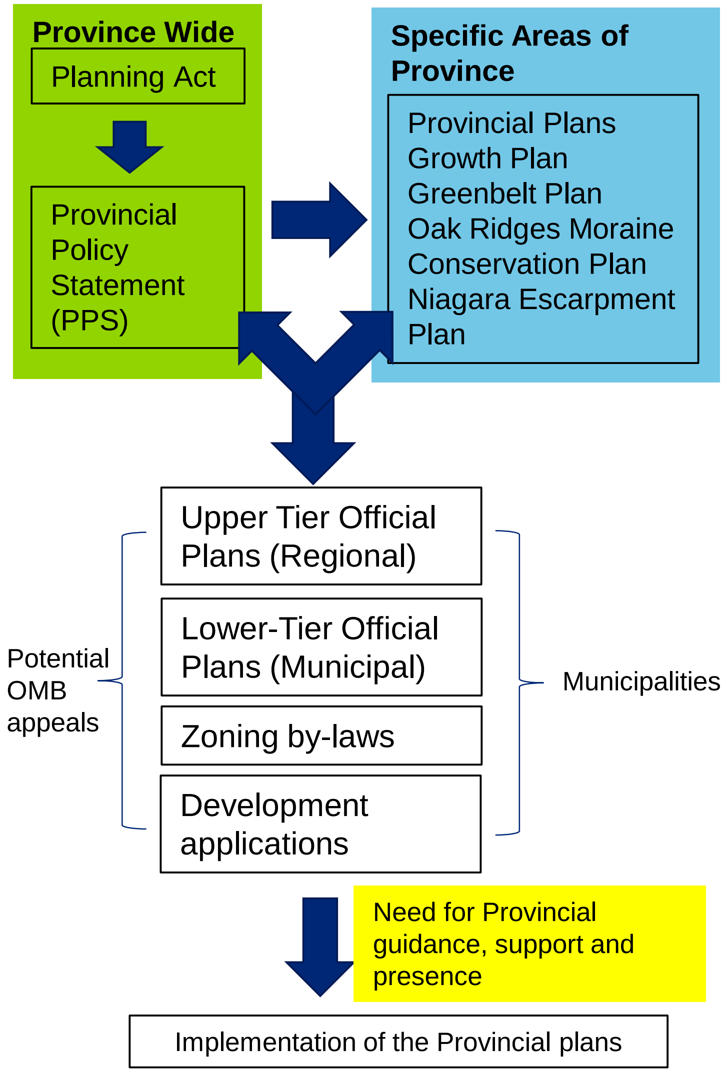
ii. Support was also sought from Province to provide the municipalities **with financial tools to support economic development** as part of the delivery of land use plans, local infrastructure, community service amenities and urban presence required to achieve transit supportive communities.

iii. There is no policy **framework to provide greater protection and guide the designation of strategic employment lands**, which may not yet conform to the density and intensification targets.

iv. There is a need to **provide flexibility in applying the density targets** in situations that involve strategically important employment bases like warehousing and logistics which have low employment densities.

v. The need for very **small pockets of employment** lands to go through a full municipal comprehensive review process was seen as a barrier to economic development. A **streamlined approach** may be warranted for small areas whose location, size and compatibility with other better suited to other uses and intensification.

vi. Overall, it was noted that the Growth Plan needs to embody a much better understanding of the **complex set of issues** related to employment and economic development, including employment to support transit investment and mixed use communities, declining employment densities and attracting investment across a full range of sectors and building types.



Section 2: Key themes in submissions from stakeholders

Provincial Leadership and Commitment

Province needs to show commitment to its plan

Visibility and Consistency

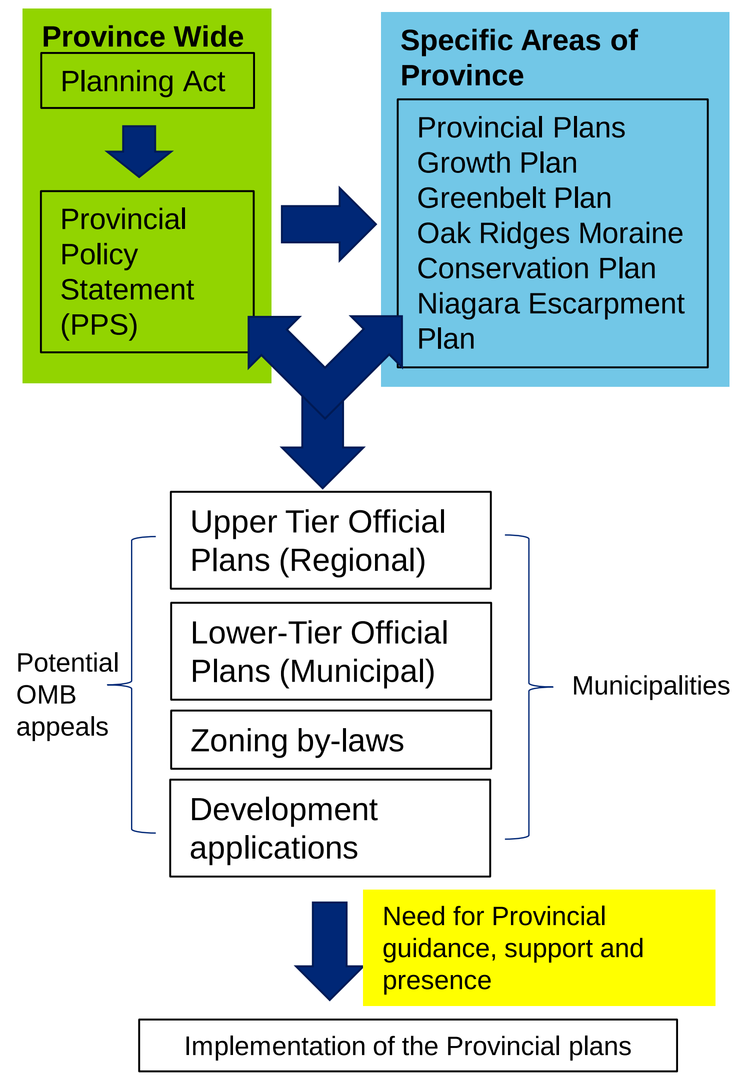
i. It was noted generally that the **Province needs to have a higher visibility and consistency** in its decision-making to implement the vision of the Growth Plan and give municipalities more certainty going forward.

