CITY OF LONDON

ECONOMIC IMPACT OF PROPOSED DEVELOPMENT CHARGES

April 28, 2014

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Planning for growth

1. INTRODUCTION

1.1 Terms of Reference

The City of London retained Watson & Associates Economists Ltd. to review the impact of the proposed development charge (DC) rates set out in the City's draft April 2011 DC Background Study.[1] This included an analysis of the impact on housing affordability and housing market demand, the competitive position of commercial and industrial development within the City, and the broader impacts on the local and regional economy (i.e. impacts on the construction sector and other indirect or induced impacts associated with higher development costs). As part of this analysis, Watson & Associates conducted telephone surveys with a number of active builders and developers within the City of London to gain insight on the economic impacts of the proposed DC rates from their perspective. The results of this correspondence is summarized in Chapter 4.

1.2 Background

The City of London's current development charges By-Law expires on August 3, 2014. Over the last two years, City Administration, in consultation with development and building industry representatives, has prepared a draft development charges Background Study and DC rate calculation with the intent of establishing a new by-law to replace the expiring by-law. The draft rates have been arrived at through the combined efforts of the consultants and City Administration. They have been subject to scrutiny by members of the development and building industry over the past year.

The following table reflects the results of the estimates with respect to residential units:

Category	Current Rate in Effect (as of January 1, 2014)	Draft DC Rates (April 14, 2014)[2]	Percentage Increase
Single Family Unit	$23,716	$28,143	18.7%
Commercial	$174.44	$265.94	52.5%
Industrial[3]	N/A	$173.28	N/A

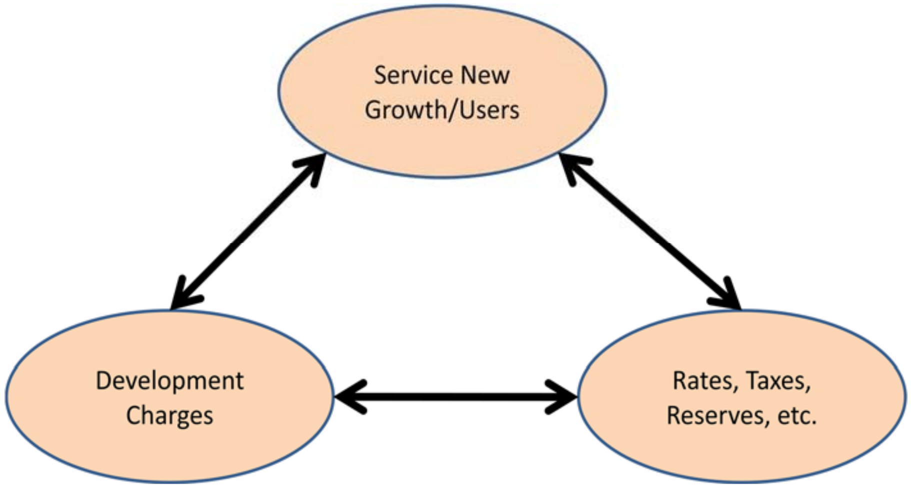
[1] 2014 Development Charges Background Study, April 2014, City of London.
[2] Rates include Water Supply, pending Council decision on inclusion. Strategic Priorities & Policy Committee Report. April 14, 2014.
[3] Previously, the City of London has exempted industrial development and no DC rate has been included in the by-law. At present, it is proposed that an industrial DC rate be included in the by-law, but a Community Improvement Plan grant will off-set DCs payable.

As summarized above, the proposed residential DC rates (single family unit) reflect a 19% increase to the residential DC rate (single family unit) currently in effect. This increase is largely driven by increased growth-related expenditures for roads and, to a lesser extent, soft services. The proposed commercial DC rate represents a 53% increase from the current DC rate, which is largely attributable to roads services and Urban Works Reserve Fund (UWRF) retirement. The City currently does not impose an industrial DC. As identified, the calculated industrial DC would be fully off-set through a DC exemption or a taxpayer-funded Community Improvement Plan (CIP) area grant.

Development charges are intended to recover the costs of growth-related capital which are identified to be external from a local development plan (e.g. water distribution, sewer pipes and treatment capacity, stormwater management facilities, new roads and road improvements/ expansions, park development, and so on). The DC rate calculations are affected by a wide range of variables; however, cost increases and opening new areas for development contribute in large measure to the draft rate increases.

At the local level, the funding sources available to Ontario municipalities (including the City of London) to finance municipal infrastructure is generally limited to property taxes, user rates, development fees, development charges and senior government grants. Figure 1 schematically illustrates the relationship between growth-related service needs versus available funding sources. In accordance with the financial framework that the City of London operates within, it is important to note that any potential reduction in DC rates (i.e. through exemptions, discounts or other policies) will have a direct impact on the City's property tax rates and/or water/wastewater rates. Similar to DC rate increases, potential increases in the City's tax levy or water/wastewater rates (associated with potential reductions to the calculated DC rate) would have a direct impact on homeowners and businesses within the City, as well as potential broader indirect impacts to the local and regional economy. These potential economic impacts have not been explored as part of this assignment.

Figure 1: Relationship Between Municipal Service Needs and Available Funding Sources



One of the most difficult policy issues which municipalities have to deal with in establishing development charge policy relates to assessing the potential impact of development charges on the rate of residential and non-residential development and economic competitiveness. This analysis aims to address the following issues:

1. Will the proposed residential development charges affect the rate of residential development in London and the overall viability of the housing sector?
2. How will the proposed residential development charges affect home ownership and housing affordability in London?
3. Will the proposed non-residential charges affect the municipality's ability to attract industrial and commercial development, and/or investment decisions of existing businesses to remain/expand within the municipality?
4. What other broader economic impacts will the proposed DC rate increases have on the local and regional economy (e.g. impacts on construction sector).

2. ECONOMIC IMPACTS OF PROPOSED RESIDENTAL DC RATES ON THE HOUSING MARKET

The potential economic impact of residential development charges on the rate of development is affected by a number of variables, including:

- The nature of the development involved in terms of development costs, price and target market groups;
- The state of the economy and local development markets;
- Transition arrangements made in putting the charge or increases in the charge in place;

- Comparative development charges in surrounding municipalities and related development costs in competitive locations;
- Size of land holdings by developers and others, and the functioning of the real estate market; and
- The cumulative impacts of all development-related fees (i.e. building permits, planning fees, etc.) on residential development costs.

Development charges represent a relatively minor component of overall housing costs when compared to land and construction costs. Increases in residential development charges will likely be passed forward to the purchaser, if possible. Land prices may also absorb some of the impact in the long run. However, it is difficult to identify a direct correlation between the level of residential development charges and the rate of development in municipalities over the longer term due to broader economic factors which influence housing growth (i.e., global/national conditions, employment growth within the local area and surrounding commuter-shed and demographic/socio-economic trends within the residential market area).

For the London Area housing market where average household income levels are relatively lower and general economic conditions are less favourable than the certain markets inside of the Greater Toronto Area (GTA), housing demand tends to be more sensitive to price (i.e. “elastic”). In these situations, a residential DC which is significantly higher than those of municipalities in the same market area may impact profits and/or construction activity over the short-term. However, the primary determinants regarding the demand for residential development in a municipality over the longer term relate more to the availability of zoned, designated and serviced land, access to amenities and community infrastructure, lifestyle and quality of life issues, market choice of available housing products by price, location and built form, access to job opportunities and macro-economic conditions.

2.1 Housing Market Overview

The following section summarizes existing housing conditions within the City of London with respect to construction activity and market demand.

Building Permit Activity

Annual residential building permit activity in London over the past decade (2004-2013) is presented in Figure 2. As shown, the City has averaged 2,180 units per year over the period. Residential building permit activity was considerably stronger prior to the economic recession of 2009 (between 2004 and 2008, the City averaged 2,700 units annually) compared to activity since the recession which has averaged 1,660 units per year. However, residential building permit activity has gradually been increasing since 2011 but remains below the historical annual average.

