N. Barry Lyon Consultants Ltd.

Memorandum

To:	Bindu Shah, RPP, B. Arch, M. Plan. Principal Planner, City of Brampton
From:	N. Barry Lyon Consultants Limited
Date:	November 12th, 2021
RE:	Central Area CIP and Development Charges Incentives Program

1.0 Introduction

N. Barry Lyon Consultants ("NBLC") has been retained by the City of Brampton over the past two years to assess Inclusionary Zoning, as well as incentive programs to encourage employment investment and affordable housing. This work involved significant market analysis and financial modelling to illustrate the viability of these potential initiatives. The work also considered the existing Central Area Community Improvement Plan (Central Area CIP).

The City is currently reviewing the Central Area CIP's DCIP Program (**Figure 1**), which has offered development charge (DC) grants (50%-100% depending on project score through evaluation criteria) since 2000. The City is now considering amending the Central Area CIP's DCIP Program to target rental housing Given our experience in the City of Brampton, and more broadly across the GTHA with similar assignments, the City has requested that NBLC provide some advice and commentary to assist in developing recommendations to Council.

2.0 Central Area CIP – Market and Data Discussion

The Central Area CIP offers incentives to encourage intensification (residential apartments, office, and other objectives) in the area illustrated by **Figure 1**. The CIP primarily encourages and attracts market-rate development projects.

Since 2000, Brampton has waived over $30 million in DC's through the Central Area CIP, resulting in the creation of roughly 2,750 residential units (fairly even split of rental and condo tenure) and 40,000 square feet of commercial and office space. The vast majority of DC grants has been for residential development, however the take-up has been sporadic as illustrated by **Figure 2**. After significant take-up between 2005 and 2008, investment activity stalled, picking up again in 2019 and 2020 with three projects securing a DC waiver of over $12 million and accommodating 800 units.