ii. For instance, its was noted that the Province frequently does not have a strong **presence at OMB hearings** where implementing provincial policy is a central issue, creating problems and inefficiencies for the municipalities resulting in wasted time and resources

iii. The siting of new institutional facilities was also raised as an issue. For example, decisions to locate Provincial assets such as **hospitals and university campuses** in places **other than the UGCs** or along major transit corridors suggest a lack of interest and commitment from the Province to actually implement its own vision. .

iv. It was noted that a better integration of decision making across the Ministries is required to **make key provincial facility location decisions according to Growth Plan principles**.

v. Even though the PPS 2014 and the provincial plans provide policy direction on matters of provincial interest, stakeholders raise the need for Provincial commitment to formulate **locally-generated policies regarding matters of municipal interest.** Provincial interest also needs to be defined in the context of "regional" and "local" interests as they pertain to land uses.



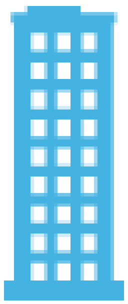
Section 3 - Case Studies

Section 3: Case Studies

Introduction

Representative case studies help to illustrate key Growth Plan challenges

In order to complement the review of available documents, plans, background reports and other materials, Deloitte real estate has completed a number of representative case studies to illustrate the key Growth Plan challenges and the role of the public and private sectors in managing project risk, feasibility and future success. These hypothetical development projects are based on "real world examples" and located in both urban and suburban locations with a focus on the industrial, office and retail sectors. Recent research has suggested that the office, retail and industrial sectors are currently in the midst of a digital revolution. In order to fully address future economic development issues, the Growth Plan must evolve to address the changing office, retail and industrial formats.



Office

- ❖ Employees work anywhere, anytime
- ❖ Space requirements are changing including reduced space per FTE
- ❖ Changing the space means more connected place
- ❖ Workplace as a business enabler to collaborate and drive productivity

Retail

- ❖ Consumers can shop anywhere, anytime
- ❖ Store networks at the beginning of a major shift
- ❖ Empowered consumer driving new business models
- ❖ Demand for retail stores will be reduced as the "Omnichannel" model accelerates

Industrial

- ❖ North America is increasingly competitive. Not all manufacturing is moving offshore or south, some re-shoring
- ❖ High tech and advanced manufacturing poised for a rebound
- ❖ Supply chain continues to be re-evaluated for its efficiency in delivery methods

The three case studies are used specifically to illustrate: challenges to the feasibility of office development in suburban Urban Growth Centres (UGCs), digital disruption and evolving retail formats and the sensitivity of new industrial construction to development charges, taxes and movement in net rents. The studies were developed based on available information from OHBA members and Deloitte's knowledge of the industry. A high-level market review was also incorporated within the case studies to provide an economic 'reality check' on the Provincial vision.

The case studies have identified key opportunities, constraints and challenges imposed by the Growth Plan; specifically as it pertains to development feasibility and the ability to achieve Provincial economic objectives.

Section 3: Case Studies

Case Study 1 - Office Development in an Urban Growth Centre

The Growth Plan's Urban Growth Centres are intended for higher-density development

One of the primary objectives of the Growth Plan is to shift the pattern of development away from the **traditional suburban form** to more **compact, mixed-use, urban-type forms.** Accordingly, the Growth Plan identifies 25 Urban Growth Centres (UGCs) which are envisioned to develop for high-density employment and residential uses under the following parameters:

- Provide a focal area for investment in major institutional and region-wide public services, as well as commercial, recreational, cultural, and entertainment uses.
- Achieve very high densities of residents and jobs combined per hectare by 2031 or earlier.
- Accommodate and support major transit infrastructure.
- Serve as high density major employment centre that will attract provincially, nationally, or internationally significant employment uses.
- Accommodate a significant share of population and employment growth.

There is also an inherent link between the Growth Plan's objectives and the prevalence of public transit and infrastructure. Ideally, the UGCs would represent development opportunities within a high-order, transit-supported intensification node.

The Growth Plan attempts to shift the current pattern of suburban office development from inexpensive greenfield locations with surface parking to a denser, more expensive urban setting with structured or underground parking.

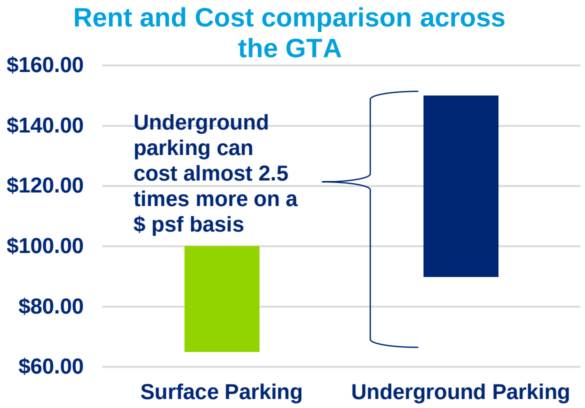
Section 3: Case Studies

Case Study 1 - Office Development in an Urban Growth Centre

Suburban Office buildings feature proximity to highways and large amounts of surface parking

As of Q2 2015, the Greater Toronto Area **"GTA" Suburban market** contained just over **86.7M sf** or roughly 50% of total GTA supply. Historically, the majority of new major office buildings outside of the City of Toronto have been accommodated **in business park environments** that featured superior 400 series **highway access and visibility** for major office space users. Some of the most successful suburban office nodes include **the Airport Corporate Centre and Mississauga City Centre** in the City of Mississauga, the **QEW corridor** in Burlington and Oakville and 404 corridor in Markham and Richmond Hill. These nodes have prospered due to their proximity to major arterial highways, high visibility and branding for large office users, proximity to employee populations and large areas of surface parking to satisfy to tenant requirements for high parking ratios.

