Burlington Economic Development
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TO: Committee of the Whole

FROM: Burlington Economic Development

DATE: May 10, 2024

RE: 2024 Development Charges Background Study (F-04-24)

Burlington Economic Development is pleased to note that City staff have listened to the development community's feedback regarding the initial proposal, which suggested more than doubling the development charges (DCs) for non-retail developments in Burlington. While we appreciate this positive step, we continue to identify ways in which policy can be further enhanced to attract investment into our city.

In the 2024 Development Charges Background Study and the proposed DC By-law, the City has introduced a significant change by eliminating the historical distinction between retail and non-retail categories. This differentiation previously recognized the lesser traffic management and infrastructure demands in employment areas compared to retail zones. Despite these changes, the proposed development charges for industrial and office spaces are set to rise from $9.59 per sq. ft. to $10.46 per sq. ft. as of June 1, 2024, with a further increase to $13.08 per sq. ft. following a phase-in period.

We continue to advocate for a thoughtful and balanced approach in adjusting development charges to ensure that Burlington remains a competitive and attractive destination for investors. We urge the Committee of the Whole to consider these adjustments carefully to support the city's long-term economic growth and development objectives.

Impact Analysis

The planned increase in development charges represents an increase of $4.50 per sq. ft., culminating in an overall DC increase of 14% including Regional and Educational DCs. This poses several risks:

1. **Alignment with Senior Levels of Government**: The newly proposed blended rate creates a misalignment between Burlington and several comparable municipalities, Halton Region, and the definitions set forth in the updated Provincial Policy Statement (PPS) concerning employment areas. According to the 2023 PPS (or New PPS) proposal, employment areas are intended to be limited to specific uses that are not suitable for mixed-use areas, such as heavy industrial activities, manufacturing, and large-scale warehousing. Adopting similar definitions could prove beneficial at the local level, reflecting how the province aims to delineate

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employment area protections. Below, Table 1 illustrates how some of Burlington's comparable municipalities define non-residential development in their respective DC by-laws.

Municipality	Non-residential DC Rate		
	Blended Rate	Discrete Rate	
		Industrial and Non-Industrial	Retail and Non-Retail
Markham			x
Mississauga		x	
Oakville	x		
Waterloo*	x		
Hamilton*	x		
Milton			x
Brantford		x	
Halton Hills		x	
Halton Region			x

Table 1: List of comparator municipalities with blended vs discrete DC definitions for non-residential development.
*Although Waterloo and Hamilton use a blended rate for non-residential development, they offer a 60% and 37% discount to all industrial development, respectively. Note, that Hamilton's DC by-law is currently under review and this discount may be limited to specific industrial uses.

2. **Current Economic Climate:** Industrial vacancy rates in Burlington remained at or below 1% during the pandemic year but have increased to over 2% as of the end of 2023. This uptick indicates a cooling in demand which could be further exacerbated by higher operational costs stemming from increased development charges. Given the current economic conditions characterized by rising inflation and mounting business costs, this is an inopportune moment for significant increases in development charges.

3. **Industrial Development Stagnation:** Blending retail and non-retail developments benefits retail development but negatively impacts the financial viability of non-retail development. This may discourage new industrial investments at a time when economic expansion is critical. The majority of industrial development in Burlington in recent years has been initiated by speculative industrial developers, adding nearly $1 million sq. ft. of industrial inventory over the last four years. By taking on the risks of construction and developing spaces to meet the demands of new, advanced users, these developers have helped to attract new investment to the city and allowed local businesses to expand within Burlington. Added costs may impact proformas enough to pause or abandon projects.

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Developers who choose to continue with their projects in Burlington will pass on these increased costs to future tenants, causing the overall expense of leasing industrial and office space in Burlington to escalate. This will make Burlington less attractive to current and prospective businesses, potentially leading them to relocate to more cost-effective locales. A comparison of DC costs by municipality can be seen in Figure 1 below.

