

Economic Value of the City's Employment Lands

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To:	City Council
From:	General Manager, Economic Development and Culture and Chief Planner and Executive Director, City Planning
Wards:	All
Reference Number:	

SUMMARY

As part of the Five Year Official Plan and Municipal Comprehensive Reviews there are over 140 requests to convert the City's designated employment lands (Areas and Districts) to other uses including residential uses. This report provides information on the economic value of the City's designated employment lands to better inform Council's decision on the potential impact of approving or denying the conversion requests.

The economic impact of the City's employment lands is significant:

- They contain almost 25% of the City's jobs. Many of these jobs produce goods and services that are exported.
- They create about 28% of the City's estimated 2012 GDP of \$151 billion.
- They contribute about 12% of all property taxes paid in the City (municipal and education taxes).
- They are home to about 11% of the value of construction permits;
- They are a critical support to maintaining a diversity of employment opportunities for Toronto residents.
- These lands provide the only viable home in the city for businesses requiring separation from residential and other uses that are sensitive to noise, activity or odour. They are the only home for businesses that cannot survive in a mixed use setting.

Financial Impact

There are no financial implications resulting from this report.

DECISION HISTORY

At the Special Meeting held on November 21, 2013 dealing with "Official Plan and Municipal Comprehensive Reviews: Amendments to the Official Plan for Economic Health and Employment Lands Policies and Designations and Recommendations on Conversion Requests," the Planning & Growth Management Committee requested the General Manager of Economic Development and Culture and the Chief Planner and Executive Director of City Planning, to report directly to Council on:

the economic impact and overall value to the City's economy generated by businesses located within lands currently designated employment areas and the impacts of the conversion proposals.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2013.PG28.2>

ISSUE BACKGROUND

The City report "Official Plan and Municipal Comprehensive Reviews: Amendments to the Official Plan for Economic Health and Employment Lands Policies and Designations and Recommendations on Conversion Requests" presented a proposed Official Plan amendment including new Official Plan policies, land use designations and mapping pertaining to the City's economic health and employment lands.

Part of that report addressed conversion requests within employment lands as those lands may be converted and designated for non-employment uses only during a Municipal Comprehensive Review. The City has received approximately 140 requests/applications to convert lands designated as Employment Districts and Areas for non-employment uses.

It is important to understand these conversions requests in the context of their economic value.

To support the preparation of the Municipal Comprehensive Review and the revised official plan policies in OPA 231, the City commissioned a major study of employment uses in the City. The study was prepared by a team of consultants lead by Malone Given Parsons ('the MGP report'). Its full title is 'Sustainable Competitive Advantage and Prosperity – Planning for Employment Uses in Toronto.' The results of the Study were presented to the Planning and Growth Management Committee on September 13, 2012. Some of the information and analysis in the MGP report is used to develop this report's estimates of the economic value of the City's employment lands. Link to the report:

http://www1.toronto.ca/staticfiles/city_of_toronto/city_planning/sipa/files/pdf/sustainable_competitive_advantage_and_prosperity.pdf

COMMENTS

The city's employment lands are home to about 392,000 jobs, or about 25% of the City's 1.6 million jobs (including those who work at home or don't have a fixed work address). They also contain about 36% of all manufacturing jobs in the GTA, the third largest industrial hub in North America.

These areas provide the only viable home in the city for businesses requiring separation from residential and other uses that are sensitive to noise, activity or odour. They are the only home for businesses that cannot survive in a mixed use setting.

Gross Domestic Product (GDP) generated by Employment Lands

The employment lands generated about \$43 billion or 28% of the City's estimated 2012 GDP of \$151 billion. This estimate is derived by relating the share of the City's employment in the employment lands to the GDP estimates yielded by the Conference Board's model of the City's economy.

Businesses that export their products and services are important for the City because they bring income into the City to support its economic growth. The MGP Report highlighted the importance of these export-based jobs in the City. Using their approach, we estimate that:

- about 35% of the jobs and 40% of the GDP in the employment lands are export-based;
- these jobs account for about 30% of the export – based economic activity in the City.

These export-based jobs also result in the 'indirect' creation of, or support for, other jobs in the City that result from the purchases of inputs of goods and services by the businesses that produce the goods and services that are exported. In addition, the workers in export-based jobs 'induce' additional jobs when they spend their income (derived from the money the export-based jobs bring into the City) on goods and services for their household or personal activities. It is generally accepted that manufacturing creates relatively large 'indirect' effects. The MGP report estimates that 1,000 export-based manufacturing jobs in the city's employment areas results in the creation of 1,200 indirect jobs in Ontario, though not all of them would be in the City. Hence the importance of preserving a wide range of locational options for manufacturing and protecting them from potential complaints from neighbours about noise, odour and traffic.

Please note that it is very difficult to estimate precisely the numbers of export-based and indirect jobs. These are approximate estimates based on the MGP report's analysis and methodology, which provides a good overview of the importance of business activity in the employment lands.

A large share of manufacturing output is exported. One of the reasons the employment lands are important to the city's economy is that it is in these areas that manufacturing activities are primarily located.

Other important sectors with a high value export contribution include biotechnology, film & digital media and financial services.