Our prescriptive case-study is representative of a **premiere suburban office building** in a urban growth centre. A standard suburban office building along a highway corridor would likely range between 75,000 sf – 100,000 sf and 2.5x – 3.5x site coverage. In today's marketplace, a net effective rent paid by the tenant would typically be in the $14.00 to $18.00 psf range. Net effective rent (NER) is defined as the net present value of the rent payable to the landlord over the term of the lease after all inducements, leaseholds, fees etc.



By contrast, the **case study asset** is a 10 storey project featuring **200,000 sf of gross leasable space** with a site coverage nearly triple that of a typical suburban office building. A normal suburban office building possesses 2 - 4 spaces of surface parking per 1,000 sf of leasable area. However, for the purpose of this example we have assumed a combination of **underground & outdoor parking totaling 1 to 2 stalls per 1,000 sf.** Given the above parameters, a net effective rent or "NER" range between **$22.00 psf - $24.00 psf** would be typical in today's marketplace, significantly higher than the low density rent.

Metric	
Size	200,000 sf
Parking (underground / outdoor)	1 to 2 stalls per 1,000 sf
Low density typical suburban office building Net Effective Rent paid by office tenant (NER)	$14.00 psf - $18.00 psf
Case Study Net Effective Rent paid by office tenant	$22.00 psf - $24.00 psf

The characteristics of a premiere suburban office building located within an urban growth centre differ significantly from the traditional suburban office that has dominated development in recent years.

Section 3: Case Studies

Case Study 1 - Office Development in an Urban Growth Centre

Current development economics do not justify UGC development and greenfield locations preferred by office tenants as indicated by high demand and absorption

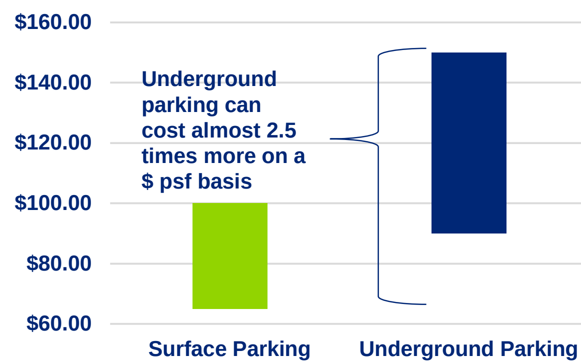
Despite the promotion of UGCs as priority areas for high-density population and employment growth, **current development economics strongly favour lower density greenfield locations** with superior highway access and surface parking except in a handful of locations. Essentially, the **cost to develop these projects must be reduced** or **market rents must rise** in order for these projects to become feasible.

The development pro-forma for a suburban office **does not largely support structured or underground parking**, which is necessary within a UGC that is largely developed. Furthermore, established suburban office nodes still possess capacity to accommodate highway-friendly new development. These hard costs make most new construction unfeasible, except in a handful of superior locations with existing or immediately pending higher order transit service. The economics are barely sustainable in premiere locations which suggests that the **challenge will be daunting** for other secondary locations.

A net effective rent ranging from **$22.00 psf - $24.00 psf** must be achieved to rationalize an office building in a UGC with underground parking. However, on average, **suburban market rent falls far below the economic rents** required to justify these new builds. The majority of the suburban office market will not be able to achieve these rents, with the potential exception of superior rapid-transit-based locations. The prospects for this built-form is further complicated as these suburban buildings would face competition from the downtown Toronto market which is currently undergoing a resurgence as employers ‘return to the city.’ Attracting tenants, who are willing to pay the required NER, could be a significant issue given the options available.

Ultimately, unless steps are taken to **level the ‘playing field’** between the UGCs and typical greenfield development, the potential for achieving Provincial objectives for high density employment in these locations is limited.

Construction Cost PSF for Parking



Source: Altus Group

NER’s within selected Urban Growth Centres

Urban Growth Centre	Class A Net Rent
Vaughan	$16.91 psf
Burlington	$16.79 psf
Oakville	$18.79 psf
Scarborough	$13.81 psf
GTA Suburbs	**$16.27 psf**

Source: Cushman Wakefield

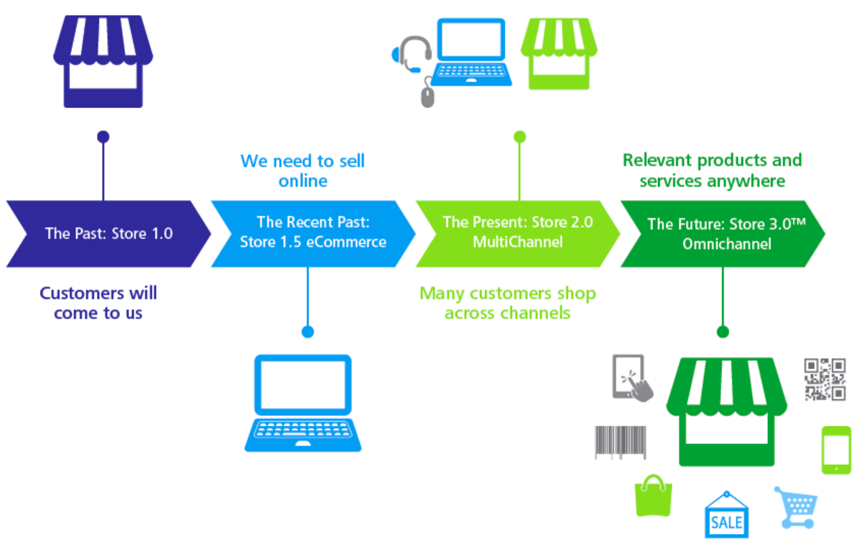
High development costs reduce the feasibility of new office construction, except in a handful of superior locations where existing or immediately pending higher order transit service can help achieve the required net effective rent.