Figure 2

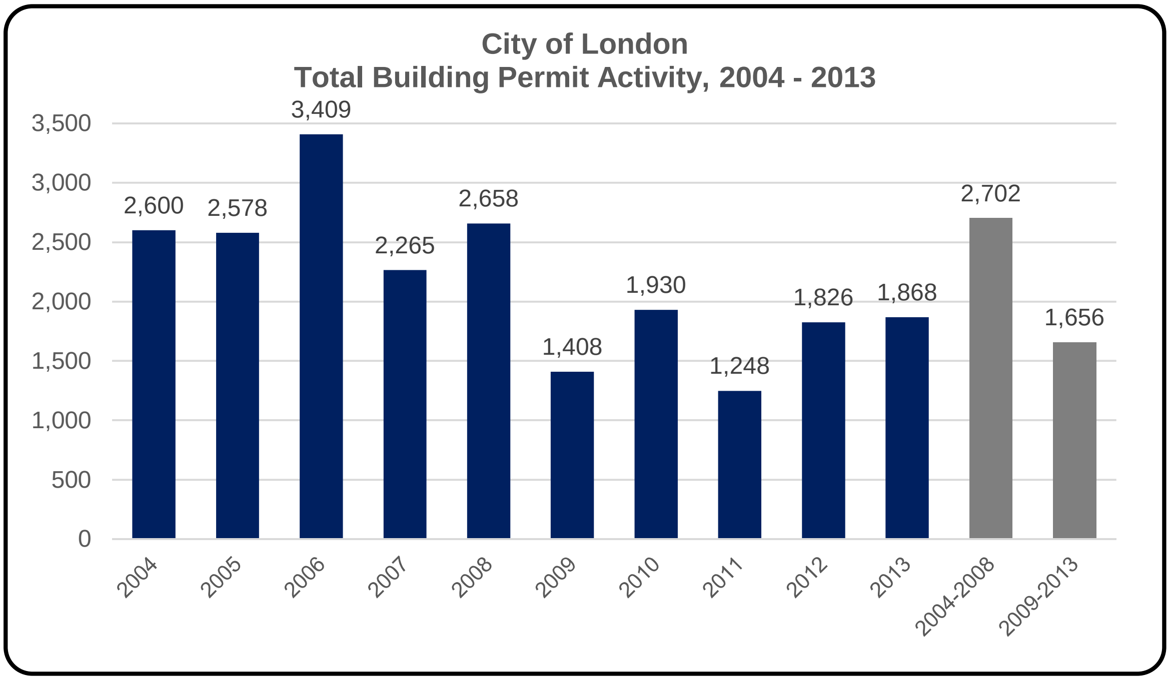
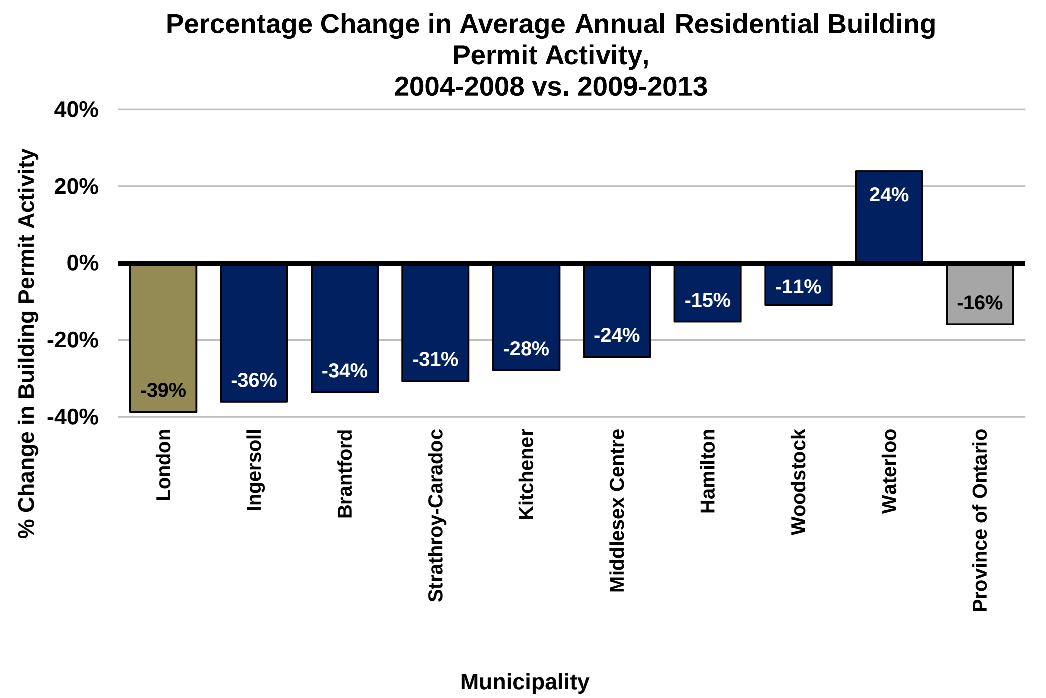


Figure 3 summarizes the change in average annual residential building permit activity in London and comparator communities over the 2004-2008 vs. 2009-2013 periods. As shown, all municipalities surveyed, with the exception of Waterloo, have experienced lower residential building permit activity since 2009 (post economic recession) than over the 2004-2008 period. This mirrors the Province-wide average (16% decline). The most significant decline was in London, which has seen a 39% decrease in activity over the 2009-2013 period compared to the 2004-2008 period.

Figure 3



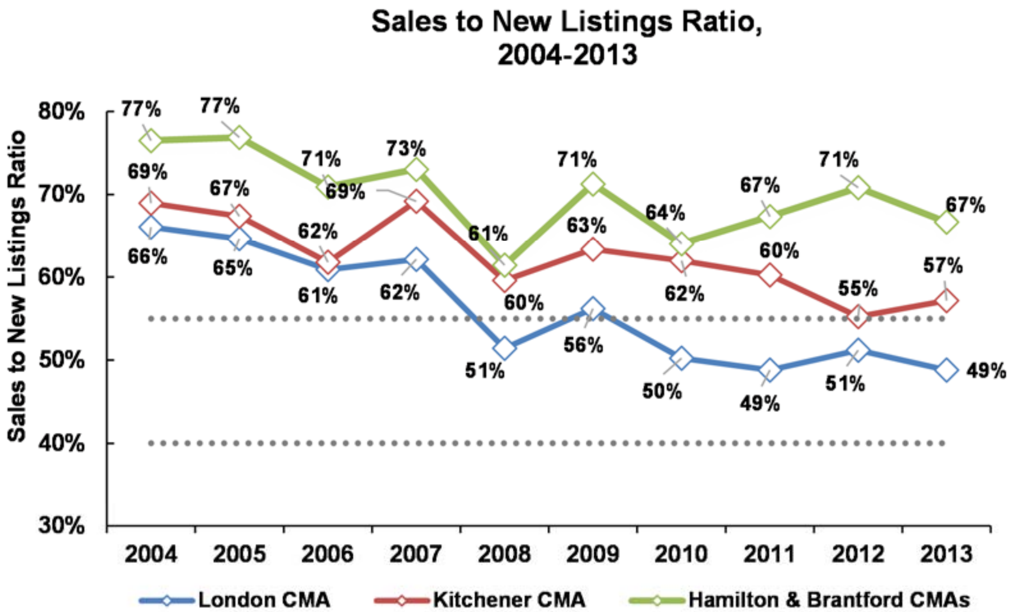
Source: Based on Statistics Canada, 2004-2013.

Sales to Listings Ratio

Figure 4 provides a comparative summary of Multiple Listing Service (MLS) unit sales/new listings ratio in the London Census Metropolitan Area (CMA) compared to the Hamilton/ Brantford CMA and Kitchener-Waterloo CMA from 2004 and 2013. This ratio provides a measure of the availability of homes on the market in relation to demand. Key findings include:

- While the Kitchener CMA and Hamilton/Brantford CMAs have experienced a gradual decline in the ratio of sales to listings since 2004, these areas have remained “sellers’ markets,” with a relatively high sales to listings ratio; and
- In comparison, the London CMA market has seen a steady decline in the ratio since 2004, which was exasperated by the economic recession. Though the market remains balanced (49% in 2013), the housing market is softer compared to the other CMAs surveyed.

Figure 4



Source: CMHC Housing Market Outlook, 2004-2013.
Note: According to CMHC, a sales-to-new-listings ratio below 40 per cent has historically accompanied prices that are rising at a rate that is less than inflation, a situation known as a buyers' market. A sales-to-new-listings ratio above 55 per cent is associated with a sellers' market. In a sellers' market, home prices generally rise more rapidly than overall inflation. When the sales-to-new-listings ratio is between these thresholds, the market is said to be balanced.

New Home Prices

Figure 5 summarizes the average new single home price in London in comparison to comparator communities. As shown, the price of a new single family home in London is $384,000, just under the survey average. Prices of new single family homes in London are slightly less expensive than in Middlesex Centre and significantly lower than in Waterloo, Kitchener and Hamilton. Housing prices in London, however, are moderately higher than in other municipalities surveyed, including Brantford, Woodstock, Ingersoll and Strathroy-Caradoc.

