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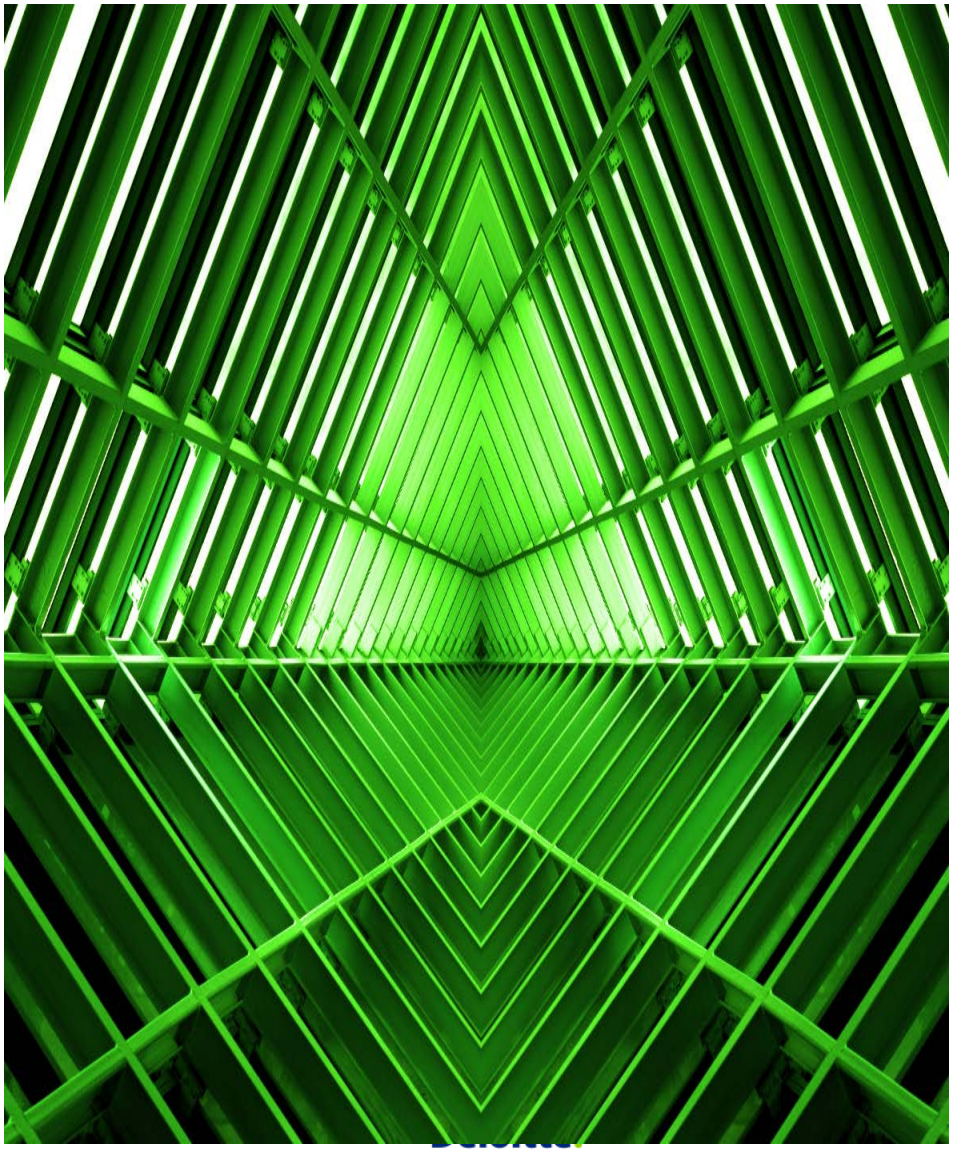
Burlington & GTA Suburban Office Market Analysis

Burlington Economic Development Corporation



June 17th 2016

ECONOMIC DEVELOPMENT Burlington

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June 17th 2016

Dear Mr. Cameron,

We are pleased to submit the final report for the Suburban Office Market Analysis assignment, that we have had the pleasure of working with you on over the past few months and is now concluded. Deloitte was asked to analyze the current office market dynamics in suburban areas, in an attempt to gain a better understanding of the existing office market and what market demand / opportunities may exist in the future.

The following report focuses on the market context, financial implications and policy, while critically analyzing workplace transformation and potential growth scenarios for Burlington. We have identified that Burlington is well positioned to become a regional economic hub; however, a number of steps must be taken including the implementation of a business retention and expansion strategy.