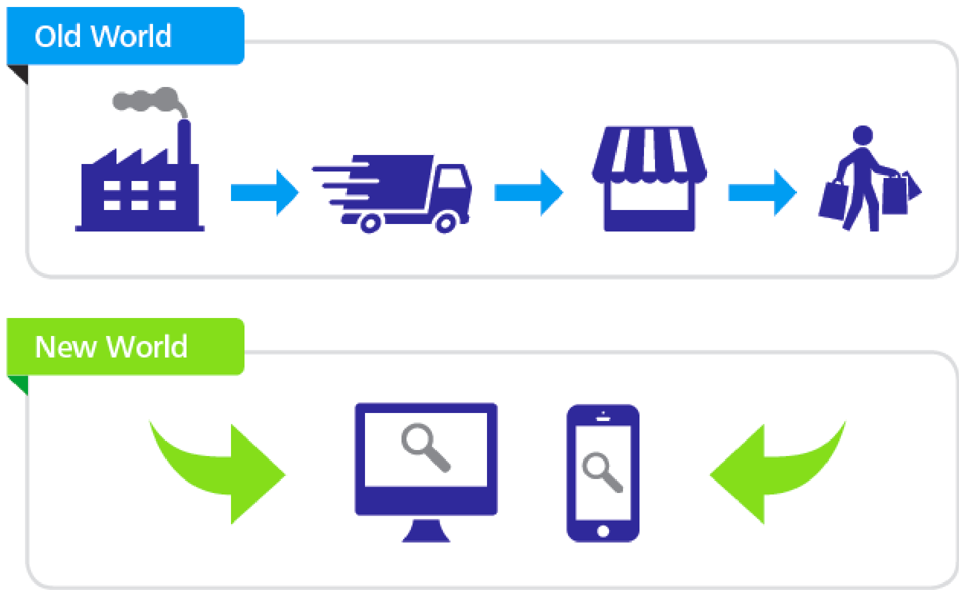
Section 3: Case Studies

Case Study 2 - Retail Development

Omnichannel environment has disrupted the retail asset class; real estate strategy must adapt

The past two decades have seen **online retailing transform the business models** of traditional brick-and-mortar retailers. Potential consumers have conducted their own research well before stepping foot into a physical storefront location. Buyers now have the ability to negotiate with competitive intelligence at-hand while demanding cheaper products and better service. **The online disruption** has negated the old real estate mantra of “location, location, location” matter as a website’s server can be located anywhere while still having the ability to **reach all target markets.** This integration of retail into online and physical store presence is known as “Omnichannel” retail and is transforming the retail marketplace.





The power shift from retailers to consumers has led to implications for the real estate industry that cannot be understated. Further innovation in technology has significantly impacted how, where and when we shop. Retailers have had to **adapt their real estate strategies** to account for the digital disruption specifically as it pertains to **store locations, footprint and logistics.**

Retail square footage has decreased due to the efficiency of Omnichannel distribution and changing purchaser behavior. The bricks and mortar space, while still important, plays a different role in the eyes of the consumer.

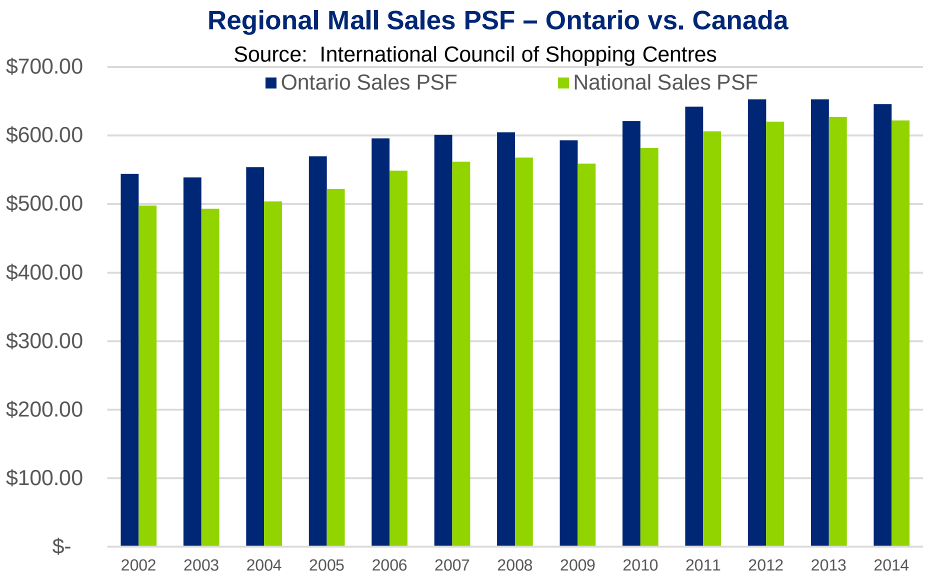
Section 3: Case Studies

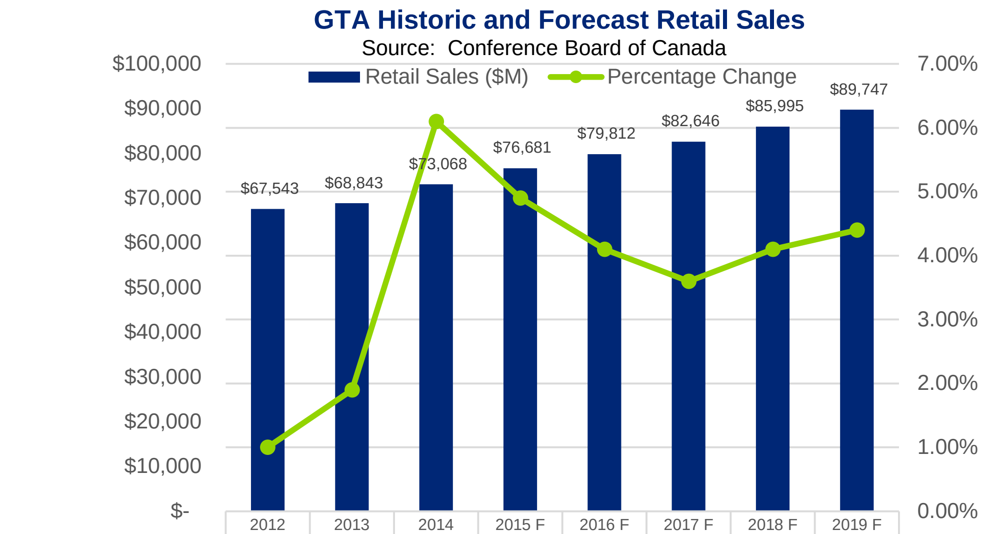
Case Study 2 - Retail Development

Power Centres, Regional Malls and Mixed Use Projects are dominating retail development

The GTA Retail market contains **just under 45M sf of supply**; Power Centres are currently the dominant form representing 39% of total supply. The GTA market **features 8.9M sf of supply under development** with approximately **1.9M sf due in 2015.** The majority of these developments are occurring in the outer suburbs via **large retail structures** or in urban centres via **mixed-use developments** (a combination of retail with office or residential condominium). The construction trend within the GTA follows what is occurring across Canada as Power Centre and Regional Mall redevelopments respectively account for 34.4% and 31.5% of all total construction. Conversely, approximately 18.7% of all new retail development is occurring in mixed-use developments as businesses attempt to reach consumers who have fully embraced the live-work-play mantra.