Figure 5

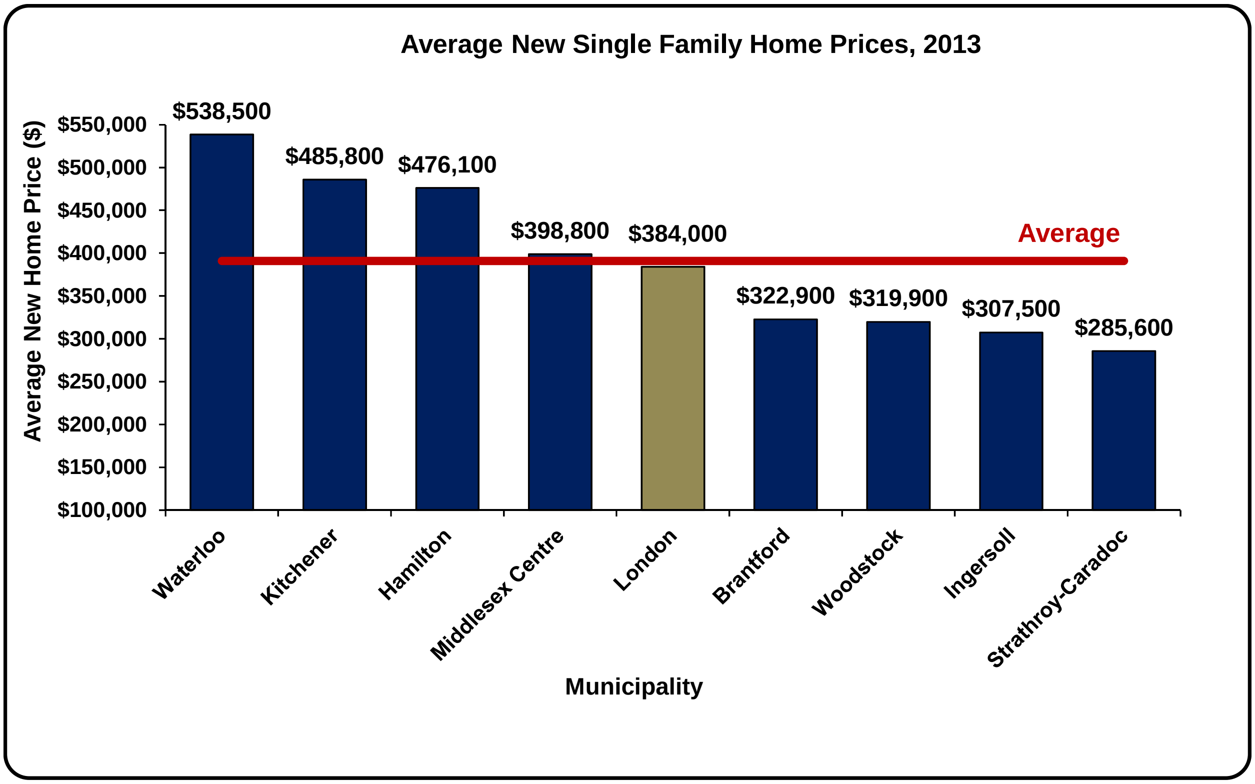
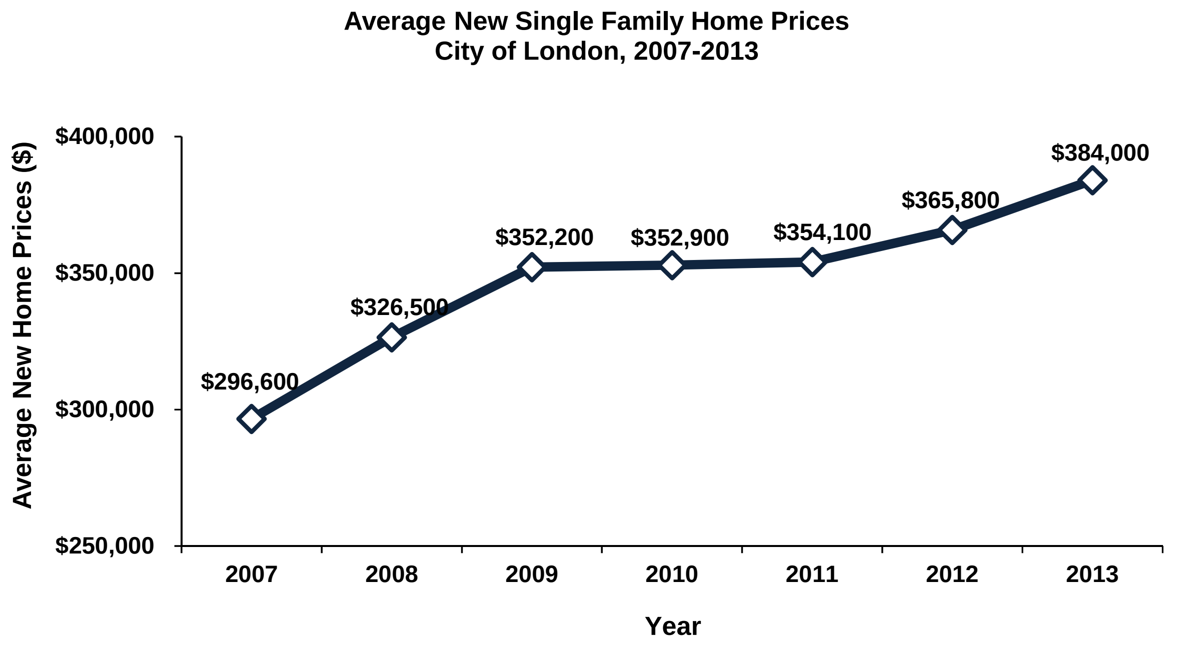


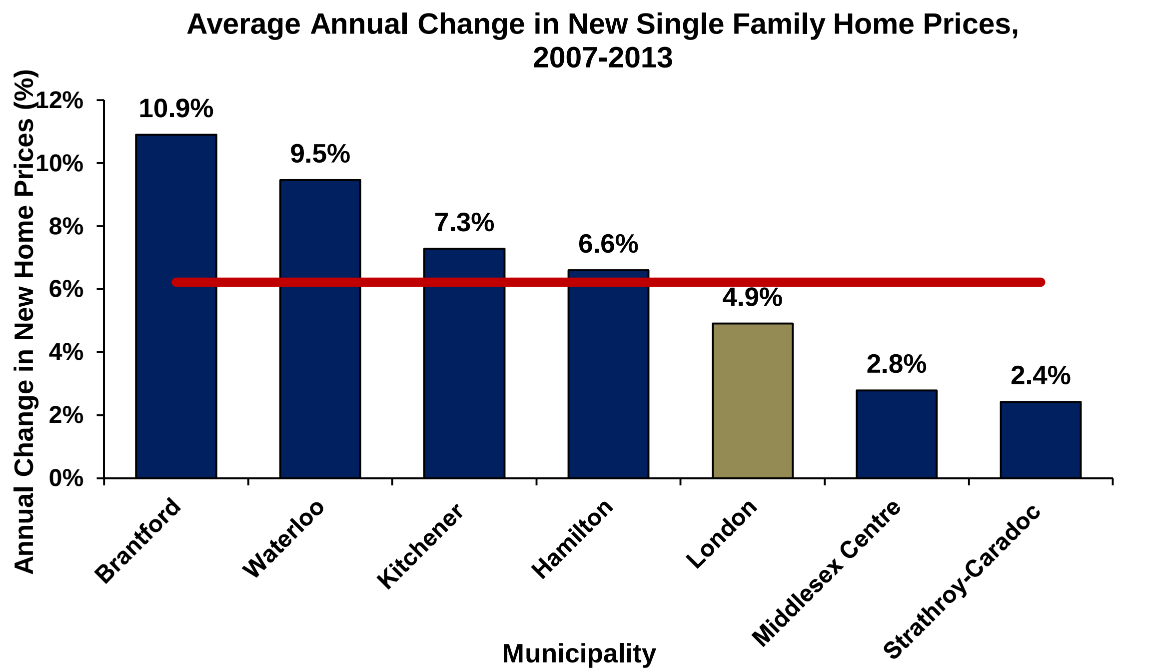
Figure 6 summarizes average new single family home prices within the City of London over the past decade (2004-2013). As shown, over the period, the average price of a new single family home has appreciated steadily from $297,000 in 2004 to $384,000 in 2013, an average annual increase of 4.9%. However, the appreciation in average new single family home prices in London over the period has been relatively modest compared to most other municipalities surveyed, with the exception of Middlesex Centre and Strathroy-Caradoc, as illustrated in Figure 7.

Figure 6



Source: CMHC, 2007-2013.

Figure 7



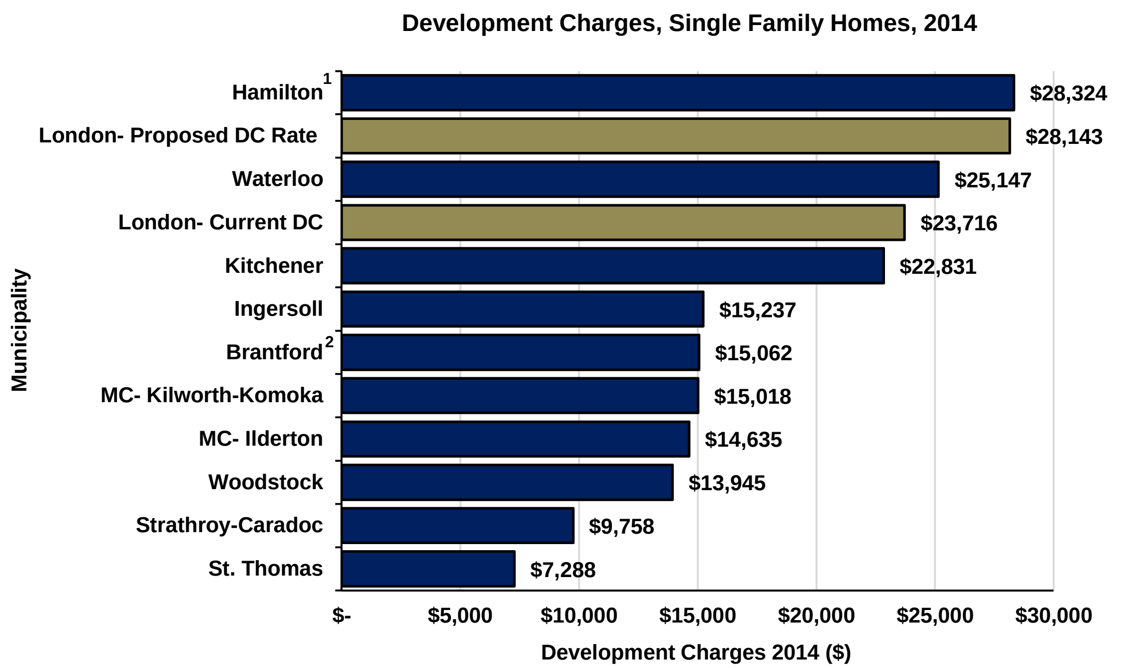
Source: CMHC, 2007-2013.
Note: Data not available for the City of Woodstock and the Town of Ingersoll.