Figure 1 – Central Area CIP and DCIP Boundaries

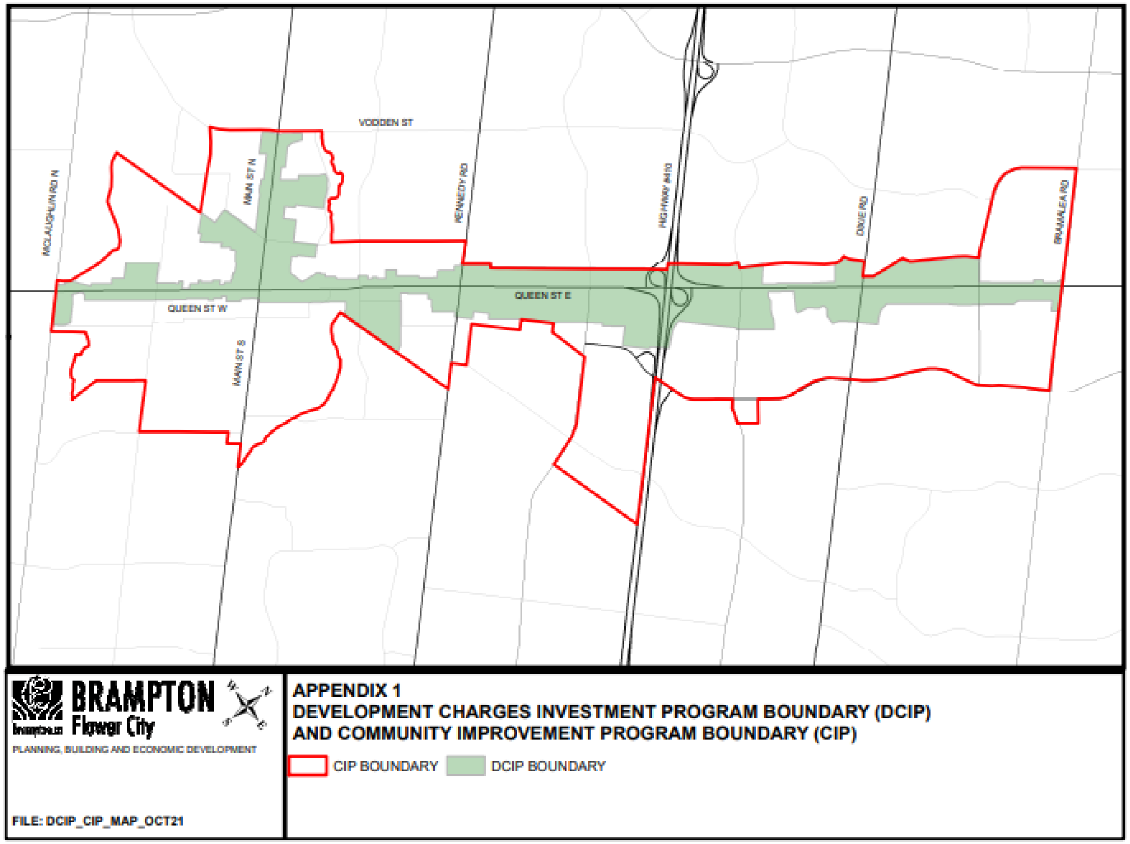
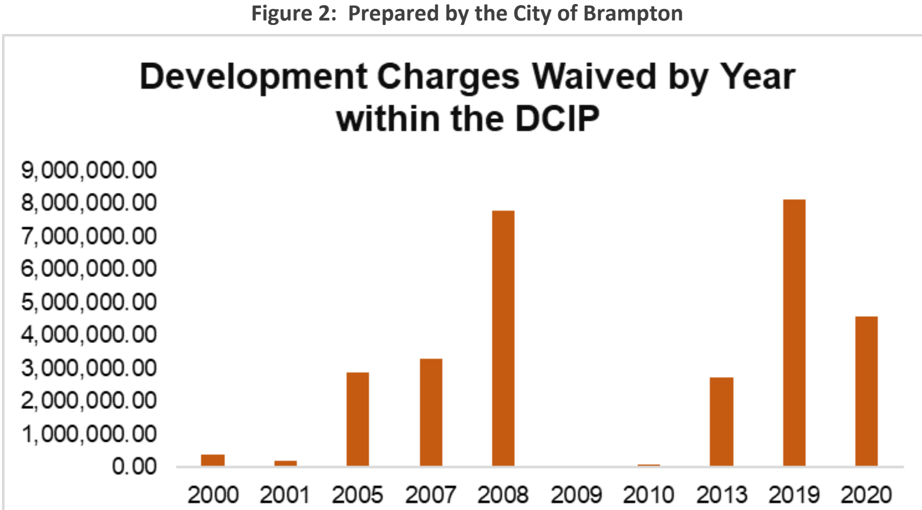


Figure 2: Prepared by the City of Brampton



In addition to the 800 new residential units supported by the Central Area CIP in 2019 and 2020, there is also a significant amount of new high-density residential development proposed in the Downtown and Central Area. As of November 2021, there are currently 3,800 apartment units under review in this area, which has been increasing in recent years. More broadly, the City has approximately 39,510 units in the development pipeline currently, with over half of the proposed units being apartments.

Of particular note is the presence of an MZO for a property located at 199, 203, 205, 207, 209, and 221 Main Street N.; 34, 38, 42, and 44 Thomas Street; and 4 Market Street. The property is situated directly within the Central Area CIP boundary and is proposing two 48-storey mixed-use towers and 1,129 residential units. An MZO can be used to expedite the development application process and advance the delivery of needed housing units. The proposed development is large relative to Brampton's historical development activity. The scale of this project, the MZO application, and increasing levels of proposed development in the area are all strong indications that private-sector investment interest is strengthening in Downtown Brampton.

As shown through our Inclusionary Zoning ("IZ") analysis for the Region of Peel and illustrated by **Figure 3**, high-density residential development applications have been concentrating in Brampton's Downtown and Central Area, in addition to other key nodes at Mount Pleasant and the eastern end of the City. High-density investment in Brampton appears to be increasingly attracted to areas with ongoing and planned transit, employment, and public realm improvements.

