

# City of Mississauga Corporate Report



<p>Date: June 7, 2021</p> <p>To: Chair and Members of General Committee</p>	<p>Originator's files:</p>
<p>From: Andrew Whittemore, M.U.R.P., Commissioner of Planning &amp; Building</p>	<p>Meeting date: June 23, 2021</p>

## Subject

**Downtown Community Improvement Plan (CIP) – Oxford Property Group (Oxford) CIP Application (Ward 4)**

## Recommendation

1. That the report titled “Downtown Community Improvement Plan (CIP) – Oxford Property Group (Oxford) CIP Application (Ward 4)” dated June 7, 2021 from the Commissioner of Planning & Building, be received for information;
2. That the proposed Tax Increment Equivalent Grant (TIEG) for Oxford’s planned office tower be approved in principle;
3. That this report and Oxford’s application be forwarded to the Region of Peel for information; and
4. That staff be directed to prepare and enter into relevant agreements for the City TIEG.

## Executive Summary

- The City’s Downtown Office Community Improvement Plan (CIP) has been in effect since 2018 with limited interest. The Region of Peel recently approved a new Major Office Investment matching TIEG which can be stacked to the City’s TIEG providing office developers with a much more attractive incentive.
- The Downtown is experiencing unbalanced growth and has a significant deficit of office space compared to residential units – a new office tower has not been constructed in the Downtown in over 30 years.
- Oxford is looking to develop a new 19-storey office tower in the Downtown Core, and financial incentives would help make the project feasible.
- Staff are proposing a 10-year declining TIEG for the development that starts at 100% and declines by 7% annually. The City’s portion of the grant would be equivalent to approximately \$3.95 million over 10 years. The City would collect \$2.62 million in

additional taxes over the 10 year program and approximately \$770,000 in annual taxes from the development following the completion of the TIEG.

- New office development is unlikely to occur in the Downtown without the investment of financial incentives by the City and Region as residential uses continue to provide a better return on investment for developers.

## Background

The City's Downtown Office Community Improvement Plan (CIP) was enacted in 2017 and came into effect in 2018. The CIP is an enabling tool that permits the following incentive programs:

- Tax Increment Equivalent Grants (TIEGs);
- Development Processing Fees Grants; and
- Municipally Funded Parking Assistance.

On April 22, 2021, Regional Council approved a Major Office Incentives program, which will match local municipality's TIEGs up to a maximum of a 10 year term, a maximum percentage of 100% and annual decline of no less than 7%. This more than doubles the impact of the City's TIEG with the Region contributing \$1.25 for every \$1 invested by the City, resulting in an incentive that is more comparable to those provided in other cities.

## Present Status

Despite ongoing investment in the City's Downtown Core, the office market has languished. An estimated 8,000 additional employees or 1.2 million square feet of new office space is currently required to meet the Official Plan's objective of a 1:1 resident to employee ratio. By 2051, an additional 33,000 employees and 5 million square feet (or 150 square feet per employee) of office space will be required based on population forecasts.

It has been 30 years since a new office tower was constructed in the Downtown Core. Downtown office developments are challenging due to structured parking requirements (versus surface parking in other employment areas such as Gateway) and competition with residential uses that generate higher/faster returns. Additionally, while long-term fundamentals of the office market in the GTA are strong, there is additional risk in the short-term due to the impact of COVID-19 across North America.

## Comments

New office development in the Downtown has the potential to augment future City tax revenues while responding to community needs and providing jobs. Major office development activity across the Region of Peel has not met growth forecasts in the last decade, and specifically in Downtown Mississauga it has been eclipsed by the rate of residential development. In order to

achieve the vibrant downtown envisioned for Mississauga, a better balance of employment (beyond retail jobs) and residents is required.

Oxford is currently looking to secure tenants for a new 19-storey office building in the Downtown Core at 189-219 Rathburn Road West (the eastern portion of the former Sport Chek site) with approximately:

- 37,000 square metres (397,000 square feet) of office space;
- 800 square metres (8,800 square feet) of ground floor retail; and
- 397 parking spaces located in a parking structure with three levels above grade and one below grade and surface parking to the west of the building that is envisioned for a future development (Appendix 1).