2.2 Residential Development Charge Rates

Residential Development Charge Rates

Figure 8 summarizes the current and proposed residential DC for single family homes in London in comparison to the comparator communities. As shown, London's current residential DC for single family homes of $23,716 per unit is the third highest, behind Hamilton and Waterloo, and moderately higher than the survey average of $18,260 per unit. Under the proposed DC rate of $28,143 per unit, London's residential charge would be the second highest, behind Hamilton. It should be noted that 23% of London's proposed charge is allocated to storm water management, Hamilton is the only other comparator municipality which has a DC for storm water management (Kitchener also has a minimal storm water charge). London's proposed DC also includes a much more extensive roads program than the other municipal comparators (between $2,266 and $11,530 per single detached unit higher).

Figure 8



Source: Watson & Associates Economists Ltd.
Note: MC= Middlesex Centre
1. City of Hamilton proposed DC rate is $35,670
2. City of Brantford proposed DC rate is $19,700

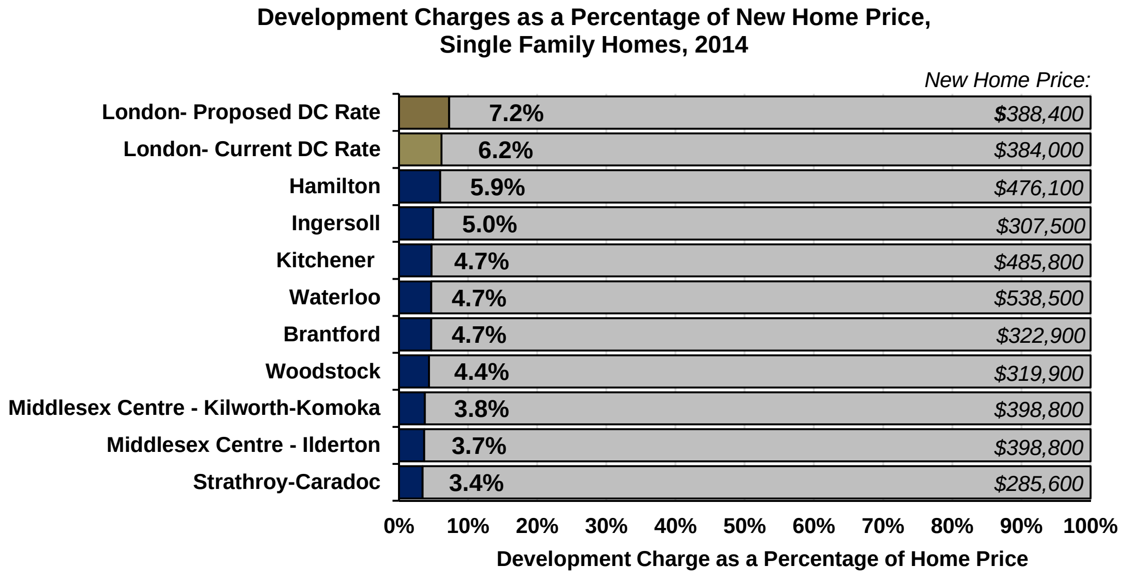
Note: Development Charges provided above exclude education development charges (where applicable).

Development Charges as a Share of New Home Price

Figure 9 illustrates the current and proposed residential development charge as a share of new single family home prices in London and comparator communities. As illustrated, development charges represent between 3.4% and 6.2% of new home prices. In London, under the current

DC structure, DCs represent approximately 6.2% of the average new home prices. Under the proposed DC structure, this would increase to 7.2%.

Figure 9



Source: Watson & Associates Economists Ltd.

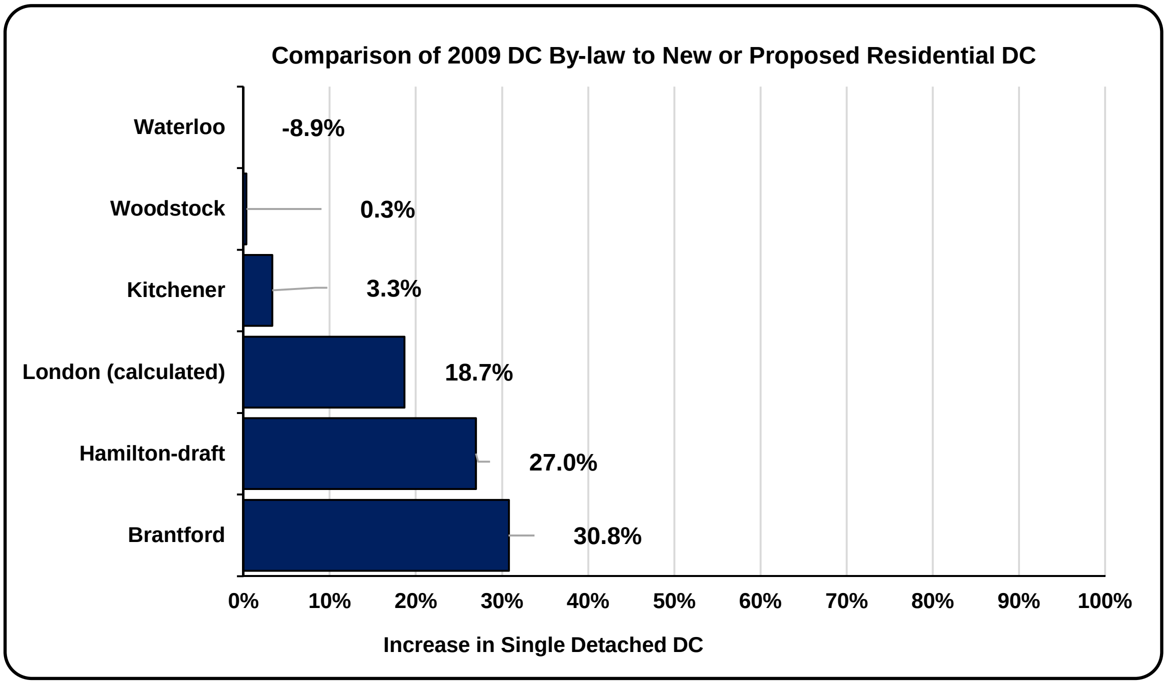
Historical Increase in Residential Development Charges

The majority of municipalities in Ontario will be updating or have updated their development charges by-law in 2013 or 2014. Figure 10 illustrates new or proposed residential development charges compared to the charges calculated in 2009 in London and comparator communities. Key observations include:

- Thus far, only Woodstock and the City of Waterloo have updated their by-laws in the past year and a half;
- In addition to London, Kitchener and Brantford currently have proposed new development charges;
- Hamilton has a preliminary draft calculation and this amount has been used in Figure 10; and
- Four municipalities (St. Thomas, Strathroy-Caradoc, Ingersoll and Middlesex Centre) in addition to the upper-tier municipalities of the Region of Waterloo and the County of Oxford, are still early in the updating process and new charges have not yet been proposed. For this reason, these municipalities have not bee included in the comparison.

As illustrated, Brantford has proposed the greatest increase to the residential development charge (i.e. single detached unit) at 30.8%, followed by Hamilton's preliminary draft calculation at 27.0%, and then London at 18.7%.

Figure 10



2.3 New Home Affordability

Housing costs are typically the most significant household expenditure and the costs associated with housing relative to household income can have a significant impact on housing affordability. Measuring affordability typically involves comparing housing costs to household income.

In Canada, housing affordability is often measured through the shelter cost-to-income ratio. A ratio of 30% is commonly accepted as the upper limit for affordable housing.[1] Households spending more than 30% on housing are generally considered in need of more affordable housing alternatives. This measure is applicable to both owner-occupied and rental dwellings. The Province of Ontario[2] defines affordable housing as:

1. Housing for which the purchase price (or rent) results in annual accommodation costs which do not exceed 30 percent of gross annual income; and
2. Housing for which the purchase price (or rent) is at least 10 percent below the average purchase of a resale unit in the regional market area.

[1] The dynamics of housing affordability, January 2008 Perspectives, Statistics Canada- Catalogue No. 75-001-x.
[2] Provincial Policy Statement, 2014.

In this report, the concept of housing affordability is reviewed in the context of the provincial definition 1.

"Affordability," as defined in this context, is continually changing and is based on a number of parameters, including the dynamics of the housing market (supply and demand), mortgage costs (determined by interest rates), operating costs, characteristics of households (household income, position in life cycle, lifestyle choices) and government policy. The following provides a comparative analysis of average shelter costs to household income for new homes in the City of London, municipalities within the surrounding area, as well as select municipalities with a similar population base in Southern Ontario.

Average Shelter Cost to Income Ratio for New Single Family Homes

To measure the relative affordability of home ownership in the City of London, a comparison of average household income with average new home prices and corresponding carrying costs was undertaken. Carrying costs include mortgage payments, property taxes, insurance and utility payments (heating, water and electricity).