If you have any questions, please feel free to contact me directly at sbotting@deloitte.ca or (416) 601.4686.

Respectfully submitted,

Sheila Botting FRICS, FCMC, AACI (Hon)
Canadian Real Estate Leader
Deloitte LLP

Burlington & GTA Suburban Office Market Analysis

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Scope of Services

Scope of Services

Burlington's 2015-2040 Strategic Plan

Burlington's recently completed strategic plan is built upon 4 pillars

The City of Burlington has recently completed a 25 year strategic plan as part of a consultation process between City Council and the community. This document is a **25 year blueprint for 'city-building'**, and will be supported in more detail with the Official Plan, Transportation Master Plan, and the Corporate Work Plan.

The goal is to set an ambitious and measurable target for physical growth, sustainability, carbon neutrality, economic growth, changing how people move around the city and how the city engages with the public.

There are **four key directions** outlined in the new strategic plan which are meant to actively shape the physical, social, economic and cultural fabric of the city

1. A city that grows
2. A city that moves
3. A healthy and greener city
4. An engaging city

"The city is undergoing an important transition, one that some municipalities don't step up to. In addition to our core mandate of providing a range of critical city services, council has decided to add a new mandate, to actively 'city-build'."

- Burlington Mayor, Rick Goldring

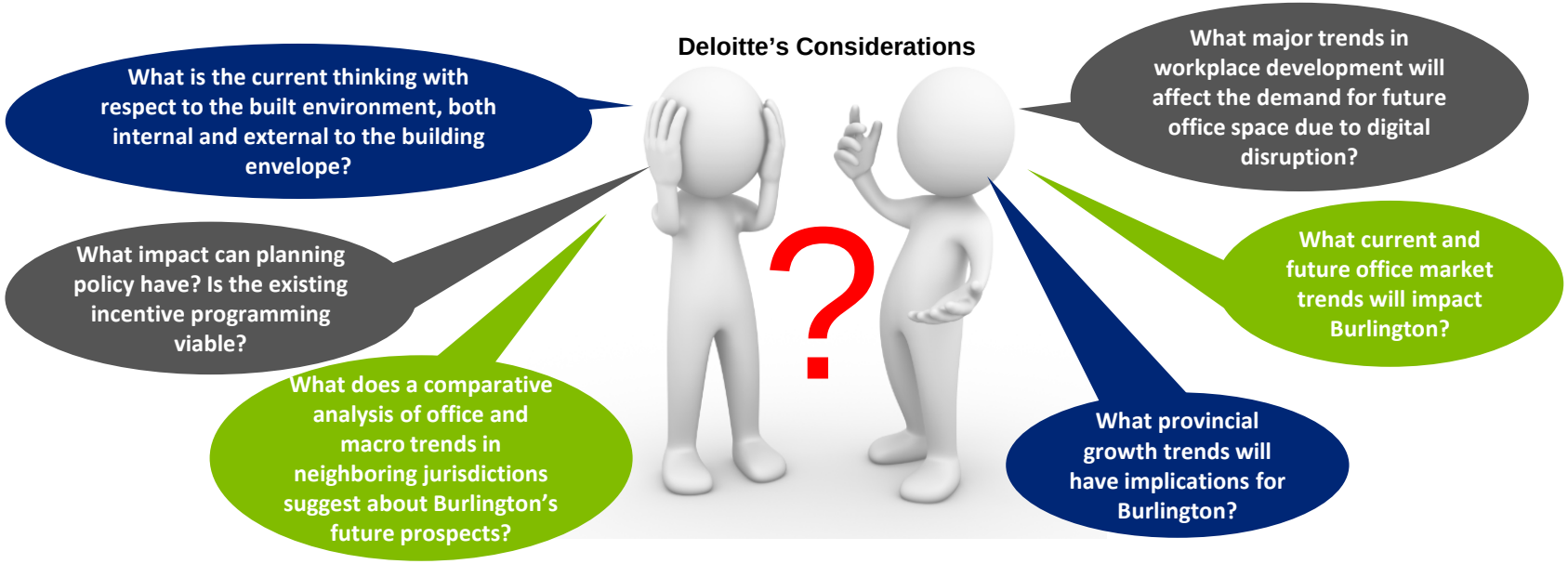
Scope of Services

Considerations and objectives for the assignment

Deloitte was retained to undertake an analysis of the suburban office market in Burlington

The **new strategic plan has the potential to transform the City's economic prospects** yet there is a great deal of diligence required to ensure that Burlington realizes it's potential. Accordingly, Deloitte has been retained to **undertake an analysis of the suburban office market in Burlington**. The findings will assist the BEDC and the City with policy review and enable a thorough understanding of the opportunities and challenges associated with ensuring a successful office market within the Burlington area.