Retail sales within the GTA grew significantly in 2014 and overall sales are forecast to follow this trend moving forward, although at a slower pace. However, **annual year over year growth for sales per square foot in Toronto was less than 1% and slightly negative** in Ontario. This decline is partly attributable to consumers adopting new paths to purchase and a shift in retail formats.





	2012	2013	2014	2015 F	2016 F	2017 F	2018 F	2019 F
Retail Sales ($M)	$67,543	$68,843	$73,068	$76,681	$79,812	$82,646	$85,995	$89,747
Percentage Change	1.00%	1.90%	6.10%	4.90%	4.10%	3.60%	4.10%	4.40%

GTA retail sales are forecast to continue to increase going forward in line with population growth; however, changing consumer buying patterns will alter traditional ratios of retail area per capita.

Section 3: Case Studies

Case Study 2 - Retail Development

Retail and residential formats must support each other; retail form will evolve over time

The **link between retail and residential development is directly correlated** and will continue to exist even as retail forms evolve. Any retail property, whether it be large big-box or mixed use, is an extension of the residential community it serves. Conversely, any residential build-out must account for the retail that will accompany the development. **The challenge in planning for retail lies not in the need for retail but in its form.**

The Growth Plan suggests that large format retail uses should be developed at a minimum and **kept out of employment areas**. Instead, the majority of new retail should be developed **within mixed use areas** as part of new residential communities in a smaller, denser form. However, the costs required to build a denser form are leading to substantial implementation issues as developers are forced to absorb the increased land acquisition prices, underground parking expenses and other soft costs. Furthermore, the province must consider the **economic development implications of restricting retail development on employment lands**.

Stagnating mall sales growth and diminishing retail per capita figures clearly depict that the retail format is evolving as consumers adapt their purchasing patterns. What was already a competitive marketplace has been thrown into flux as e-commerce platforms have forced retailers to transform their bricks and mortar operations. Within this context, the Province needs to consider the impact of **shifting retail employment** patterns, the **feasibility** of large-format versus small-scale mixed use retail forms, the potential role of retail concentrations in supporting transit, and the economic development implications of discouraging retail uses within designated employment areas. Ultimately, the **form and definition of retail** must be clarified as policies relating to mixed use and large format retail have the ability to significantly impact the **competitive position and economic development** within Ontario for years to come.

Retail Construction Costs within the GTA

Asset Type	Construction Cost
Strip Plaza	$90 psf - $155 psf
Premium Outlet	$110 psf - $175 psf
Enclosed Mall	$180 psf - $230 psf
Department Store	$125 psf - $175 psf
Supermarket	$130 psf - $180 psf
Discount Store	$85 psf - $120 psf
Above Grade Parking	$65 psf - $95 psf
Underground Parking	$90 psf – 165 psf

Source: Altus Group

Provincial leadership is required to fully understand policies related to Ontario's competitive position and how various retail forms will support economic development in the future.

Section 3: Case Studies

Case Study 3 - Industrial Development

Increased demand for warehousing and distribution facilities due to digital disruption

The **digital disruption within the retail sector has in part transformed the industrial asset class**. The increased prevalence of online sales has resulted in tremendous growth for warehousing and distribution centres as many large retailers are investing in highly sophisticated distribution facilities. Retailers have heavily focused their supply chain efforts on cutting transportation costs while maintaining operational flexibility. Accordingly, industrial nodes have been developed in close proximity to transportation networks and existing infrastructure. The buildings themselves are developed with the needs of logistics and retail tenants in mind as size, clear heights, shipping doors and site coverage are given great consideration at build-out (and are often differentiating factors for potential tenants).

Another trend that has impacted industrial development in Ontario has been the shift from a manufacturing economy to a knowledge based and service economy. This shift is resulting in the type of employment growth, favouring the **logistics sector** and construction of large logistics buildings, which have low employment densities. Contrary to this trend is the finding that developers willing to accommodate smaller-block tenants are having a higher leasing success rate as per a recent Avison Young Report. As a result there seems to be both type of buildings being built in the marketplace, but demand for **large-block space** is expected to contract due to development feasibility challenges as discussed ahead.

Industrial facilities are transforming due to digital disruption and the shift from a manufacturing economy to a knowledge / service based economy.

Section 3: Case Studies

Case Study 3 - Industrial Development

Proximity to transportation infrastructure driving new industrial development

The **GTA Industrial market** currently comprises approximately **800 M sf** of supply, with **the GTA West as the dominant market region** due to its proximity to Pearson International Airport, intermodal facilities and 400-series highway networks into the United States and beyond.

The **cost of development** including development charges has been highlighted as a major factor impacting feasibility of new developments. Recent studies prepared by BILD representatives and the Altus Group reveal that from 1999 to 2013 the rise in industrial development charges (DCs) have significantly affected the feasibility of new industrial developments. For example, over this period (DCs) share of overall costs has increased from 0.3% to 6% in Whitby, compared to an increase from 3% to 13% in Vaughan and 6% to 9% in Brampton.

Accordingly to better understand the impact of (DCs) on development feasibility, we constructed a theoretical proforma (see adjacent table). We considered a generic industrial building and included typical construction costs, which do not vary significantly across the GTA, to calculate expected rents, while testing sensitivities around (DCs) and a range of expected development yields. Based on the proforma, **minimum rents supporting new development ranged from $5.30 - 8.40 psf**. This compares to **net rents in existing buildings ranging from $4.12 to $6.69 per sf** and a range of **$5.95 psf - $6.50 psf in new industrial developments** in the GTA, based on a 2015 study of new industrial developments.