Figure 11 provides an assessment of average new single family home affordability in London compared to comparator municipalities. The analysis reflects home carrying costs (mortgage payments, utilities and home insurance) and measures affordability based on average estimated owner-occupied household income. In accordance with the above assumptions, the average percentage of household income in the City of London devoted to housing costs is approximately 28.4%, which is close to the affordability threshold of 30%. New unit affordability in London is marginally lower than in Middlesex Centre, Woodstock and Ingersoll. On the other hand, housing affordability is slightly greater in the City of London compared to the City of Kitchener and City of Waterloo, and significantly greater compared to the City of Hamilton. Under the proposed DC structure, with the assumed DC rate increase passed on directly to the price of the house, the percentage of household income devoted to housing costs increases slightly to 28.7%, but remains below the affordability threshold.

Figure 11: Housing Costs as a Percentage of Household Income

	City of London, Current DC Rate	City of London, Calculated DC Rate	Municipality of Strathroy-Caradoc	Municipality of Middlesex Centre	City of Brantford	City of Hamilton	City of Kitchener	City of Waterloo	City of Woodstock	Town of Ingersoll
Gross Annual Household Income[1]	$ 106,200	$ 106,200	$ 84,312	$ 126,657	$ 90,104	$ 103,696	$ 109,467	$ 132,008	$ 92,940	$ 91,705
Gross Monthly Household Income	$ 8,850	$ 8,850	$ 7,026	$ 10,555	$ 7,509	$ 8,641	$ 9,122	$ 11,001	$ 7,745	$ 7,642
Housing Purchase Price[2]	$ 383,963	$ 388,390	$ 285,631	$ 398,836	$ 322,914	$ 476,139	$ 485,782	$ 538,528	$ 319,900	$ 307,450
% Down Payment	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Mortgage Amount[3]	$ 352,500	$ 356,500	$ 262,200	$ 366,100	$ 296,400	$ 437,100	$ 445,900	$ 494,400	$ 293,700	$ 282,200
Monthly Carrying Cost @ 3% over 25 years[4]	$ 1,672	$ 1,691	$ 1,243	$ 1,736	$ 1,406	$ 2,073	$ 2,115	$ 2,345	$1,392.76	$ 1,338.22
Residential Tax Rate[5]	1.36790%	1.36790%	1.134500%	1.120900%	1.422941%	1.410000%	1.232000%	1.210100%	1.524900%	1.579600%
Monthly Property Taxes[6]	$ 372.03	$ 376.18	$ 229.53	$ 316.66	$ 325.47	$ 475.54	$ 423.93	$ 461.60	$ 345.54	$ 344.00
Monthly Utilities and Insurance[7]	$ 470.59	$ 470.59	$ 435.07	$ 540.55	$ 416.62	$ 471.84	$ 475.46	$ 497.15	$ 298.43	$ 326.41
Total Carrying Costs	$ 2,514.22	$ 2,537.34	$ 1,907.99	$ 2,593.31	$ 2,147.65	$3,020.16	$ 3,013.90	$ 3,303.25	$ 2,036.72	$ 2,008.64
Housing Costs as a Percentage of Household Income	**28.4%**	**28.7%**	**27.2%**	**24.6%**	**28.6%**	**35.0%**	**33.0%**	**30.0%**	**26.3%**	**26.3%**

Source: Watson & Associates Economists Ltd.

1. Estimate of average ow ner-occupied household income by Watson & Associates Economists Ltd.
2. Average price ($) single detached home from CMHC. Average price ($) of homes for Woodstock and Ingersoll are based on a survey of new home sales.
3. Includes the CMHC Mortgage Loan Insurance premium as calculated based on the size of the dow npayment. (10% dow npayment = 2% Standard CMHC Premium).
4. Assumptions regarding dow n payments, mortgage interest rate and mortgage amortization period provided by Watson & Associates Economists Ltd.
5. Based on current Municipal Tax Rates.
6. Calculated based on applicable 2013 Municipal tax rates; assessment value assumed to be 85% of purchase price.
7. Reflects natural gas heating, electricity, w ater/sew er and home insurance costs for an average sized 3-bedroom home. Annual insurance estimated at 0.43% of house purchase price.

2.4 Conclusions

Based on the above analysis, the following observations can be made regarding the residential housing market within the City of London:

- The London economy was hit relatively hard by the recent global economic downturn in 2008/2009. Between 2009 and 2013, average residential building permit activity (new units) declined at a greater rate than most other municipalities within the surrounding area, in comparison to 2003-2008 levels. However, it is noted that residential building permit activity has been gradually increasing in the City of London since 2011;
- Since 2004 the London CMA housing market has softened from a “sellers’ market” to a “balanced market,” as depicted through the ratio of sales to listings. Comparatively, municipalities located closer to the GTA have not experienced the same percentage decline in the ratio of sales to new listings;
- In comparison, the London CMA market has seen a steady decline in the ratio of housing sales to listings since 2004, which was exasperated by the economic recession. Though the market remains balanced (49% in 2013), the market is weaker than prior to the economic recession and softer compared to the other CMAs surveyed;
- Between 2007 and 2013, the average price for a new single detached home increased at an average annual rate of 4.9%. Comparatively, recent appreciation in average new single family home prices in London has been relatively modest compared to most other municipalities surveyed, with the exception of Middlesex Centre and Strathroy-Caradoc;
- With respect to housing affordability, the City of London is generally less affordable than municipalities within the surrounding area, but considerably more affordable than the municipalities located within the GTA.

In light of the above conclusions, the City of London housing market is not as well positioned to absorb a significant increase in residential development charges in comparison to the other municipalities considered to the east (i.e. Kitchener, Waterloo and Hamilton) which command higher housing prices on average, have experienced higher annual housing growth rates in recent years and current exhibit strong housing demand (as measured through residential building permit activity and a higher sales to listings ratio for new housing). Notwithstanding the relatively weaker housing market in the City of London, compared to the those municipalities reviewed to the east, the proposed residential DC rate increase would represent an increase of approximately 1.0% in the average price of new single detached home in the City of London. This increase is anticipated to have a relatively minimal impact on average housing affordability and a modest impact on the City’s competitive position related to the housing market within the surrounding area. As such, it is unlikely that the proposed DC increase would have a significant long-term impact on the rate of housing construction, or the construction sector as a whole, within the City of London.

However, it is important to note that the proposed DC rate increase would have a more pronounced impact on housing affordability, feasibility and competitiveness at the lower-end range of the housing market (i.e. detached/semi-detached starter homes and/or small lot singles/semis). Furthermore, when considering the overall competitiveness of the City of London housing market it is important to consider the cumulative impact of all fees associated with housing development (i.e. building permit fees and other planning fees).

3. ECONOMIC IMPACTS OF PROPOSED NON-RESIDENTIAL DC RATES ON THE NON-RESIDENTIAL DEVELOPMENT SECTOR

The potential development charge impact on the non-residential (industrial/commercial/institutional) sector is a much more significant concern to most municipalities than impact on residential development. Impacts on industrial and office commercial development is typically the most significant concern for most municipalities with regard to DC by-law considerations, due in large part to the greater perceived benefits from this type of development (i.e. “basic” employment attracts additional service sector support jobs, has higher paying jobs and makes significant net tax contributions). As well, there is substantial competition among Ontario municipalities to attract new industrial and office investment which is frequently more “footloose” than retail development. In addition, Ontario municipalities compete with U.S. cities which are able to provide incentives prohibited by provincial legislation.

Similar to the housing market, it is difficult to identify a clear linkage between the rate of development charges and the level of non-residential construction activity. For the London Area, where average industrial and commercial land values are relatively lower and general economic conditions are less favourable than the certain markets inside of the Greater Toronto Area (GTA), industrial and office commercial demand tends to be more sensitive to price adjustments. However, it is important that all costs of non-residential development are considered given that development charges represent a relatively small share of total non-residential development costs over the long-term. Furthermore, the impacts of non-residential DCs on the rate of industrial and commercial development activity must be considered in the context of macro-economic conditions as well as the local/regional attributes of the available and developable non-residential land supply. At the local/regional level, this includes the market choice of “shovel-ready” and/or potentially developable and designated non-residential land supply by:

- location/access;
- parcel size;
- zoning/Official Plan (OP) designation:
- access to amenities:

- access/proximity to labour force and surrounding employment markets;
- surrounding land uses;
- and market character of the available lands.

While retail sector is also sensitive to development costs, retail demand is primarily driven by the overall strength of the regional economy, which in turn is a key driver of net migration and population growth within the retail trade area. The strength of the regional economy is largely dictated by the economic growth potential of the City's export-based economy (i.e. industrial and office commercial sector). While there are many economic factors which dictate the overall health, demand and competitiveness of the export-based sector (i.e. global economic conditions, demand from emerging markets, Canada/U.S exchange rate, input cost, development costs and incentives), one of the most important factors in terms of local site selection criteria relates to ensuring that an ample supply of suitable vacant serviced (and serviceable) non-residential land is available for purchase and absorption. This involves providing a readily available and serviced employment land supply which is beyond forecast absorption levels.

3.1 Trends in the London Area Economy

While it is beyond the scope of this assignment to provide a comprehensive review of the London area economy, the section provides an overview of labour force trends for the London CMA. These trends provide insight with respect to the general strength of the economy by sector relative to the Provincial average. As summarized in Figure 12, the total labour force within the London CMA declined by approximately 9,500 (or 0.6% annually) between 2007 and 2013. The manufacturing sector was hit especially hard with a decline of -4.0% over this time period. Comparatively, the Province as a whole experienced an annual labour force increase of 0.8% during the 2007 to 2013 period. The manufacturing sector for the Province as a whole was also hit relatively hard with an annual decline rate of -3.2% over the same time period.

