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April 29, 2014

Attention: Chair and Members, Strategic Priorities and Policy Committee, City of London

Dear Mayor and Councillors:

Re: Proposed 2014 Development Charges Rates

Please accept this letter in regard to the 2014 Development Charges report provided at Strategic Priorities and Policy Committee on April 14, 2014.

York is a London based firm that develops residential, commercial and institutional properties across Southwest Ontario with its home base and the bulk of its activity in London. We also maintain properties as an active landlord. We live in London, our engagement in many of London's cultural and social activities over the past 20 years in addition to our corporate operations are illustrative of our commitment to this City.

In our review of the April 14 report and supporting documents, we accept overall that the scope of works is appropriate and that some increase to the rates to allow forecasted growth in London is necessary. There are some other items of concern that we believe are being covered by others but the single largest issue for York is the size of the increase in commercial development charges.

Commercial Development Charge Impacts

The proposed commercial development charge far outstrips the increases of any other land use. The 53% increase from \$174 to \$265 per m² will have an impact on the commercial sector that challenges the feasibility of many future commercial developments. The report provides some rationale in consideration of the employment numbers and the projected amount of commercial space to meet those needs but it doesn't address the impact such an increase causes in the marketplace.

Consider:

- Most office and retail business owners lease their space
- Retail business is very location dependent and the total inventory of available retail space is irrelevant to the individual user. Retail lease rates for most properties in London vary between \$5 and \$25 per sq. ft per year.
- The proposed increase in commercial charges has a direct impact on the marketplace. By way of example, the impacts of the commercial rate on a 4,000 m² (43,000 sq ft) building

on a 10,000sq m(2.5 acre) parcel with typical land, building and site costs of \$5 million and proposed development charges of \$1,100,000 (from a \$700,000) results in an increase of the overall site cost of approximately 7%. In context, this increase exceeds the overall lease rate increase over the last 6 years in London.

- Commercial lease rates in London have been flat since 2008, in a tough economy in Ontario and particularly Southwest Ontario. Property owners have taken up the slack in lease flexibility in trying to keep their space occupied. At this point, increases largely must be passed on to the tenant. Such an increase in development charges for new properties will bleed over to the lease costs for all properties in the commercial marketplace.
- large scale commercial development will pay a hefty total increase but an increase in lease rates for small businesses are significant to their bottom line. To grow small business here in London, needs a helping hand from everyone. A few will be successful as vibrant independent businesses. Others could be London's next success story as they grow across the country. GoodLife Fitness comes to mind.
- Some commercial development is not so location dependant and will simply migrate to adjacent municipalities. The DC charge is an incremental element of that reality.

A number of factors are considered in calculating the commercial development charge rate. They are discussed at some length in the report. Given our knowledge of commercial construction over the last few years in London, the increased space allocations forecasted to determine the proposed commercial expansion are not that generous at 30,000m² (323,000 ft²) per year.

There is also reference to the determination of project assignment to different land uses but the allocation isn't discussed at length. There is an arbitrary element to assign costs to a landuse such as commercial or residential. For example, considerations are that retail land-use generates more traffic than residential development. Conversely, substantially more land is dedicated to residential development than retail development. Both create demand for arterial road improvements. The exercise can be calculated with incredible precision but doesn't reflect a balanced rate if it impacts one land use significantly more than another.

We recognize the need for a rate increase on the program that staff have progressed in the 2014 Development Charges background studies. At 53% , it is our opinion that the increase in the commercial development charge rate will challenge the viability of some future development projects and will pressure lease rates upwards in London. A commercial increase more in line with the residential increase and so less than \$200 per m² is needed for London's commercial sector at this time.

Yours truly,



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