Stimulating Investment in Employment Lands (All Wards)

(City Council on December 14, 15 and 16, 1999, adopted this Clause, without amendment.)

The Economic Development and Parks Committee recommends the adoption of the following report (November 17, 1999) from the Commissioner of Economic Development, Culture and Tourism:

Purpose:

This report provides the Economic Development and Parks Committee and City Council with a summary of the issues related to stimulating investment in employment areas within the City and proposes a process to address these issues comprehensively.

Financial Implications and Impact Statement:

There are no financial implications resulting from the adoption of this report.

Recommendations:

It is recommended that:

(1) Council endorse the establishment of a senior staff working group with representatives from Economic Development, Finance, Planning and TEDCO and the Ontario Ministries of Economic Development and Trade, Finance and Municipal Affairs to articulate the issues and assess alternative mechanisms for encouraging investment in employment lands and associated construction of new industrial space; and

(2) the working group be directed to consult with the business community, including employment land owners, businesses, real estate representatives and developers, and to report back to the Economic Development and Parks Committee early in 2000.

Council Reference:

At its meeting on October 4, 1999, the Economic Development and Parks Committee directed the Commissioner of Economic Development, Culture and Tourism, in consultation with the Acting Commissioner of Urban Planning and Development, the Chief Financial Officer and Treasurer and TEDCO, to report to the November 8, 1999 meeting on issues related to stimulating reinvestment in employment areas within the City, including brownfield sites, and a process to address these issues comprehensively.

Discussion:

Toronto is at a critical juncture in its ability to stimulate new investment. If we can successfully implement new policies and tools, we can create a long-term positive economic growth spiral that will provide additional jobs, increase assessment, and improve the quality of life for residents, business owners and employees within the City. Alternatively, if the status quo continues, we risk being caught in a downward economic spiral of higher taxes and declining services.

Governments do not create wealth, but government policies, programs and procedures are key factors in creating an environment that fosters economic growth (or decline). Ensuring a sufficient long-term supply of employment lands and industrial space is available to allow existing businesses to expand and new businesses to start-up is one of the important roles governments play in facilitating economic growth.

Currently, a number of factors, including market forces in the real estate industry, the new municipal property tax assessment system, changes to environmental regulations, Provincial downloading of funding responsibilities, and the outward migration of employers to the surrounding region, have all contributed to creating an environment that provides higher economic returns and/or lower risk for new residential development in the City relative to commercial and industrial development. These factors encourage the conversion of existing employment lands to residential uses.

While new residential development benefits the City in many ways, the loss of viable employment lands is a serious concern not only in Toronto, but in many North American cities. The speed at which these conversions are taking place and the rapidly shrinking inventory of industrial land within the City, has brought the issue of the long-term strategy for employment lands to the forefront. In the 1990s, over 1,800 acres of land designated and/or zoned for industrial employment uses have been converted to other uses, including 726 acres of the City's limited remaining greenfield employment sites. Several other applications are currently in the planning process and the City is a party at two Ontario Municipal Board hearings involving redevelopment applications to convert employment lands to residential uses.

Most of these employment to residential land use conversions have been proposed and considered on an ad hoc basis. Proponents of the conversions have argued, often successfully, that redesignation/rezoning of their individual sites would not adversely impact the City's overall employment or assessment position. However, Economic Development staff are concerned about the cumulative impact of the loss of employment lands and the lack of suitable new industrial space within the City on long-term job creation and retention and assessment.

This report proposes a process to comprehensively address the fiscal, planning and economic development issues related to stimulating investment in employment lands within the City. Unlike suburban municipalities that have large tracts of available greenfield sites, Toronto must develop tools and incentives to encourage reinvestment within existing mature urban areas. Mayor Lastman's and Council's efforts to secure a reduction in the Provincial education tax for Toronto businesses, and the recent decision to exempt new commercial and industrial development from development charges were important first steps. Now is the appropriate time to examine alternative policies and implementation tools, such as tax increment financing, dedicated reserve funds, environmental restoration tax credits and liability limitations, investment tax credits, and permit fee reductions that the City might implement on its own or in partnership with senior levels of government. The analysis will inform the City's strategic planning processes including, the Business Reference Group, Official Plan, and Economic Development Strategy and assist in developing a long-term City-wide strategy for the future use of employment lands.

The Importance of Employment Lands:

The Chief Administrative Officer and the Chief Financial Officer and Treasurer have noted in previous reports that improving the City's competitive position and ensuring the long-term viability of the business sector should be a priority for Council to consider. Based on Ministry of Finance data, commercial and industrial properties in Toronto account for less than 20 percent of the total current value assessment of property in the City, but contribute about 42 percent of the property taxes for municipal purposes. Business taxes support the many services, programs and activities the City provides to its residents, all of which contribute to maintaining and improving the quality of life we enjoy. Businesses also contribute to the local economy and social fabric of the community in other ways such as sponsoring local events and sports teams.