Assessment and Property Taxes in Employment Lands

The total assessed value of properties located within employment lands is about \$26 billion, or 6% of the City's total assessed value of all properties in Toronto,

Employment lands yield about \$725 million in property taxes, or about 12% of all property tax revenue collected in the City (municipal and education taxes). For example, the manufacturing sector, which is well represented in the City's employment lands, contributes significantly to the City's assessment base. In 2011, industrial properties contributed over \$239.6 million in property taxes. (State of Manufacturing in Toronto-EDC (Collaborating for Competitiveness - Implementation Action 5)-p.6)

There is also ample evidence that the City of Toronto collects more in taxes from commercial and industrial properties than it costs to provide municipal services to commercial and industrial properties. This is why every city in North America strives to attract and retain commercial and industrial property investment. Conversely, it costs more to provide municipal services to residential property than the City collects in residential property taxes. This is the reason that bond rating agencies look very carefully at the ratio of commercial and industrial assessment to residential assessment when considering the credit-worthiness of the City. If substantial tracts of employment lands in the city are converted to residential uses, municipal costs would rise more than municipal taxes. This would put additional pressures on the city's budget, leading to lower levels of municipal services or higher taxes for city residents and businesses.

Types of Jobs in Employment Lands

The City of Toronto's economy is dominated by jobs in financial services, higher order business services, head offices and information and culture. Therefore, retaining or increasing manufacturing employment contributes to the industrial diversity of the local economy, and diversity matters for several reasons.

First, a diverse economy provides a diverse range of jobs given Toronto's diverse population and labour force. It provides a wide range of opportunities for people who lose their jobs or who are entering the job market or wish to change jobs, and attracts people to move to Toronto. For example, if one spouse in a household gets a job offer in Toronto, the other spouse will find it easier to find a job here since there are a diverse range of available jobs.

Second there is also evidence that a diverse economy is also a resilient economy. Economic events do not affect all industries equally; therefore, a diverse economy is more able to withstand downturns in particular sectors or industries.

Third, since most of the office jobs in Toronto are located downtown, an increase in employment in the employment lands provides jobs for people living within the inner suburbs, resulting in shorter commutes for some workers, reducing congestion on the

roads, reducing the need for expensive transit upgrades, and less energy wasted and pollution created.

One of the important goals underlying the employment policies is to provide job opportunities for the City's residents. Using data from the 2006 Census, the MGP report estimated that about 60% of the jobs in the employment lands were held by residents of the City. That would translate into about 225,000 jobs today.

The MGP report also showed that the employment lands are a critical source of job opportunities for workers in the city's Neighbourhood Improvement Areas (previously known as Priority Neighbourhoods).

Manufacturing jobs are "good jobs" in many respects. When adjusted for educational attainment, wage rates in manufacturing industries are higher than the average for all industries, particularly for persons with lower levels of educational attainment.

Construction in Employment Lands

Data used in the MGP report show that for the 5 year period between 2006 and 2010:

- \$2.810 billion worth of building permits were issued in employment lands; or about 11% of the City total;
- About \$990 million (35%) was for new buildings or additions; and \$1,820 million for alterations to existing buildings
- About \$575 million (20%) was for industrial and warehouse buildings and \$2,240 million for other kinds of buildings.

The total value of all 'industrial and warehouse' permits located in employment lands for the ten years from 2001 to 2010 was \$1,049.7 million. These are conservative estimates, because it was not possible to link some permits to their location, and they were not included in these numbers.

Value of Vacant Space and Vacant Land in Employment Lands

Vacant space and vacant land is an important resource for future growth and development. The MGP report concluded that the employment lands should be protected to provide for future non-residential growth and development. In particular it will be important to protect the existing land base for industrial uses. Although industrial employment may only grow modestly, industrial uses will continue to consume large amounts of land and require additional land in the future. These uses will largely be restricted to their existing employment lands locations, since they are often incompatible with other uses.

Employment lands may accommodate locations for future retail service uses, especially those that require large sites. These uses would compete with industrial uses – making any apparent surplus of employment land illusory when they are taken into account.

Vacant industrial land also serves another important function. A certain amount of vacant industrial land is necessary to allow for turnover and expansion. In discussing this 'natural' vacancy, the MGP report notes that "most analysts incorporate a vacancy factor be in the range of 7.5-15% to account for this 'frictional vacancy' as well as for a market contingency factor to maintain choice in the market over time" (MGP report, p4-35). If the City were to allow vacant industrial lands to be converted to other uses, this would put upward pressure on the rents of the remaining industrial lands, which would make existing industries less competitive, potentially creating a vicious cycle of de-industrialization.

Impact of Conversion Proposal in Employment Lands

The majority, approximately 78%, of the 116 conversion sites presented in the Final Report to the November 2013 Planning & Growth Management Committee are occupied by active employment uses. The range of employment activity varies from low employment uses such as a single small retail business to large manufacturing sites with hundreds of employees. The conversion of Employment lands to residential or other non-employment uses results in virtually all cases in a permanent loss of commercial and industrial assessment and opportunity for future employment development. These conversions also generally put additional pressure and very often constraints and restrictions on the operations of nearby employment uses. These restrictions negatively impact the competitiveness of the affected businesses, can reduce the value of their properties for employment uses and thereby encourage the conversion of additional lands to non-employment uses. The potential impact of approving the conversion requests would have a direct impact on existing employment levels in the City, reduce the diversity of future employment opportunities for Toronto residents, place additional pressure on the City's budget, and encourage an on-going process of further conversions.

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