



August 21, 2023

Mayor Olivia Chow
Members of the Executive Committee
City of Toronto
100 Queen St W
Toronto, ON M5H 2N2

Via email

RE: Executive Committee – Item EX 7.1 – Updated Long-Term Financial Plan

Dear Mayor Chow and Members of the Executive Committee,

On behalf of NAIOP Greater Toronto, thank you for the opportunity to submit our comments on the City's Updated Long-Term Financial Plan. We recognize that the City is facing substantial and unprecedented fiscal challenges and is considering several options to address these challenges. We are concerned that some of the proposed options will have significant unintended consequences on Toronto's economy.

NAIOP Greater Toronto represents developers, owners and related professionals in office, industrial, retail and mixed-use real estate. With over 1,200 members from approximately 300 companies in the GTA, we are the prominent voice advising on commercial real estate matters that affect the region. As part of our mandate, we undertake policy work to assist governments as they respond to ever-changing economic challenges.

NAIOP supports a new fiscal framework with other levels of government

In addition to the budgetary pressure from its core services, we understand that the City's fiscal gap is exacerbated by the \$1.1 billion spent annually on provincial and federal responsibilities. NAIOP Greater Toronto agrees with the City's position that a new fiscal framework with the provincial and federal governments is required. We will be supporting the City in its efforts to seek a new funding formula with the other levels of government.

Proposed new taxes will harm Toronto businesses

While the City seeks a fairer funding formula, we are concerned with the revenue generating measures the City is considering. Some of the proposed taxation options under consideration will have significant ramifications for Toronto's businesses. The introduction of a commercial parking levy, the removal of the non-ground floor Development Charges (DC) exemption, and the implementation of financial penalties for older buildings that do not meet emissions standards are measures that will undermine efforts to make Toronto a vibrant commercial hub.

As you are aware, the business climate post-COVID-19 is dramatically different. Our recent Altus report (attached) shows that due to hybrid work arrangements there is a sharp risk of a significant oversupply of office space in the GTA until at least 2041. Depending on whether two to four days a week in the office becomes the norm, the GTA could be facing office vacancies between 16.5% and 45.7%. Retail is also still recovering from the pandemic. With this in mind, we have shared below some of the impacts on business predicted from these revenue tools:

Commercial Parking Levy

A commercial parking levy would be a poor financing tool to help the city fund its budget gap. It is important to remember that a parking levy is not the same as a parking sales tax. It will not change driving behaviour. Due to the structure of leases, in most cases the levy will be paid by tenants. This will increase rents and lead to the loss of storefronts, reversing the City's efforts to animate main streets, and provide financial incentives to move commercial and shopping activity outside of Toronto. According to a recent Altus study commissioned by REALPAC, The Financial District BIA and BOMA Toronto, a parking levy will reduce investment in industrial, commercial, and retail buildings by \$6.8 billion and lead to the loss of 54,500 construction-related jobs and 40,500 in annual jobs related to office, retail and industrial activities.

After studying the parking levy twice, including in a third party KPMG report in 2016, the previous Council agreed with staff's conclusion that the levy is unfair, inefficient, a bad policy fit and does not minimize negative economic impacts¹. In a [2023 Budget Briefing Note](#), staff noted that the levy would have an impact on non-residential tax competitiveness as it "resembles a commercial property tax and is contradictory to existing City policies".

We also note that the proposed stormwater levy is essentially the same tax as the commercial parking levy. Both will be applied to the same square metre of pavement. If both a parking and stormwater levy are implemented, a parking space will be taxed three times after also paying property taxes.

Removal of the Non-residential Development Charge (DC) Exemption

New office developments in Toronto are already in jeopardy given the post-pandemic hybrid work arrangements. Removing the DC exemption will dramatically increase charges for office buildings, stalling any new development and the economic benefits associated with new construction, employment growth and increases to the City's property tax base.

Financial penalties for not meeting environmental goals

While NAIOP Greater Toronto supports emissions reductions and performance standards for buildings, it opposes the use of financial penalties to achieve those goals. All modern buildings developed by our members exceed most environmental standards, indeed meeting LEED standards is a point of pride. The challenge are older "B" and "C" class buildings, the same buildings experiencing the worst of office vacancies. The cost to upgrade these buildings to modern standards, particularly when there are likely no tenants available for the spaces, would be prohibitive. Instead, the City should consider introducing flexible conversion policies to allow obsolete office buildings to be replaced with modern residential or mixed-use buildings. This can help address both the climate crisis and housing shortage.

¹ City Manager's Presentation on EX20.1, EX20.2, and EX20.3 ("LTFD Update," "Revenue Strategy," and "Asset Optimization" Reports). Executive Committee – December 1, 2016

During the pandemic consumers were easily able to move their spending to other nearby jurisdictions or go online. Businesses too may decide to relocate to municipalities with lower taxes. As you make decisions on how to address the City's financial challenges, we urge you to consider the serious cumulative impacts of these taxes on businesses across Toronto. The cost of these policies will dramatically dwarf any potential benefits for the City's revenues.

Sincerely,

Leona Savoie

Chair, Government Relations

NAIOP Greater Toronto