Figure 12

London CMA Labour Force Survey Estimates, 2000 - 2013

North American Industry Classification System (NAICS	2007	2008	2009	2010	2011	2012	2013	Change 2007 - 2013	Annual Labour Force 2007 - 2013
	Figures Expressed in Thousands (000's)								
Total employed, all industries (2)	**254.4**	**251.6**	**242.8**	**244.9**	**242.9**	**247.8**	**244.9**	**-9.5**	**-0.6%**
Goods-producing sector (7)	**56.2**	**53.6**	**50.7**	**48.9**	**48.5**	**48.9**	**49.3**	**-6.9**	**-2.2%**
Agriculture [111-112 1100 1151-1152] (8)	3.6	2.9	2.6	3.2	2.1	2.5	3.1	-0.5	-2.5%
Construction [23]	15.2	16.5	15.1	15.1	14.7	13.4	16.8	1.6	1.7%
Manufacturing [31-33]	35.4	32.4	30.7	29.1	30.2	30.1	27.7	-7.7	-4.0%
Services-producing sector (10)	**198.2**	**198.0**	**192.1**	**196.0**	**194.4**	**198.9**	**195.6**	**-2.6**	**-0.2%**
Trade [41 44-45]	41.8	37.7	38.0	35.0	34.7	35.9	40.3	-1.5	-0.6%
Transportation and warehousing [48-49]	12.3	11.6	9.2	11.1	9.7	11.6	11.2	-1.1	-1.5%
Finance, insurance, real estate and leasing [52-53]	18.4	20.1	18.7	19.0	20.7	19.0	17.8	-0.6	-0.6%
Professional, scientific and technical services [54]	13.3	13.3	13.7	13.2	14.9	17.1	15.0	1.7	2.0%
Business, building and other support services [55-56	12.1	12.0	11.0	14.5	11.8	11.3	11.2	-0.9	-1.3%
Educational services [61]	20.8	23.1	20.7	24.0	23.4	21.3	19.9	-0.9	-0.7%
Health care and social assistance [62]	33.6	34.5	36.2	36.5	36.0	35.9	37.9	4.3	2.0%
Information, culture and recreation [51 71]	11.0	11.5	9.6	9.8	9.0	10.3	9.2	-1.8	-2.9%
Accommodation and food services [72]	16.8	17.2	15.7	15.7	14.1	15.0	16.6	-0.2	-0.2%
Other services [81]	10.0	9.6	10.5	10.2	12.5	10.9	7.6	-2.4	-4.5%
Public administration [91]	8.0	7.3	8.7	7.0	7.6	10.5	8.8	0.8	1.6%

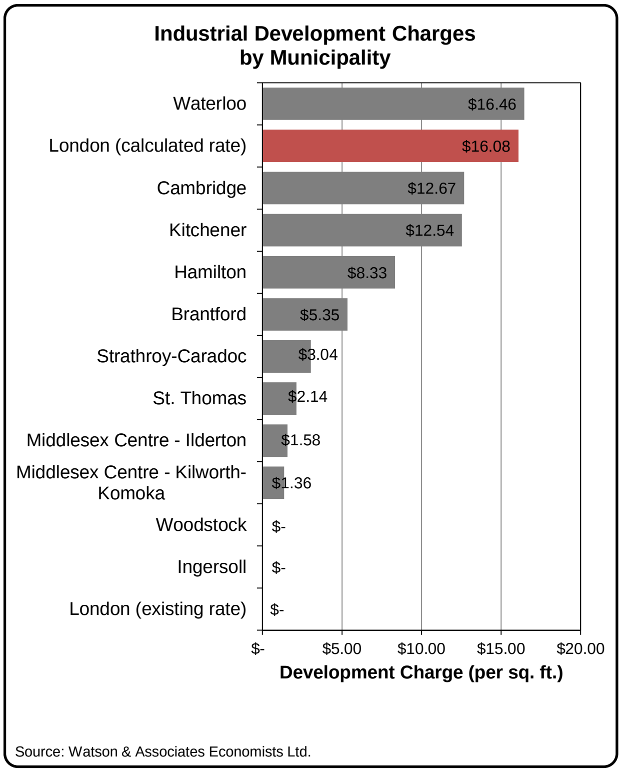
Statistics Canada. Table 282-0112 - Labour force survey estimates (LFS), employment by census metropolitan area based on 2006 census boundaries and North American Industry Classification System (NAICS), annual (persons).

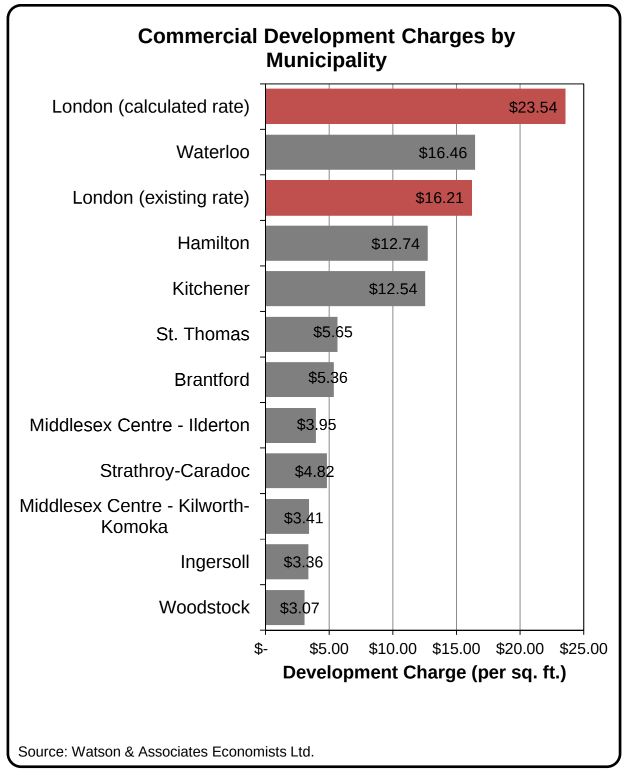
3.2 Non-Residential Development Charge Rates

Figure 13 illustrates the industrial and commercial development charges (DCs) within the City of London under the current regional DC structure, in comparison to communities in the surrounding area. Key observations include:

- London currently has no industrial DC, nor do Woodstock and Ingersoll, while other municipalities have industrial DCs ranging between $1.36 and $16.46 per sq.ft. The highest rates are in Waterloo, Cambridge and Kitchener. Under the proposed rate ($16.08 per sq.ft.), London would have the second highest industrial DC rate of the municipalities surveyed after Waterloo; and
- The City of London will continue to not charge the industrial DC rate for industrial buildings. However, if the City were to charge the calculated DC rate ($16.08 per sq.ft.), London would have the second highest industrial DC rate of the municipalities surveyed, after Waterloo.

Figure 13





3.3 Total Annualized Cost of Industrial and Office Development

On a municipal level, cost competitiveness of development varies based on a number of factors, of which development charges represent one component. Other factors include land prices, property tax rates, utility costs and development approval/process timing.

This report assesses the cost competitiveness of prototypical industrial and office development in London relative to other municipalities in the surrounding market area through a total development cost/annualized cost analysis. This comprises the total cost of development across municipalities and shows the impact of annualized cost components (including development charges) on total costs.

For the purposes of this assignment, a prototypical industrial development (300,000 sq.ft. building depicting a warehousing/distribution centre) and a 50,000 sq.ft. office building, were analyzed.

In the generation of the total development cost of a prototypical industrial/office development (expressed in dollars per sq.ft.), the following input costs were included.

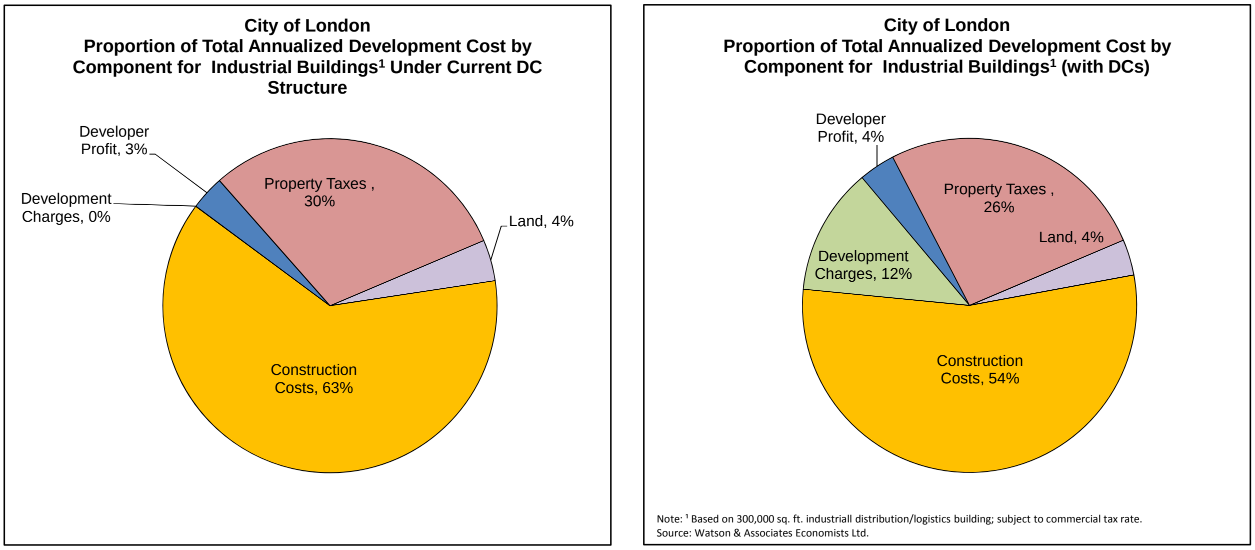
- **Land Cost** – average price of vacant employment land per acre multiplied by the acreage requirement based on an assumed Floor Space Index (FSI), e.g. 30%, divided by the GFA for the building size being considered (e.g. 300,000 sq.ft.);
- **Construction Costs**[1] – reflects hard construction costs (e.g. materials, labour) and soft costs (e.g. engineering, consulting services) – average construction costs per sq.ft. vary by project type (i.e. industrial or office and building GFA);
- **Development Charges** – on a sq.ft. basis, as per the various municipal DC schedules. For London, the total development cost/annualized cost is presented under the current DCs and the proposed DCs;
- **Developer Project Profit** – a flat percentage of the total cost (land + construction + development charges per sq.ft.) at 5%; and
- The sum yields the total development cost.