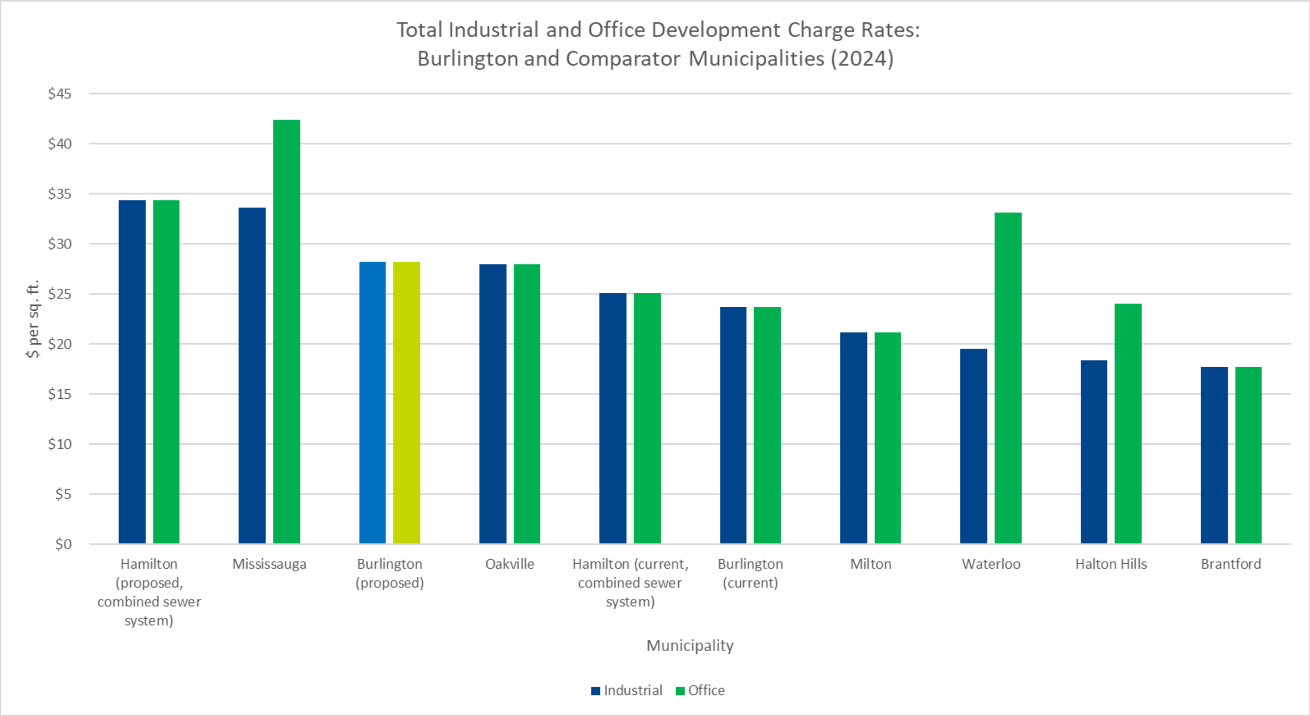

Figure 1: Comparative DC rates across GTHA municipalities. Note, Waterloo's industrial DC rate is provided with the 60% DC discount applied across all industrial developments and Hamilton's DC 37% discount is not applied.

4. **Office Market Slowdown:** The proposed increase in development charges poses significant challenges for office development within Burlington. The post-pandemic landscape has already introduced new complexities into the office market, most notably with increasing vacancy rates and a general slowdown in investment. Office vacancy in Burlington currently sits at a near all-time high at 23.5%. As businesses continue to adapt to more flexible work arrangements, the demand for traditional office space has seen a marked decline, which is being further exacerbated by economic uncertainties. The abrupt increase in development charges will inevitably heighten the financial barriers to entry for new and expanding office developments. This sharp rise in costs could deter investors at a time when revitalization and innovation in office spaces are desperately needed to attract tenants and reduce the growing vacancy rates.

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Recommended Options

1. **Modify the Proposal to Blend Non-Retail and Retail:** We recommend maintaining a distinct development charge rate for industrial spaces, separate from office and retail. While it is reasonable to combine office and retail into a single commercial development charge, maintaining a separate, lower rate for industrial development would support the unique nature and needs of these areas. This would bring us into alignment with most other surrounding municipalities as well as with the Province.

2. **Explore Incentives and Relief Measures:** Should the City opt for a unified blended rate for all non-residential developments, exploring additional measures to maintain Burlington's competitive edge is imperative. We propose conducting a thorough study on development charge incentives that mirror those implemented in other comparable municipalities. This study should aim to identify viable incentives that can alleviate the burden of increased charges while fostering sustained investment and job creation in Burlington. Implementing the incentive programs detailed in the Council-endorsed Brownfield CIP report adopted in April 2021 would represent an achievable initial step in this endeavor. Table 2 in the Appendix below showcases successful DC incentive options from comparable municipalities that Burlington might consider.

While we acknowledge the necessity of development charges as a tool for funding municipal infrastructure, it is crucial that their implementation does not undermine our city's economic vitality. By adopting one of these approaches, Burlington can ensure a balanced and attractive economic environment conducive to fostering growth and prosperity. We urge the Committee to consider these recommendations to ensure a balanced approach that supports the city's long-term growth objectives.

Regards,

Anita Cassidy
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Appendix A: Sample DC incentives

Municipality	Incentive Type	Incentive Program	Description
Mississauga	CIP	Downtown CIP	To promote office development in the downtown area by providing Tax Increment Equivalent Grants (TIEG), development processing fees grant, municipally funded parking program, and municipal property acquisition and disposition. Matched by Peel Region's Major Office Incentive Program.
Waterloo	Discount	DC Discount for Industrial Development	To promote industrial development, all buildings defined as an "industrial building" per the by-law receives a 60% discount in non-residential DC rate.
Waterloo	Discount	DC Discount for Office	All office developments over 20,000 sf in urban growth centres are eligible for a 50% discount to the non-residential rate, for all floors from the third storey and above.
Halton Hills	DC Deferral	Deferral of Payment of Non-Residential Development Charges	Any industrial development that does not exceed 50,000 sq ft and any non-industrial development that does not exceed 25,000 sf are eligible for 10-year deferral of DCs.
Hamilton	DC Exemption	Downtown CIPA Exemption	With the 2024 proposed by-law, all non-residential development in the Downtown CIP area will maintain a 40% exemption, with Class A major office developments greater than 20,000 sq ft GFA receiving a 70% exemption.
Hamilton	DC Discount	Industrial Reduced Rate	37% discount across the city for all industrial developments. With the 2024 update, this is proposed to be limited to developments with manufacturing, production, and artist studios only.

Table 2: Sample of DC incentives available in comparator municipalities.