As affordability in the low-density housing stock continues to erode, and opportunities for new supply on vacant land is constrained, it is expected that the above trends will continue. Within this context, developers will turn to intensification and apartment development to deliver more affordable products to a growing population. As pricing levels and demand continues to strengthen, we expect that high-density apartments will continue to become a larger share of Brampton's housing stock. This is already apparent, with apartments representing only 5% of all housing starts in Brampton since 2000, with this share increasing to 10% since 2010. Further, nearly half of all residential units proposed in the City are currently apartments. As identified in our IZ analysis, condominium development is also beginning to become the preferred apartment tenure, with 70% of all apartments constructed in the City since 2010 being condominium, whereas rental apartments were more common between 1990 and 2010.

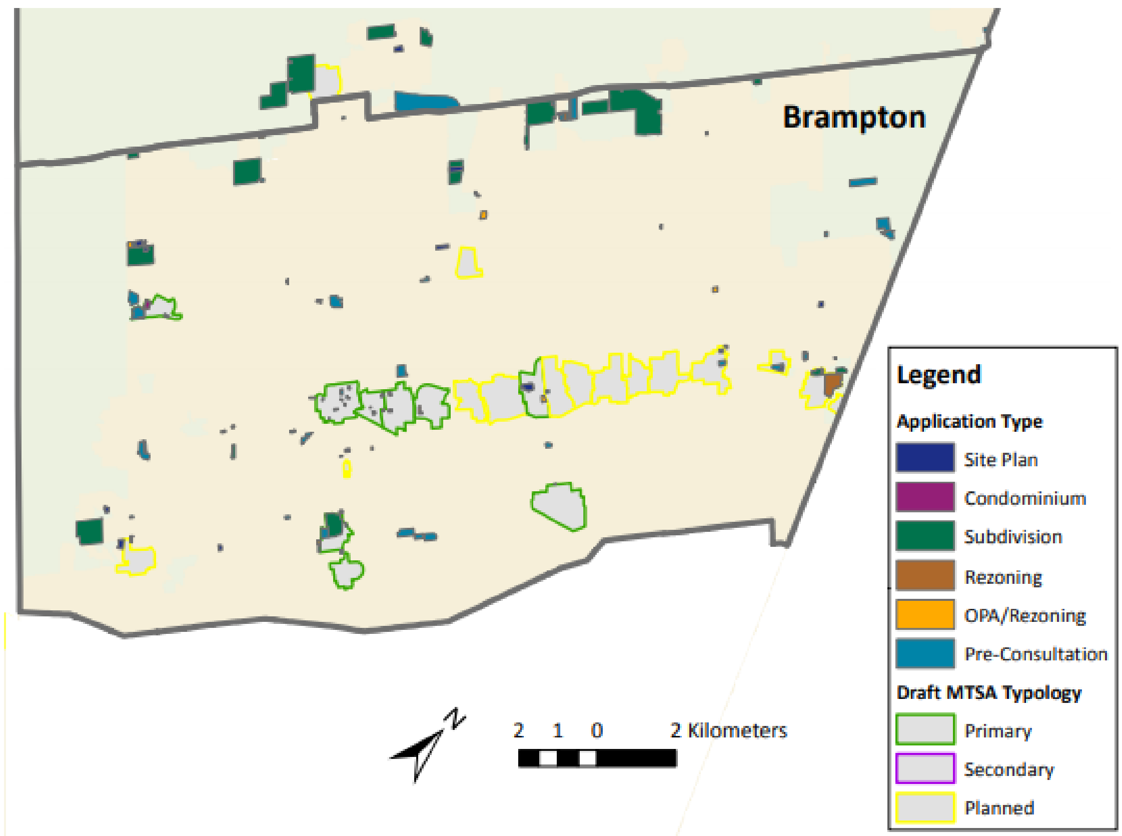
Building off the above, the financial analysis that was included within NBLC's IZ analysis found that market condominium development within Downtown Brampton is viable, however this work did assume a 50% DC waiver to account for the Central Area CIP. With this incentive removed, but keeping all other inputs the same (i.e. 2020 market and costing data), market condominium development remains feasible, however the feasibility of IZ in this area of the City is weakened by removing the incentive. Our work also found that condominium development in other areas of the City is viable, which supports the observation of increasing development activity, and specifically condominium development in the downtown and across the City in other nodes.