Generating an annualized cost from the total development cost determines the average annual cost of developing and operating a building over a defined time period (i.e. 25 years). The total annualized cost per sq.ft. reflects the annualized development cost per sq.ft., determined by applying an annualization factor[2] of 6.5%, plus the annual property taxes per sq.ft. Property taxes are based on local tax rates[3] with annual property taxes estimated based on total development cost (assumed to be equivalent of assessment value).

As summarized in Figure 14 development charges currently account for approximately 0% of the total annualized development cost of a typical 300,000 sq.ft. industrial development in London. In comparison, construction costs on average account for 63% of total development cost, while land costs account for 4%, property taxes 30%, developer profit 3%. If the City were to charge the calculated industrial rate, development charges would represent 12% of annualized development cost.

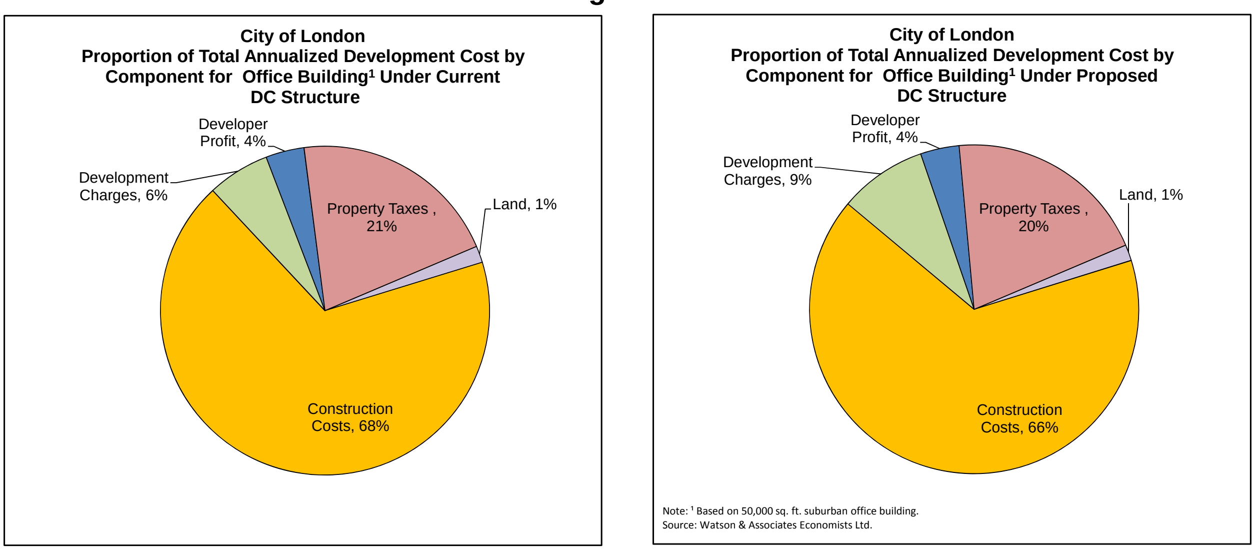
[1] Hard construction costs adapted from 2011 Toronto Real Estate Board Rough/Advanced Guide to Construction Costs by Watson & Associates Economists Ltd. and DTZ Ltd. Soft construction costs assumed to be 16% of hard construction costs, based on consultation with DTZ Ltd. Construction costs vary by municipality based on location factors provided in 2013 RSMeans Building Construction Costs data.
[2] Annualization factor 6.5% based on 25-year period and discount rate of 4.1%.
[3] Reflects lower/single tier, upper tier (where applicable) and education property taxes.

Figure 14



As shown in Figure 15, development charges currently account for 6% of a typical 50,000 sq.ft. office building's total annualized development cost. In comparison, construction costs account for 65%, property taxes 21%, land costs 1% and developer profit 4%. Under the proposed commercial DC rate, development charges would account for 9% of development cost.

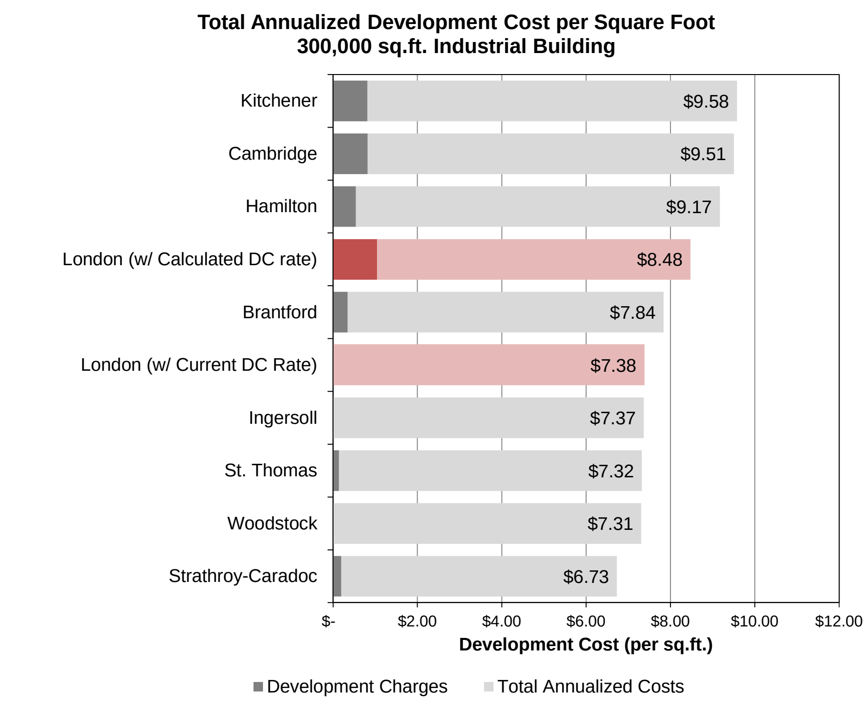
Figure 15



Figures 16 and 17 summarize the annualized cost (expressed in dollars per sq.ft.) for a 300,000 sq.ft. industrial building and a 50,000 sq.ft. office building, respectively, within the municipalities surveyed. The comparative analysis is presented under both London's current and proposed DC structures. Based on the annualized cost comparative analysis, the following can be concluded:

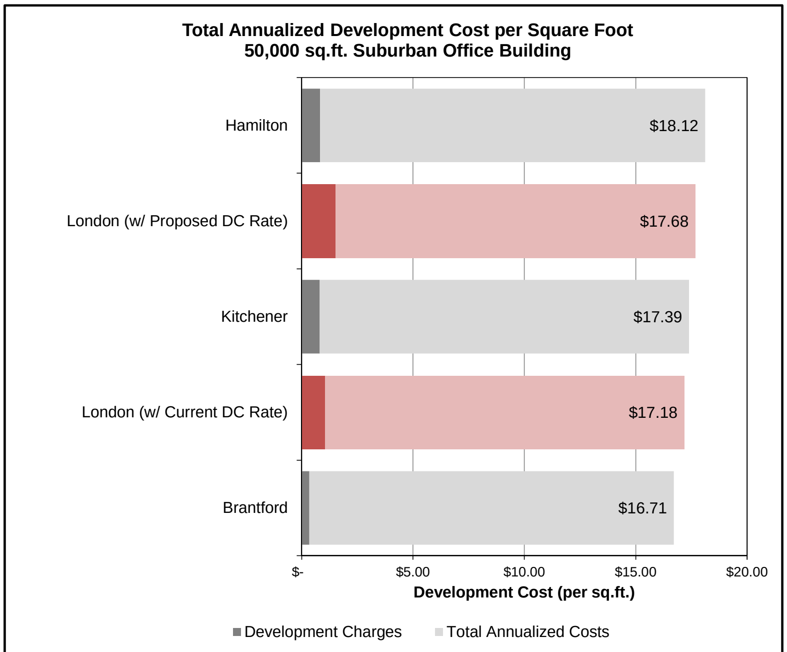
- The current annualized cost of industrial development in London is $7.38 per sq.ft., slightly less than the survey average of $8.07 per sq.ft. The cost of industrial development in London is slightly higher than in Ingersoll, St. Thomas, Woodstock and Strathroy-Caradoc but significantly less expensive than in Kitchener, Cambridge and Hamilton. If the City were to charge the calculated industrial DC, the annualized cost of industrial development in London would increase by 15% to $8.48 per sq.ft. However, it is important to note that a DC exemption or Community Improvement Plan (CIP) grant will off-set DCs payable for all industrial development within the City of London. Accordingly, the exemption or CIP grant will continue to fully discount industrial development from DCs; and
- For suburban office development, the annualized cost of development in London currently averages $17.18 per sq.ft., slightly lower than in Kitchener and Hamilton but higher than in Brantford. Under the proposed DC structure, the annualized cost of development would rise to $17.68 per sq.ft. (a 3% increase). The proposed DC would have a slight impact on cost competitiveness of office development in London.