Deloitte's Considerations



The objective is to assist the BEDC and City with policy review, enabling a thorough understanding of the opportunities and challenges associated with ensuring a successful office market within the Burlington area

Scope of Services

Project Workplan

Project workplan

In order to deliver upon the project objectives, the following workplan was completed:

Project start up

- Commence a meeting with Deloitte Real Estate and Project Team to introduce
- Confirm/refine the work program, deliverables and schedule
- Assign roles, responsibilities and communication protocols
- Review the City's objectives and initial issues

Overview of Economics & GTA Office Market

- Identify current economic conditions
- Provide regional environment overview for offices classes – rental and vacancy rates, new developments, tenant/owner factors
- Consider future factors impacting on this area of the market
- Consider Burlington's share of historic and current levels of development activity in GTA West

Burlington analysis

- Undertake a comparative analysis of office trends within Burlington and neighbouring jurisdictions
- Gather data on Burlington and GTA West office market to include rental and vacancy rates, new development and tenant characteristics

Workplace transformation

- Explain the current pressures on office tenants
- Highlight desirable attributes that contribute to their decision-making process
- Recognize factors impacting desirability such as location, access to amenities and proximity to major transportation networks
- Identify current thinking with respect to the built environment

Growth forecasts

- Develop a forecast of market opportunity for new office space in Burlington based on a projected share of future office growth in the GTA West
- Review of historic sector composition and growth (measured in terms of employment)
- Include short and long term market demand projections

Planning policy & incentive program

- Identify planning policy frameworks and the viability of existing incentive programming
- Assess high-level office market viability within Burlington's Downtown Urban Growth Centre, Mobility Hubs and Intensification areas

Concluded Findings

- Provide our assessment of the most significant opportunities and challenges affecting the competitiveness of Burlington's office development
- Outline Burlington's key strengths to differentiate that will lead to success

Economic & Business Environment Overview

Economic & Business Environment Overview

Introduction: Canada and the Greater Toronto and Hamilton ("GTA") in Context

Ontario and GTA lead the country in terms of economic growth and business competitiveness

While the **Canadian economy is currently undergoing a structural adjustment,** presented by the ongoing weakness in commodity prices and a tepid employment market, the outlook for Ontario and the Greater Toronto Area and Hamilton ("GTA") remains optimistic, as it capitalizes on the low Canadian dollar.

Regional divergences persist across Canada with Ontario benefitting most from a boost in **manufacturing** sales, inward **migration** from other provinces in search for better **employment** prospects, and strong growth in **key business and service sectors.**

The GTA repeatedly outranks other Canadian and international regions in its ability to conduct business and maintains its competitiveness, with its multi-sector strength, strong transportation system, strategic location advantage, and significant cost and tax advantage.

The Ontario economy has exhibited resilience with the GTA being known as one of the for its economic growth potential, strong talent base, and competitive business sectors.

The Opportunity: In order for the Burlington Economic Development Corporation (BEDC) to understand the current office market dynamics in the Greater Toronto Area (GTA**), general economic and business conditions need to be taken into consideration to fully comprehend the host of market demand drivers that will impact current and future office space use.** This section will also provide a base level understanding to help place the overall office market and Burlington in context.

Business conditions will provide insight into the business sectors experiencing growth and have the potential to either enter or expand their office footprint in Burlington.

Economic & Business Environment Overview

National Drivers of Economic Performance

Canadian economy struggling to gain traction amid declines in oil-producing regions

The Canadian economy remains weak due to sharp reductions in investment and income in the oil-producing regions and further declines in the mining sector. Following 1.2% growth last year, real GDP is expected to increase only 1.3% in 2016**.**

Economic Growth

- Economic growth slowed to 0.8% (annualized) in the fourth quarter of 2015
- While the services-producing sector expanded in 2015, most of the goods-producing industries contracted
- British Columbia and Ontario should continue to lead the national economy with growth near 2.5% in 2016

Exports Volumes

- Growth remains positive outside oil-rich provinces
- Export volumes surged nearly 8% y/y in January amid positive U.S. demand and the weak currency
- While consumer spending has slowed in response to elevated debt and job losses, it remains supported by low interest rates