The IZ analysis also found that the viability of market purpose-built rental housing is challenged across the City, both with and without the Central Area CIP incentive. The proforma model did account for DC deferrals now enabled for rental projects, which supports, but does not result in a viable project in isolation.

This IZ feasibility analysis confirms the market findings noted above, where high-density apartments, and specifically condominium developments, are experiencing strengthening market conditions. As market conditions improve, developers are responding with new development proposals and larger buildings to respond to increasing levels of demand and improving the financial performance of their investment. However, rental projects are likely to remain disadvantaged and will require support to deliver a viable project and compete with the improving condominium market.

Notwithstanding the above, it must be acknowledged that this feasibility analysis is high-level. Every project will be different, and the construction industry has experienced significant cost increases over the past few years.

Figure 3 - Apartment and Stacked Townhome Development Applications



Source: NBLC IZ Report for Region of Peel (2021) – Prepared by the Region of Peel

2.1 Infrastructure Improvements in the Downtown and Central Area

As noted above, transit infrastructure investment is one factor driving development interest towards central Brampton. This investment includes the Hurontario LRT (HuLRT), which will connect the Brampton Gateway Terminal at Steele Avenue to Port Credit GO Station in Mississauga. The HuLRT will terminate just south of the Central Area CIP boundary and will integrate into a regional transportation network connecting Brampton with the GTHA (including future LRT/BRT investments in the City). Brampton GO Station is also expected to experience significant transit improvements, introducing frequent all-day and two-way service to Union Station in Downtown Toronto.

In addition to transit investments, Riverwalk is a major long-term infrastructure project planned to eliminate the risk of flooding in downtown Brampton. The project will reroute the Etobicoke Creek, which flooded the downtown area in 1948 and was subsequently redirected in 1952 to prevent against future floods. As downtown Brampton is still located within the Etobicoke Creek floodplain, rerouting the river through Riverwalk will address Provincial policies on hazard management that restrict the type and amount of development allowed in such locations. Therefore, Riverwalk will allow for greater scale residential projects to occur in Downtown Brampton and will also improve the overall urban design of the central area through a new Urban Design Master Plan.

Employment investment in downtown Brampton is also occurring, including major investments by the City of Brampton (e.g. Innovation District, Ryerson University, Algoma University, Integrated Downtown Development Plan, Rogers, and others). These investments will also improve demand for higher density housing within the Central Area CIP.

3.0 Brampton's Office Market and Incentives

As noted, Brampton currently offers a DC grant through the Central Area CIP. It also offers a DC exemption through the DC By-Law for specific office forms. Despite this, the CIP has not attracted much office investment, which is also true for the rest of the City where incentives are not currently offered.

NBLC's analysis in November 2020 found that Brampton's office market fundamentals are currently weak, with modest investment occurring over the past decade. While incentives can attract office investment, there are a long list of other factors influencing where this investment locates within the GTHA, with investment occurring in a concentrated nature in a select few locations (e.g. Downtown Toronto, Airport Megazone, VMC, etc.).

With the City falling behind it's projected office growth and employment goals, NBLC offered a number of opportunities for the City to intervene in the market. The primary recommendation was for the City to introduce a City-wide CIP that offers a TIEG, the existing DC exemption through the by-law/CIP, and other incentives to encourage a greater share of office development in strategic areas. The Region of Peel was also interested in contributing to a TIEG for office investment. While the situation should be revaluated regularly, Brampton's current market will require a strong package of incentives to attract new office investment.