Oxford is seeking to secure a lead tenant for the building, but in order to make the project financially viable, its rents will have to be much higher than prevailing rents in existing buildings in the Downtown. Completion of a high-rise office building is typically a minimum of four years from lease negotiation through to occupancy. Accordingly, any TIEG incentive would not apply until 2025 at the earliest. Oxford currently has two active development applications (SP 20/99 and H-OZ 20/2) on the site so that they are ready to proceed to the building permit stage once tenancies are secured.

According to Oxford, financial incentives are required to bridge the material difference between total development expenditures and the income achievable from market rents. In the absence of financial incentives, the risk profile and return threshold for new office construction in Downtown Mississauga is not within the range of what a prudent and responsible institutional office investor or financial backer can accept. Typically, office developments require financing from multiple lenders in order to activate a new development.

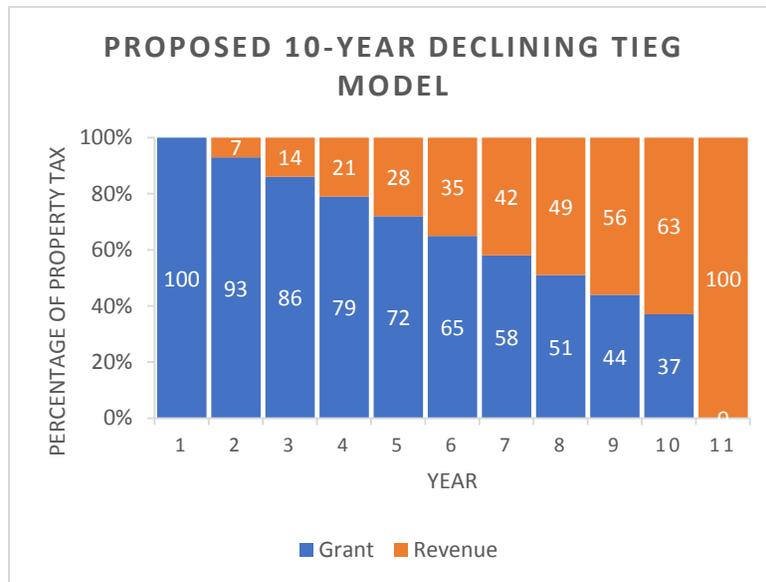
On August 14, 2019, Oxford submitted a CIP application which was in excess of what staff anticipated when the by-law was adopted. Their initial request was for a 30-year full value TIEG and waived building permit fees. The initial assumption when preparing the City's Downtown Office CIP was that the TIEG would have a 10-year declining value (i.e. the developer would be granted relief from 100% of the increase in taxes in the first year with the grant declining annually until the developer pays the full taxes in the 11<sup>th</sup> year). Oxford's request was higher than office TIEGs in other GTA communities, however, other cities often include a development charges grant to complement a TIEG (Appendices 2 and 3).

On November 6, 2019, Oxford provided an *Employment and Economic Impact Assessment* prepared by urbanMetrics outlining the one-time economic impact and employment generation associated with development:

- +/- 2,400 full-time person years of employment, approximately 88% drawn from the local labour market; and

- 1,800 to 2,900 on-site jobs, a significant portion of which are estimated to be net new jobs (COVID-19 may change these numbers).

Given the likelihood of the Region matching the City’s TIEG, staff proposed the following 10-year model in response to Oxford’s application:



This model would result in an overall TIEG grant of approximately 60% (including inflation) and the City would reach a notional break even point (where additional taxes collected exceed the value of the grant) by year 12 (Appendix 4). The exact dollar values for the TIEG cannot be calculated until the new building is assessed by MPAC and the applicable tax rate is applied. While the new development will increase the need for municipal services, Oxford would be paying development charges in full and staff expect the development to be financially positive over the longer term. The premium class office would generate comparatively higher tax revenue compared to other office and commercial tax rates are higher than residential rates. The site of the potential development is the best served location in the city by public transit and many municipal and private amenities are in close proximity.

It is intended that the cost to fund the TIEG program would be offset by the revenue from the property taxes payable by the new office receiving the incentive. The TIEG structure and reimbursements are set and agreed upon in year one of the TIEG, therefore the City’s refund is locked in. As the taxes payable change each year (as applicable), the landowner will pay the updated property taxes, but the City’s reimbursement will remain as the value set in the incentive agreement. Effectively, the City will retain a larger portion of the overall taxes than the percentages indicated above should annual tax rates increase.