Home Sales and Prices

- Prices continue to soar in Vancouver and Toronto amid an influx of foreign wealth and a tight supply of detached properties
- Elsewhere, sales and prices have been steadier and markets remain balanced or lean toward buyers

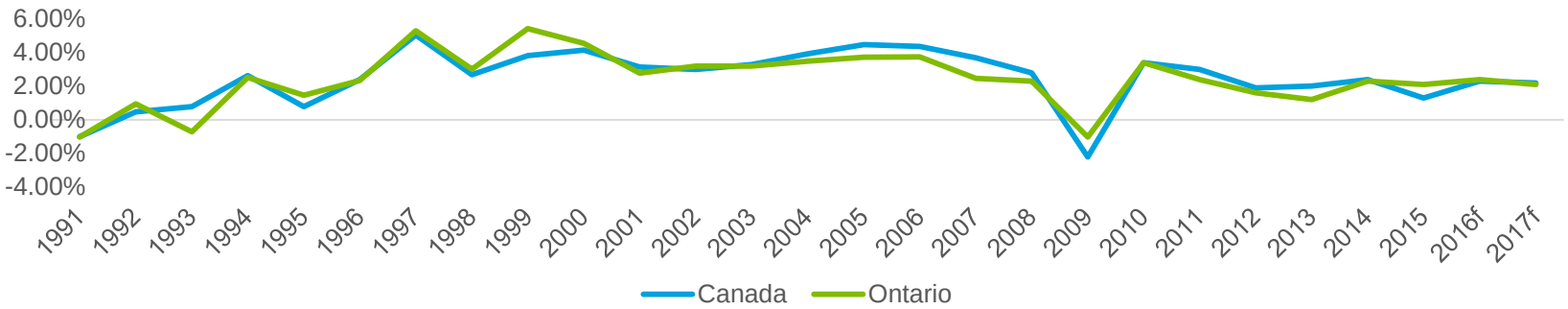
Economic & Business Environment Overview

Historical Growth

Ontario's economy has largely moved in tandem with the Canadian economy

The Canadian economy remains weak due to sharp reductions in investment and income in the oil-producing regions and further declines in the mining sector. Following 1.2% growth last year, real GDP is expected to increase only 1.3% in 2016**.**

Historical GDP growth (year-over-year)



GDP Growth Forecast by Sector – Ontario

	2015	2016f	2017f
Manufacturing	0.9%	2.3%	2.6%
Goods-producing sector	1.4%	2.4%	2.4%
Wholesale and Retail Trade	3.0%	3.8%	1.4%
Finance, insurance and real estate	4.1%	3.5%	3.1%
Service-producing sector	2.4%	2.5%	2.0%

Source: Conference Board of Canada, Long-Term Growth Forecast Ontario.

The Ontario economy is expected to see robust economic growth in 2016-2017, with both **goods and service-producing sectors leading growth**. Export growth is a key driver of economic activity in the next two years, due largely in part to strong demand from the U.S. As a result, manufacturing growth is expected to grow by 2.3-2.6% in the next two years.

Private investment, on the other hand, is expected to moderate and be volatile in 2016, particularly in the residential sector. Business investment in Ontario is projected to grow at a rate of **3.1% in 2016** and **a mere 0.7%** in 2017. Consistent growth in **finance, insurance and real estate** sectors will advance the Ontario economy.