4.0 New/Upcoming Incentive Programs

The City of Brampton is currently considering the advancement of three separate incentive programs, which will be available City-wide:

- Participate in the Region of Peel's affordable housing incentive program, which is designed to incentivize affordable rental housing with a priority for larger units.
- The creation of a broader City-wide housing incentive program that will support purpose-built rental and affordable housing (as well as other objectives).
- The creation of an employment incentive program that will offer a TIEG and DC waivers (through the DC By-law) for major office investment. This program might also be supported with Regional incentives.
- Modifications to the existing Central Area CIP.

5.0 Summary Conclusion

- Offering incentives to intervene in the market and encourage a specific outcome is a compelling municipal strategy and tool. However, incentives should encourage an outcome that the market would not otherwise deliver. Incentivizing a project that does not require assistance is not a wise use of limited financial resources, which could be redeployed to other strategies and objectives. Further, offering incentives where they are not needed will create artificial oddities in the land and development economics market, where land values and developer profits are increased ahead of market conditions. This is because the incentive will allow the developer to pay more for land, or absorb the incentive as profit, rather than the incentive primarily offsetting costs to result in a viable project considering modest revenue expectations.
- The high-level analysis and discussion in this memo indicates that it may no longer be necessary for the City of Brampton to incentivize new market condominium development within the Central Area CIP.
- However, it is also important to recognize that there are many applications in the area that have likely purchased land and completed a business case for the project assuming they would receive an incentive. The withdraw of incentives could therefore undermine these investments. To address this potential issue, we recommend that Brampton phase-out the incentive in manner consistent with the nature of the current application activity This strategy will ensure that supply is not interrupted in the near-term, where developers might otherwise delay or cancel a project that had been counting on the incentive. It also sends a clear message to developers and land markets that the incentive will be removed and the timing of phase-out.

- It should also be acknowledged that while the Central Area CIP has supported 800 new units since 2019, there are currently no other projects marketing or under-construction in the area. While the increasing level of development applications does signal market interest and improving demand, it is important to note that application activity does not always translate to built-units in the short-term.
- The high-level analysis and discussion in this memo also indicates that purpose-built rental ("PBR") housing will require support. While some PBR will occur in specific situations without incentive (e.g. land banking, REITs and Shopping Malls, etc.), it is generally a challenged product to deliver throughout the GTHA. As vacancy continues to decrease and rents increase, this housing product is vital to a healthy housing continuum. As the condominium market continues to improve, rental housing will become more disadvantaged as this tenure seeks to compete with condominium projects on land value and financial return.
- Affordable housing is also needed in the City of Brampton, as assessed by NBLC's analysis and various City of Brampton studies and strategies. Incentives will be necessary to encourage non-profit and private developers to deliver below-market housing. While IZ can be a useful tool to encourage affordable housing, it is expected to be modest, limited in geography, and likely to be supported with density bonusing and incentives as assessed in NBLC's IZ report.
- Finally, office investment also requires incentives in the City of Brampton as detailed in this memo and extensively covered in our 2020 report.
- It therefore appears to be a reasonable and measured response to begin phasing out incentives for market-rate condominium projects in Downtown Brampton. The market is naturally maturing and will only continue to strengthen as the market evolves, transit investments are made, Riverwalk is implemented, and employment and other investments continue.
- The City should also continue to support PBR housing, which can include the DC deferrals, DC grants through the Central Area CIP, and other incentives through the upcoming Housing CIP across a broader geography. The City should also begin supporting affordable rental and ownership housing, which can include the DC deferrals, DC grants through the Central Area CIP, participation in the Region of Peel Affordable Housing Pilot Program, and other incentives through the upcoming Housing CIP across a broader geography.
- Similarly, we support the City's decision to offer a stronger package of incentives to support office investment across a broader geography.
- The above strategies could include the replacement of the existing Central Area CIP with the new Housing and Employment CIP that will apply City-wide, or these programs can work concurrently.