Figure 16



Source: Watson & Associates Economists Ltd.

Figure 17



Source: Watson & Associates Economists Ltd.

3.4 <u>Conclusions</u>

As previously stated, for the London Area where average industrial and commercial land values are relatively lower and general economic conditions are less favourable than employment markets located closer to the Greater Toronto Area (GTA), industrial and commercial demand tends to be more sensitive to price. Given the relatively lower cost of industrial development in the City of London in comparison to the comparator municipalities to the east, any DC rate increase in the industrial sector will be felt relatively more strongly in the City of London. As summarized above, a 15% increase in the overall costs of industrial development is significant and would have a negative impact on the City's competitive position. However, it is important to note that a DC exemption or CIP grant will off-set DCs payable for all industrial development within the City of London. Accordingly, the City will continue to fully discount industrial development from DCs.

With respect to the commercial sector, a 3% increase in total annualized development costs is expected to have a modest impact on the cost competitiveness of the commercial retail market in the City of London.

4. SUMMARY OF QUESTIONNAIRE RESPONSES FROM CITY OF LONDON BUILDERS AND DEVELOPERS

Summary of Responses from City of London Builders and Developers

In order to better understand the potential impacts of the proposed DC rate increases from the perspective of the local builder and developer, interviews were conducted with key stakeholders within the City of London who are actively involved in the residential and non-residential development community. The results of these interviews are summarized below.

Residential Sector

General State of London Housing Market and Local/Regional Economy	• The housing market has been slow to recover after the 2008/2009 economic downturn. • The London regional economy was hit particularly hard as a result of the 2008/2009 economic downturn, especially in the manufacturing sector. • It is anticipated that the housing market will continue to perform at levels below pre-2008 for the next 5 years.
Unique Characteristics of London Housing Market which need to be Considered	• The City of London cannot be compared to other Ontario municipalities of similar population that are located within the GTA or within commuting distance of the GTA. • London has traditionally been known as one of the most affordable Cities to live in Ontario, in comparison to similar sized municipalities. This has been a key attraction to the City for new home buyers.
Impacts on Housing Market and Local Regional Economy	• The proposed residential DC rate increase will negatively impact the local and regional economy. It will impede housing construction levels and impede the ability of the home builder to produce.
Impacts on Housing Affordability	• The proposed residential DC rate increase will erode housing affordability. Lower income households will be hit the hardest. • DC increase will be passed on to the home buyer. Potential new home buyers may defer purchasing a new home in London, or decide to live outside of the City. • It is important to provide market choice at all ends of the housing affordability spectrum.

Impacts on Housing Density/Built Form	• Lower priced homes will take a bigger hit as the proposed DC rate increase represents a bigger percentage of the housing sale price. In turn, this could constrain the supply of smaller homes and possibly town homes being offered on the market.
Impacts on Competitiveness of Housing Market	• The impact increasing DCs will have on residential development feasibility and competitiveness is a big concern. Builders are looking outside of the City of London, e.g. Ilderton and Ingersoll. Higher DCs will continue to erode the City's competitive position. Higher residential DCs also make the new home market less competitive relative to the resale market.

Industrial Sector

General State of London Industrial Market and Local/Regional Economy	• The industrial market has been slow to recover after the 2008/2009 economic downturn. • The London regional economy was hit particularly hard as a result of the 2008/2009 economic downturn, especially in the manufacturing sector.
Short-term Outlook for Industrial/Office Commercial Market in London	• The short term industrial market will remain as is, with very little to no growth in the next few years.
Unique Characteristics of London Industrial Market which need to be Considered	• It is not appropriate to compare the City of London with other Ontario Cities with similar population located in the GTA or within commuting distance to the GTA. Industrial land values are much lower in the London area when compared to these areas.
Impacts on Housing Affordability	• We are not adding new, high paying jobs so keeping housing affordable allows us to attract good people and families for industrial and commercial growth. If housing increases, in comparison to outlying communities, London will not see the housing growth.
Impacts on the Competitiveness of the Commercial Market	• Industrial DC rates will damage the already fragile local economy more. It will also send a message out to site selectors world-wide that London has just become more expensive. • Right now, the City is the biggest land owner and developer and the private sector cannot compete with the City. The City needs to get out of the land buying/developing business. If money is needed by the City, take the money spent on buying land and put it aside for the same purposes for which the DC is intended. • Woodstock, locally, already promotes no DCs very effectively. It is

	a supreme competitive advantage just to be able to say we don't have them. We are starting from an uncompetitive position, with low land costs the only thing in our favour for certain buyers.
Other Issues/ Comments	• There should be no industrial DC at this time, and we should be DC free for at least another 5 years. • There is a need to listen to the broader development and labour communities on what needs to be done - on a regular basis. • The City should look at best practises for other Cities annually for both DC charges, taxes, economic attraction to determine what is working and what is not.

Retail/Commercial Sector

General State of London Retail/Office Market and Short-term Local/Regional Economy Outlook	• The office space market is one of the weakest in the Province. • The short-term market outlook for retail is relatively week.
Impacts on Local/Regional Economy	• The local economy would be negatively affected by the proposed commercial DC rate increase. In many cases, companies will look elsewhere given this magnitude of cost increase.
Unique Characteristics of London Retail/Commercial Market which need to be Considered	• The City of London represents a secondary market regarding retail development. International firms typically target bigger Cities first.
Impacts on Competitiveness of Industrial Market	• The proposed DC rate increase will significantly impact our competitive position relative to the surrounding municipalities in the London area. London will not be able to compete with these municipalities if the proposed DCs are approved. Furthermore, residents from the surrounding areas will continue to use our services. • To ensure that the City remains competitive in relation to the surrounding area, the commercial DC rates cannot increase much higher than 3%.
Other Issues/Comments	• There is no silver bullet with respect to financing solutions. • The City's commercial growth forecast is conservative which is putting upward pressure on the commercial DC charge.

5. CONCLUSIONS

The results of this analysis indicates that City of London housing market would be more sensitive to a significant increase in residential development charges in comparison to the other Ontario municipalities to the east (i.e. Kitchener, Waterloo and Hamilton). These comparator municipalities command higher housing prices on average, have experienced higher annual housing growth rates in recent years and currently exhibit stronger housing demand (as measured through residential building permit activity and a higher sales to listings ratio for new housing).

Notwithstanding the relatively weaker housing market in the City of London, compared to the those municipalities reviewed to the east, the proposed residential DC rate increase would represent an increase of approximately 1.0% in the average price of new single detached home in the City of London. This increase is anticipated to have a relatively minimal impact on average housing affordability and a modest impact on the City's competitive position related to the housing market in the surrounding area. However, it is important to note that the proposed DC rate increase would have a more pronounced impact on housing affordability, feasibility and competitiveness at the lower-end range of the housing market (i.e. detached/semi-detached starter homes and/or small lot singles/semis). Furthermore, when considering the overall competitiveness of the City of London housing market it is important to consider the cumulative impact of all fees associated with housing development (i.e. building permit fees and other planning fees).

With respect to the industrial and office commercial sectors, the City of London is more sensitive to DC rate increases in comparison to stronger markets moving east towards the GTA where average land values are relatively higher and economic conditions are generally more favourable. Given the relatively lower cost of industrial development in the City of London in comparison to the larger municipalities reviewed to the east (i.e. Kitchener, Waterloo and Hamilton) any DC rate increases in the industrial sector will be felt more strongly in the City of London. As summarized above, a 15% increase in the overall costs of industrial development is significant and would likely have a negative impact on the City's competitive position. However, it is important to note that it is proposed that a DC exemption or CIP grant will off-set DCs payable for all industrial development within the City of London. Accordingly, the City will continue to fully discount industrial development from DCs.

With respect to the commercial sector, a 3% increase in total annualized development costs is expected to have a modest impact on the cost competitiveness of the office commercial market in the City of London. A detailed analysis of the cost impacts of the proposed DC rates was not undertaken for the retail commercial sector but based on experience in other municipalities, the impact on the cost of development would be similar to that of office commercial. As previously stated, while retail sector is also sensitive to development costs, retail demand is primarily driven by the overall strength of the regional economy and corresponding population growth rates within the retail trade area.

Retail commercial is a “captive” use and businesses have more limited choice of locations if they wish to serve a specific market area; the exception is Regional shopping centres which have a broader market area. In general, intermunicipal competition is not as significant a factor as with industrial or office commercial development and the proposed increase in the commercial DC is expected to have minimal impact on retail commercial development activity in the City.