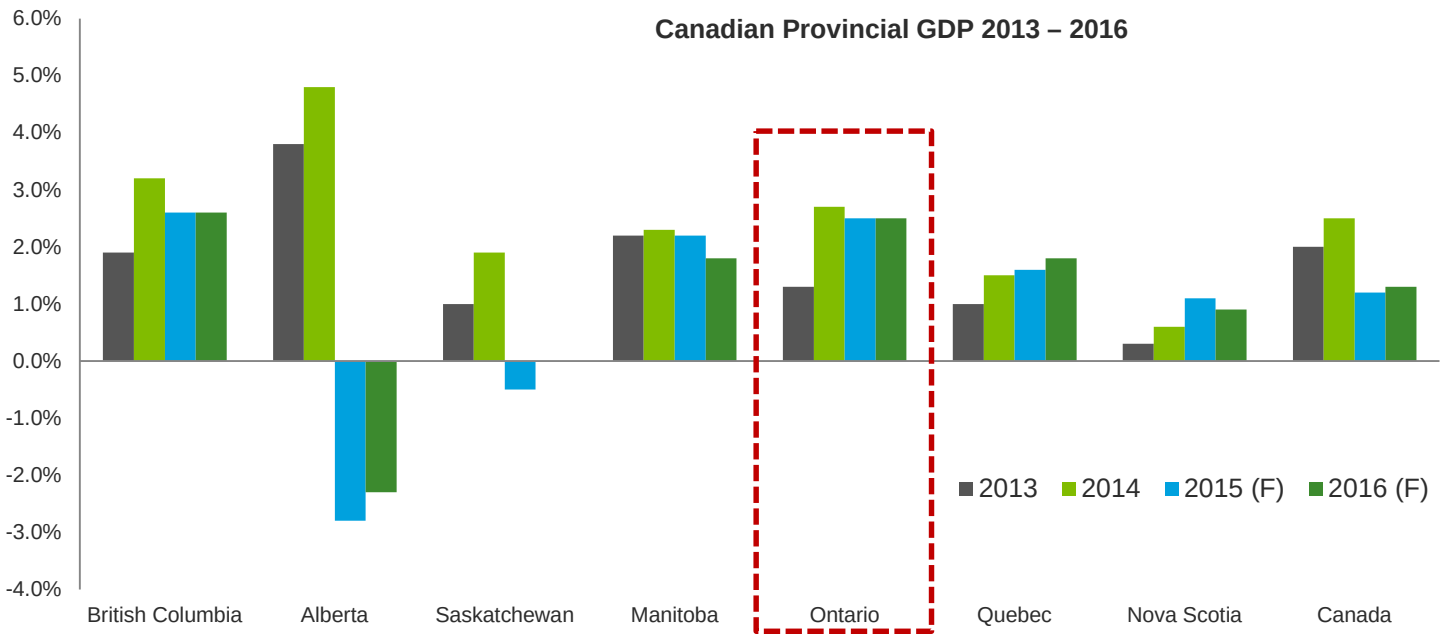
Economic & Business Environment Overview

Provincial Forecasts

Canadian GDP Growth projections expected to remain stable through 2016, with Ontario maintaining growth of 2.5%.

As previously referenced, Ontario's economy is showing resiliency on the back of interest rates, a confident household sector, rising business investment, and increased public infrastructure building. Growth in the province is expected to occur from rising exports and fairly solid demand within the province from both private and public sources.

Economists suggest that Ontario exporters stand to benefit from the low value of the Canadian dollar and expanding US consumer demand. The strength in the export sector is expected to be a new critical factor in Ontario's economic mix this year and will greatly offset the effect of maturation in the province's housing boom, which contributed substantially to provincial growth in recent years.



British Columbia is the only province expected to see greater GDP growth than Ontario in 2016

Source: Greater Toronto & Hamilton Marketing Alliance

Economic & Business Environment Overview

Focus on Ontario Economy

Ontario's economy has shown resilience and has potential for further growth.

Ontario's economy is expected to continue to transform with new challenges and opportunities. The following sectors are expected to drive prosperity within the province.

Knowledge-based industries
As the economy adapts and transforms, knowledge-based industries will be an increasingly important part of the provincial economy. They constitute 30% of Ontario's GDP and employment and are found in both the advanced manufacturing (e.g., aerospace) and services (e.g., financial services) sectors

Manufacturing and advanced economies
Ontario's manufacturing sector is already adapting to changing global economic realities. With low-cost manufacturing moving to low cost countries, Ontario companies with innovative technologies and highly skilled workers will have an opportunity to increase their specialization in high value-added manufacturing activities to enhance their export potential

Business and financial services sector Ontario continues to thrive as the leading business and financial services head-office centre of Canada. The future growth of business services will continue to be driven by the shift to skills and knowledge-based services. The financial services sector is a major engine of growth for the Ontario economy. Its share of economy-wide output is almost twice as large as its share of jobs, indicating its above-average productivity.

The auto sector
Despite the shift of vehicle production to lower-cost jurisdictions such as Mexico and the southern U.S. states, the government is continuing to work with major auto assemblers to help anchor investments in Ontario. Stakeholders, including labour, are also working to address issues related to the industry's competitiveness in Ontario. Recent agreements like the principle agreement between Canada and the European Union for a Comprehensive Economic and Trade Agreement promises to provide access to new markets for Ontario's motor vehicles and parts producers through tariff-reduction measures

Economic & Business Environment Overview

Introducing the Greater Toronto and Hamilton Area ("GTA") Marketplace

The Greater Toronto and Hamilton Area is Canada's largest market with a population of some 6.6 million people

Located in Southern Ontario, The City of Toronto is the 4th largest City in North America with population of 2.7 million people. The region is one of Canada's fastest growing urban centres and is forecast to grow to some 9.2 million people by the year 2036.