From these observations it can be concluded that the **minimum rents required to support new development represent only a small range of rents supported by the market.** Any increase in (DCs) will only result in increasing the rents required and, as a result, are likely to have a negative impact on overall development feasibility.

Metric	
Size	300,000 sf
Land Size / Site Coverage	16 acres / 46%
Net rent in new industrial buildings	$5.95 - $6.50 psf
Clear Height	32’

Typical Industrial Pro Forma		Cost per Buildable SQ.FT.		
		Low	Medium	High
Serviced Industrial Land ($600k per acre and 20,000 sf per acre)		$30.0	$30.0	$30.0
Shell Industrial Building (10% office)		$42.5	$42.5	$42.5
Site Work (incl'g softs)		$6.5	$6.5	$6.5
Development Charge range in GTA		$7.0	$16.0	$25.0
Broker Fee's		$1.6	$1.6	$1.6
Total Costs[1]		**$87.6**	**$96.6**	**$105.6**
Note: 1. Total costs exclude management and financing fee's.				
			Expected Rent	
Development Yield	6.0%	**$5.3**	**$5.8**	**$6.3**
	7.0%	**$6.1**	**$6.8**	**$7.4**
	8.0%	**$7.0**	**$7.7**	**$8.4**

Current development economics support only a small range of industrial development in new greenfield locations; any additional burden placed upon developers through higher industrial development charges will have a negative impact on viability of projects.

Section 3: Case Studies

Case Study 3 - Industrial Development

Construction is sensitive to increased development charges and movements in net rents

While **DCs are not intended as a tool to manage or direct growth,** they have this potential due to their impact on development pro-formas. These DC costs can be so substantive that developers are **limiting build-out** only to those municipalities where they can achieve the NER's required for development.

Average net rental rates ranging between $5.95 psf - $6.50 psf in new industrial buildings (based on a recent survey of 30 developments) is putting a great deal of pressure on the pro-forma of industrial developers.

A typical **proforma considering a generic industrial building, typical construction costs and varying DCs, while keeping all other costs the same, resulted in $5.30 - 8.40 psf** as the minimum rents supporting new development. This supports only a small range of rents under current market conditions, given average net rental rates in the market ranging from $4.12 to $6.69 per sf and the range for new construction ranging from $5.95 psf - $6.50 psf.

Ultimately, any change to public policy that will result in an increase in DCs, **impacts Ontario and the GTAH's ability to compete with areas beyond these boundaries**. While industrial buildings do not generate the same levels of employment as in the past, they do generate significant economic activity with little strain on infrastructure. The province must carefully consider the impact of its policies moving forward.

City	Development Charge ($ / SF)	Net Rental Rate
Vaughan	$24.31	$5.51 psf
Markham	$21.35	$5.53 psf
Richmond Hill	$24.98	$6.69 psf
Mississauga	$21.06	$5.80 psf
Brampton	$17.99	$5.51 psf
Burlington	$20.80	$5.34 psf
Pickering	$10.72	$5.06 psf
Milton	$17.36	$6.49 psf
Oshawa	$6.98	$4.17 psf
Ajax	$11.61	$4.12 psf
Average	**$17.76**	**$5.46 psf**

The assumptions and methodology used to calculate development charges must be critically examined moving forward as the current approach may be limiting the potential for additional industrial development.

Section 4 – Market Soundings

Section 4: Market Soundings

Industry Stakeholders Consulted to Confirm Results

Demand for office tenants more prevalent in established nodes, UGCs are challenging

In order to obtain additional insights, an informal market sounding process was undertaken with a range of industry stakeholders. Market soundings with office developers revealed that the prospects of significant build-out in UGCs is ultimately dependent upon the desire of tenants. Projects will only commence **if tenants require the building and location in a competitive marketplace, and are willing to pay the NER's** required to make the challenging development economics feasible within UGCs. Other conclusions can be found below:

- Developers will build in areas desirable to tenants for both downtown and suburban alternatives. While there has been a shift towards downtown buildings, many tenants are price sensitive and will select a cost-effective solution.
- Cost considerations are significant as land values and surface parking make suburban locations an attractive option. High density sites typically have higher construction costs associated with height and structured parking; however, **it is unclear if the rents achievable will cover the increased cost at this point in time.**
- There has to be an equalizing force to justify UGC development. This could be in the form of a **transit catalyst** (GO or TTC Subway) or **financial incentives** (property tax credits or other subsidizing measures). Alternatively, financial incentives are likely required to equalize these costs with other competing locations.
- Development is **extremely cyclical in nature** and this is partially due to economic cycles and tenant demand. Tenants will select the office location that is commensurate with their business requirements – whether that's downtown high density, or suburban greenfield sites. The GGH office marketplace **needs to offer a range of alternatives** to allow tenants choice within the **highly competitive marketplace.** The Vaughan Metropolitan Centre is a good example of a location planned for major offices but which is challenged by competing lower cost suburban nodes.

Developers will build projects if tenant demand is present; however, the market and financial feasibility must ensure investment return. Current real estate economics make developing office buildings in UGCs challenging.

Section 4: Market Soundings

Residential Developers Face Uncertainty

Provincial leadership is required to alleviate the uncertainty faced by residential developers

Market soundings with residential developers indicated concern regarding the future prospects of both the **greenbelt and "whitebelt"** along with the **mandated density and intensification targets.** Key findings from these market soundings are summarized below.

- Greater certainty is required with the **future of lands in the greenbelt and the whitebelt.** For developers to plan for the future, a greater level of confidence is required in terms of potential for future urban use designations.
- **Costs related to infrastructure** when developing greenfield areas are not being addressed. Similarly **costs related to intensification** in urban areas are also not being addressed, resulting in regions like Halton considering extreme positions of stopping growth altogether.
- Lack of investment in areas where growth is targeted is making it difficult for the developers to move ahead. **Strong Provincial leadership** is required, with the commitment that the Province will be a stakeholder and stand behind its vision.
- A **single intensification standard is not applicable everywhere** and delivers unintended consequences. Some rural communities cannot support demand for a minimum 40% intensification in the urban boundary.
- **A blended target with low employment densities** in many cases leads to a requirement to plan for exceptionally high greenfield densities, including apartments, detracting from Growth Plan intensification objectives.