The migration of heavy manufacturing firms from the inner city to suburban locations that generally have lower land costs and less congested transportation access has been an ongoing phenomenon in Toronto and other large mature North American urban areas. The 1988 Free Trade Agreement (FTA) and 1993 North American Free Trade Agreement (NAFTA) and the economic restructuring which occurred throughout the 1990s to form global production networks accelerated the closure, consolidation and relocation of several large employers, such as, Goodyear, and Alcatel. At the same time, the availability of greenfield lands in the adjacent regions and Provincial infrastructure investments such as Highways 407, 400, 403 and 404, also served to attract business investment away from Toronto to the 905 Regions.

The flight of businesses out of a municipality can begin a downward spiral characterized by a declining tax base, the subsequent erosion of services to both businesses and citizens, followed by tax increases, additional business relocation, and so on. The closure or relocation of large scale business operations, such as those noted above had an immediate and visible impact on the City's older employment areas. Large properties, generally with older buildings, were left vacant or in some cases buildings were demolished to reduce the municipal property tax burden. The existing economic climate for reinvestment in these sites is at this point limited by several factors including the cost and time associated with environmental clean-up, risks associated with potential future liability, costs and time associated with renovating or replacing existing buildings, and a property tax burden double the rate of surrounding municipalities. Consequently, the reuse of those properties and buildings for many types of traditional employment is uneconomic under existing circumstances. The large vacant sites and sometimes derelict buildings also have a negative impact on the surrounding community.

Jobs and Community Building:

As centres of economic activity, cities in conjunction with senior levels of government also have a responsibility to facilitate job creation. The economic downturn of the early 1990s impacted the new City more severely and for a longer period of time than the Greater Toronto Area (GTA), the Province of Ontario, and Canada as a whole. Although the economy is now improving, Toronto has yet to recover the more than 160,000 jobs lost during the first half the 1990s.

One of Toronto's greatest and most recognized strengths is the diversity of its population. People from all over the world have been drawn to Toronto, in part because of the diversity of job opportunities it offers. City residents have taken advantage of those opportunities both as entrepreneurs and employees, and in turn created opportunities for others. Industrial and commercial enterprises create jobs for Toronto residents. It is important that the City maintain an adequate supply and variety of land and buildings for industrial and commercial development to provide for a wide range of generally high wage jobs to meet the needs of our diverse population.

Employment lands generally house larger buildings and employ large numbers of workers. While older employment areas may suffer from a negative perception, they provide lower cost opportunities for start-up businesses, local markets for suppliers of business products and services, and jobs for the local community. The surrounding lands provide the opportunity for future expansion of the principal business and allow for suppliers and service providers to locate in close proximity.

The clustering of businesses within employment areas facilitates the efficient use of City infrastructure such as wider roads, larger sewers and/or water pipes, and reduces industrial traffic through residential areas. The density of development and the number of workers in the employment lands and surrounding areas within the City also allow good transit service to be provided at a reasonable cost. When these jobs are relocated outside the City, workers generally have to travel farther and have little choice but to commute by car.

Conversions and Confidence:

Proposals for Official Plan Amendments and rezoning to change land use frequently reference the intent to permit development at the 'highest and best' use. However, like beauty, determination of 'highest and best use' is in the eye of the beholder. To the private landowner, 'highest and best use' generally means the use with the highest financial return and best investment for a specific site. Conclusions based on these criteria do not always coincide with the highest and best use as defined by the long-term interests of the City.

Decisions about the acquisition of property, buildings and equipment for plant expansion or start-up are among the most important decisions business owners make. These are long-term decisions that require substantial investment. In addition to immediate issues such as cost and accessibility, owners must have confidence in the long-term viability of the area for business uses, including the ability to accommodate future expansion before making such an investment. Conversions of properties within employment areas to residential use undermine the sense of confidence and stability necessary to attract long-term investment. If the City is not confident that an employment area is stable, why then should a private sector investor?

The conversion of one property within an Employment Lands area to residential use can result in pressure to convert adjacent parcels. Approval by City Council or the OMB of individual developments sets precedents for further conversions in the surrounding area and similar areas elsewhere within the City. It is this 'domino' effect that can destabilize large areas of employment lands. Nearby employers may perceive such conversions as a threat (new residents in a converted neighbourhood may object to the traffic, noise and other impacts associated with employment uses) or an opportunity (to relocate their own business and convert the land to residential uses).