The above TIEG model results in an overall incentive of approximately \$9.88 million nominal dollars (approximately \$7.72 million present value). The City's share of this would be approximately \$3.95 million nominal dollars (approximately \$3.11 million present value). This is less than what would be offered for a similar building located in Toronto and Brampton CIP areas. Mississauga's share is also lower than what Vaughan would offer, where York Region does not participate.

The proposed TIEG model was endorsed in principle by the Leadership Team on March 4, 2021. It was then shared with Oxford for their consideration. On May 20, 2021 Oxford submitted a revised CIP application (Appendix 5), which mirrors the model proposed above.

Given the nature of the office market, it is proposed that the TIEG be secured in principle for an initial term of three years, by the end of which a building permit must be issued for the proposed development. If a building permit is not issued within this timeframe, the TIEG will be forfeited, or Oxford may request that the term be extended by Council. This will provide Oxford with the security required to negotiate leases, but ensures that the funding commitment can be reallocated in a timely manner should the project not proceed.

Feedback from other Downtown office land owners with infill opportunities have noted a clear preference to develop residential uses on their lands given the high risk associated with developing office. Some of the existing buildings are now reaching their end of life and are ripe for redevelopment, which may further exasperate the growing imbalance between employees and residents in the Downtown. Residential development is eliminating future sites for office development in the Downtown and the ability to achieve the 1:1 employment to resident target established in the Official Plan could be lost as could the ability to meet the office development growth target for 2051.

There is a general consensus among other Downtown landowners that Oxford, due to its ownership structure, is the only developer that can presently assume the risk of building a dedicated office building and attracting tenants willing to pay a significant premium compared to existing rents in the area. If Oxford's development is successful, it will likely lead to additional office developments – much like Vaughan's experience following the completion of their first building occupied by KPMG. Subsequent applications may require less incentives as the risk profile is reduced.

## **Strategic Plan**

The Downtown CIP supports the strategic goal *Create a Vibrant Downtown* under the Connect pillar. It also supports the Prosper pillar which aims to develop talent, attract innovative businesses, and meet employment needs.

## Financial Impact

Contributing to TIEGs result in a deferral of increased property taxes for the property owner on development that might not otherwise occur. A TIEG provides a grant for the differences between the pre-development taxes and the post-development taxes for a property for a given amount of years. The City would benefit from the major office development through economic benefits created by the development.

The change in assessment value will generate supplementary tax revenue in the year that the new development is assessed by MPAC, once the post-development assessment change is incorporated into the City's assessment base the property will incur a larger distribution of the City's total tax levy. In the year that the revised assessment value is added to the City's assessment base it will generate growth for the tax levy.

The value of the TIEG over the 10 years will be a cost to the City and create a budget pressure. The 10-year TIEG would provide 100% of the incremental increase in taxes in the first year and decline to 37% in the 10<sup>th</sup> year. This model estimates the cost of the grant at \$3.95 million over 10 years for the City. This cost is based on the estimated post development assessment value, the actual grant would be based on the actual assessment change as determined by MPAC. During this time period the City will collect \$2.62 million in municipal taxes (see Appendix 4).

The annual tax levy is collected from the City's assessment base, if the grant is funded through the operating budget this cost will be collected as part of the annual tax levy. There is a risk that the cost of the grant could be higher than estimated depending on the final post development assessment value as determined by MPAC. However, the grant is based on percentages so the grants and revenues would increase proportionally.

## Conclusion

Oxford's proposed office development could be the first new office building in Downtown Mississauga in 30 years. A building of this size represents 38% of the current Official Plan office requirement in the Downtown Core. This could have significant spin off effects attracting additional office and improving the balance between residents and jobs in the Downtown.

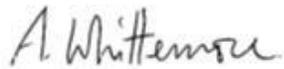
While Oxford's initial TIEG request was greater and longer in duration than anticipated, staff have developed an alternate TIEG model that still offers an attractive incentive for Oxford. The participation of the Region enables the City to enhance the value of the TIEG.

Oxford has indicated that the development is unlikely to proceed without any financial incentives.

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## Attachments

- Appendix 1: Proposed Office Development
- Appendix 2: Comparison of Office CIPs
- Appendix 3: Value of Office CIPs
- Appendix 4: TIEG Financial Analysis
- Appendix 5: Oxford's Downtown CIP Application (May 2021)



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