Uncertainty in defining the whitebelt, infrastructure investment in greenfield and intensification areas and a lack of provincial commitment are key development impediments.

Section 4: Market Soundings

Conclusions

Stakeholders suggest that provincial objectives require modification and clarification

The market sounding process revealed a number of key findings and themes which have been summarized below. The consensus view is that the Province must demonstrate leadership as growth in the GGH continues. Other relevant conclusions are summarized below.

Stronger Provincial leadership and commitment is required

Density and intensification targets have led to unintended consequences

Tenant preferences along with rental price dictates location and format of new office

Infrastructure funding challenges need to be addressed and the siting of major institutional facilities needs to support the Growth Plan vision

From the market sounding process, it became readily apparent that the development community is looking to **the Province and Municipalities to establish clear leadership and guidelines** based on their vision for the future of the Greater Golden Horseshoe. This vision needs to be translated **to clear principles and targets** that they model through direct behaviour and decisions, and demonstrate how development can enhance the quality of life and economy across Ontario.

The Urban Growth Centres will **require some form of financial stimulus for office development** to accelerate development and demonstrate feasibility. Otherwise, in the absence of an external stimulus, UGC development will extend over many years as the **economic metrics remain challenging in today's marketplace**. In order to encourage office development within UGCs, the province has an opportunity to offer financial incentives which, in turn, foster development, development charges, property taxes, employment and prosperity. Furthermore, the province should consider the implications of the density targets. The targets dictate where growth and economic development will occur. There are unintended consequences occurring that have potential long-term ramifications.

Section 5 – Strategic Recommendations

Section 5: Strategic Recommendations

Key Challenges

Review and analysis illustrates five key challenges

Arising from the document review, case studies and market soundings process were a number of **key observations and challenges**. The first relates to the need to recognize diversity across the GGH to ensure that opportunities are captured and **economic potential is maximized**. The second relates to the continued **focus on density and intensification targets**, which continues to draw attention away from broader City-building and economic development priorities. The third relates to current **challenges with funding for municipal infrastructure**. The fourth is related to the opportunity for **financial incentives** to achieve the Provincial vision for the UGCs. And the final challenge, relating to all of the above, is the need for a **stronger provincial role and commitment** to implementing the Growth Plan policies. These key challenges are identified below, followed by a series of strategic recommendations.

1	**Risk of losing economic opportunities**	**Future economic potential may not be realized if the Growth Plan cannot recognize economic diversity across the GGH, particularly on employment lands**
2	**Move away from broader City-building priorities**	**Continued focus on density and intensification targets has diverted attention away from broader City-building and economic development priorities**
3	**Infrastructure Investment**	**Challenges with municipal infrastructure investment threaten to erode the economic base**
4	**Office development in UGCs**	**Office development in the Urban Growth Centres is not economically feasible without financial incentives to 'kick start' growth**
5	**Provincial role and commitment**	**Without strong provincial leadership, it will be difficult to overcome current challenges, particularly with respect to addressing infrastructure funding challenges**

Section 5: Strategic Recommendations

Key Challenges

1	Risk of losing economic opportunities	Future economic potential may not be realized if the Growth Plan cannot recognize economic diversity across the GTAH, particularly on employment lands

The Growth Plan does not explicitly recognize the **nature of the economic base**, which differs from community to community. There is **little direction** on the type of employment growth expected by geography (although an outlook is available in the technical background paper). Failure to have a structure in place, which can adapt with **changes in office, industrial and retail employment trends** such as declining employment land densities, increased remote working practices, retail Omnichannel trends, could result in a lost opportunities. There is also opportunity to address these issues in revising the policy framework, for communities and municipalities to remain competitive.

2	Move away from broader City-building priorities	Continued focus on density and intensification targets has diverted attention away from broader City-building and economic development priorities

Lack of clarity and **poor understanding of land budgeting methods**, using a **single intensification standard** and using a **blended density target,** has consumed significant public focus and resources and **diverted attention from other broader City-building and economic development proprieties.**

3	Infrastructure Investment	Challenges with municipal infrastructure investment threaten to erode the economic base

A key insight from stakeholder responses was that the **municipalities cannot do everything**. The lack of funding and **authority at the municipal level** impacts investments in infrastructure. **Increasing infrastructure requirements to support growth** (both to service existing infrastructure and build new ones) and the **rising costs to deliver infrastructure** due to enhanced environmental regulations, results in a financial burden on municipalities. Shorter planning horizons results in unfair burden transferred on to early users of new systems. **Lack of provincial guidance, support, presence and funding**, is challenging the municipal implementation of the Growth Plan policies, which could result in the erosion of the economic base.

Section 5: Strategic Recommendations

Key Challenges

4	**Office development in UGCs**	**Office development in the Urban Growth Centres is generally not economically feasible without financial incentives to 'kick start' growth**

Established suburban office nodes have tremendous capacity to accommodate highway-friendly new developments with significant visibility, proximity to employees and overall lower costs. By comparison, the economics of developing office buildings in UGCs is daunting given the higher cost of construction to accommodate height, density and underground parking – not to mention the contribution to enhanced transit infrastructure. The implication of these factors is that the market rents would need to rise significantly compared to current net economic rents to make the office developments feasible.

Current development economics strongly favour office greenfield locations except in a handful of examples. Essentially, the **cost to develop these UGC projects must be reduced** or **market rents must rise** in order for these projects to become feasible. Furthermore, communities outside Greater Toronto with lesser office demand and flexibility have even greater challenges in delivering these office buildings, even with essentially the same construction and parking cost structure and lesser land value. As a result, overall the focus on office development and densities must be carefully examined with a view to project feasibility and identifying key incentives to accelerate growth.

5	**Provincial role and commitment**	**Without strong provincial leadership, it will be difficult to overcome current challenges, particularly with respect to addressing infrastructure funding challenges**

The implication of the Province not taking a leadership role in assisting the municipalities with guidance, support and presence and funding is that some **municipalities are finding it challenging to implement provincial objectives**. Municipal infrastructure funding and the need for direct Provincial investment or new financing models, such as utilities, are key to achieving the Provincial vision.