Tools:

As most recently illustrated by the boom and bust real estate development cycle of the late 1980s-early 1990s, market forces encourage short-term decision making. In fact, the ability to recover capital investment relatively quickly (often through the pre-sale of units prior to construction) is one of the reasons residential condominium development is so attractive to developers. Commercial and industrial developers, on the other hand, often rent their space and, therefore, recover their investment over a longer period of time.

Toronto is falling behind other cities in stimulating investment in employment lands. Pro-active policies have been initiated by local governments in Hamilton, Windsor, London, and Kitchener and throughout the United States to encourage the redevelopment of employment lands, including brownfield sites, in mature urban areas. Official Plan designations and zoning regulations by themselves are not sufficient to generate new investment. Notwithstanding the societal benefits of job creation and maintaining diverse employment opportunities within the City, the private sector cannot be expected to make investments that do not provide a reasonable return on their investment. For better or worse, private sector investment decisions are market driven. If the role of government is to help create a favourable climate for investment and develop a sustainable economy, then the City, Provincial and Federal governments must develop and implement policy tools that influence market forces in the direction of good public policy.

Current government policies (e.g., taxation), or the lack thereof (e.g., tax increment financing) have a significant influence in the market. The City's property tax rate of 10.3 percent for industrial development compared to 1.2 percent for residential development is an important factor in investment decisions by land owners. Tax increment financing (TIF), whereby the increase in property tax that generally accompanies building construction or expansion is deferred for a period of time, is widely used in the United States to assist with the redevelopment of brownfield sites and vacant sites that would otherwise not be regarded as having redevelopment potential. Environmental liability caps and limitations, permit fee reductions, and reinvestment tax credits are examples of tools successfully used in other jurisdictions which merit further consideration. The use of Section 37 agreements under the Planning Act, which are used to secure public benefits, may also warrant further review.

While many of the City's employment lands are privately owned, the Toronto Economic Development Corporation (TEDCO) owns and leases many hectares of land within the former City of Toronto. TEDCO's current mandate is to aggressively and creatively pursue business and development opportunities within the City that will retain, expand and attract businesses and jobs. As an arm's-length corporation owned by the City, there is an opportunity to use TEDCO's expertise in addressing brownfield issues to become a catalyst for the redevelopment of employment areas throughout the City. TEDCO could play a prominent role in the rehabilitation, revitalization and marketing of employment areas across the City.

Conclusions:

Maintaining and attracting businesses to Toronto is important to the City's long-term fiscal, social and environmental health. Some major U.S. cities have found themselves in severe financial distress, in part due to inadequate long-term financial planning. Businesses pay taxes that contribute to many of the amenities, services and programs Toronto residents enjoy and provide a diverse range of direct and spin-off jobs that allow residents to live and work within the City and reduce the necessity for long commutes.

Expanding our economy and improving our quality of life requires that the City develop and implement a comprehensive strategy that clearly and consistently signals to potential investors that Toronto 'is open for business'. The current market trends, which encourage the conversion of employment lands to residential uses, may seriously undermine the effectiveness of any future economic growth strategy. It is appropriate that Council direct staff of the Economic Development, Finance and Planning Divisions to address this issue in a comprehensive, long-term and City-wide manner.

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The Economic Development and Parks Committee also had before it the following communications, and copies thereof are on file in the office of the City Clerk:

(a) (November 26, 1999) from Mr. Gerald McCrindle, Vice President, Financial Services, CB Richard Ellis Limited Realtor, in support of the active steps being taken to develop policy tools which will help maintain and foster a favourable climate for investment over the long-term within the City of Toronto;

(b) (November 26, 1999) from Mr. Douglas H. May, SIOR, Vice President/Manager, Colliers International, in support of the report, entitled "Stimulating Investment in the Employment Lands", and welcoming the recommendations, especially the idea of working group consultations with the business community; and

(c) (November 29, 1999) from Mr. Frederick Eisen, O.S., Chairman of the Board, City of Toronto Economic Development Corporation (TEDCO), in support of the report, entitled "Stimulating Investment in the Employment Lands", and congratulating the City's Economic Development staff on an excellent report.

(City Council on December 14, 15 and 16, 1999, had before it, during consideration of the foregoing Clause, a communication (November 26, 1999) from Mr. David McFadden, Q.C., Chair, and Ms. M. Elyse Allan, President and Chief Executive Officer, The Toronto Board of Trade, expressing their support of the recommendations of the Commissioner of Economic Development, Culture and Tourism on stimulating investment in employment lands.)