Section 5: Strategic Recommendations

Summary Recommendations

Five key challenges lead to strategic recommendations

1	Economic Opportunity	Future economic potential may not be realized if the Growth Plan cannot recognize economic diversity across the GTAH, particularly for employment lands
2	City-building Priorities	Continued focus on density and intensification targets has diverted attention away from broader City-building and economic development priorities
3	Infrastructure Investment	Challenges with municipal infrastructure investment threaten to erode the economic base
4	Major Offices in the UGCs	Office development in the Urban Growth Centres with significant density is largely not economically feasible without financial incentives to provide a catalyst for growth
5	Provincial Role and Commitment	Without strong provincial leadership, it will be difficult to overcome current challenges, particularly with respect to addressing infrastructure funding and employment land development challenges

Section 5: Strategic Recommendations

Summary Recommendations (cont`d)

1	**Prepare a real estate asset class based strategy**	**A Strategy is required for each major asset class e.g. Industrial, Office, Retail, etc**

The changing face of employment, in terms of office densification, retail Omnichannel and declining industrial densities, requires further review regarding the treatment of these employment asset classes within the Growth Plan policies and how the policies would need to change to account for these trends. **Part of this includes the opportunity to articulate a new long term economic vision for Ontario.**

The current land budgeting process, driven in part by the single intensification standard as well as the gross density approach, needs further consideration and review to **account for municipal diversity** and to account for **changes and trends in the different employment sectors**. The role of major retail, industrial and major office needs to be recognized in the overall economic system.

Accordingly, an asset based strategy including **"sub-area assessments"** for provincially significant employment areas is needed. In addition, it would likely be beneficial to create a **"task force" to explore the potential of transforming the region into a set of "super-clusters"** for dominant subsectors like financial services, food processing, aerospace, logistics / warehouse and distribution, manufacturing, insurance and technology.

2	**Incent Major Offices in the UGCs**	**A proactive approach is required to encourage Major Office development in the Urban Growth Centres and encourage office developments in suburban greenfield locations**

Urban growth centres are identified as **priority areas for high-density population and employment growth**, including major office and institutional uses. However even with investments in transit infrastructure, these locations are generally **not able to match the economics of developing in suburban greenfield locations** with superior highway access and availability of surface parking.

Unless steps are taken to **level the 'playing field'**, the likelihood of achieving the **provincial objectives will, at a minimum, be delayed**. There is need for financial incentives to encourage new investment in these areas.

Section 5: Strategic Recommendations

Summary Recommendations (cont`d)

3	**Decouple greenfield density targets**	**Consideration should be given to decoupling the greenfield population and employment density targets**

Blended population and employment density targets have created **implementation challenges** for the municipalities. Current approach puts **existing large industrial areas** with low densities at a **major disadvantage from a conformity perspective**. There are limits to how much land use planning can affect density, and denser forms of development cannot result without market demand.

The gross density measure includes more than just residential and employment uses. Since it includes all public uses and natural heritage features which vary from one municipality to the other, the **ability to achieve the targets is influenced by the local land base and the "take-outs".** Accordingly density targets should be decoupled and a more refined approach to setting density targets should be considered.

4	**Clarify Land Budget process**	**Greater clarity is required for the Land Budgeting process including standardization of assumptions across municipalities**

Lack of clarity in the land budgeting process including **lack of standardization of assumptions** has resulted in a lot of wasted time and resources with the focus taken away from City-building. As a result of differences in the land base, **municipalities have made their own assumptions and accordingly different methods are applied in different communities**. A significant amount of public resources have been expended to debate methods and assumptions.

This has resulted in a **conformity backlog** and **diverted attention from other issues** including transit, mobility and encouraging economic development.

What is now required is that the Province provide **greater clarity on the appropriate methods and approach to resolve the debate and accelerate implementation.** Province's Projection Methodology Guideline is now dated and needs to be revised to reflect current PPS and Growth Plan assumptions. Related to the land budget discussion, greater clarity is also required on performance indicators and measuring the success to date, and the current debate is not helping the cause.

Section 5: Strategic Recommendations

Summary Recommendations (cont`d)

5	**Address infrastructure financing challenge**	**The infrastructure financing challenge must be addressed**

With increase in population and employment growth and provincial downloading of responsibilities, **infrastructure financing requirements** to maintain the existing base and build new infrastructure, coupled with the **rising costs to provide infrastructure** due to enhanced environmental regulations, has resulted in increased **financial burden on municipalities**. Additional tools are required. The property tax base and DCs cannot bear the cost of growth and are no longer appropriate to remain competitive globally. **Shorter planning horizons** result in **unfair burden on early users** of new systems. Left unchecked this could result in **erosion of the economic base**. Accordingly, a **need for alternative funding mechanisms** has been raised.

More authority and **sustainable funding mechanisms** like the utility models are required to deliver the Growth Plan vision and dispatch other responsibilities at the local level and should be considered for incorporation into the Growth Plan implementation framework.

The **utility model for water and wastewater infrastructure** would be similar to the energy and gas industry, with benefits equitably paid for by all users over the full infrastructure lifecycle. **Introducing private participation** in delivery of infrastructure will also ensure **innovation**, **cost efficiency**, **transfer of lifecycle risks** and **unlocking financing options** with a long-term perspective.

6	**Continue to monitor and report progress**	**With differing points of view on whether the policy framework is working, a monitoring program could be instituted with defined criteria and guidelines**

Some stakeholders' point of view is that the **policy framework works** and this has been a step in right direction, and needs tweaking. Some other stakeholders are of the opinion that the **policy framework does not work and needs major changes**.

This indicates that **despite the release of the performance indicators**, **actual progress** of the plan is **not well understood** and there is a need for data collection and measuring success of the policies. A monitoring program would provide a benchmark with pre-defined criteria and guidelines on which the policies would be measured to assess if they are meeting the desired objectives.

While some stakeholders also feel that **insufficient time has elapsed to fully assess** how the implementation of the plans is working at the local level, the **need to establish a monitoring program** and report progress **is clear**.

Appendix

Limiting Conditions

Appendix E

Limiting conditions

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