- **Toronto is Canada's commercial capital and is home to the Toronto Stock Exchange, the world's 7th largest exchange**
- **The Economic Intelligence Unit and Mercer Quality of Living Survey both consistently rate Toronto as one of the world's most livable cities**
- **Toronto is one of the most diverse cities of non-native-born residents (by percentage) with about 49% of the population born outside Canada**

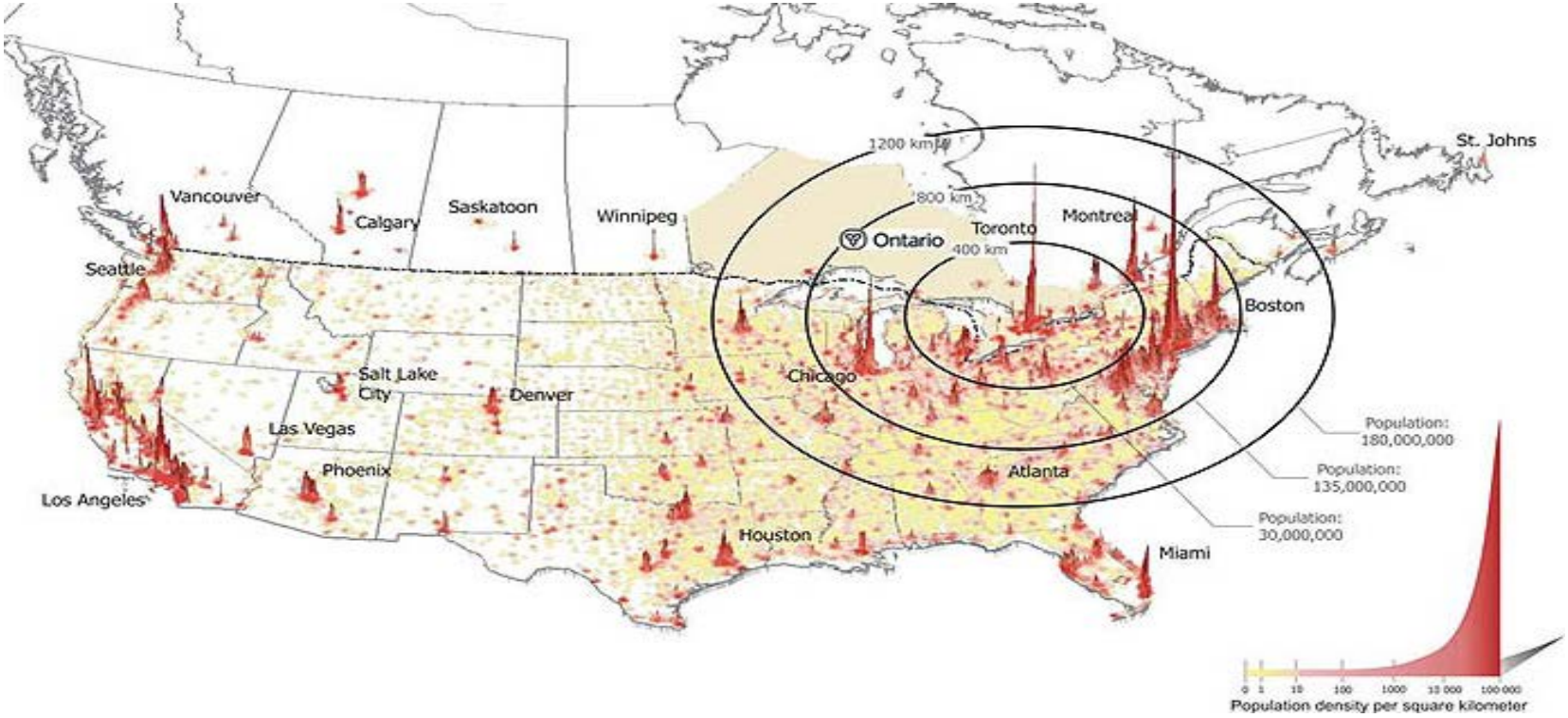
Source: Greater Toronto & Hamilton Marketing Alliance

Economic & Business Environment Overview

Premiere location

The GTA is located within 500 miles of 139 million customers

As the financial centre for the Canadian economy, **the GTA is home to 40% of Canadian corporate headquarters**. The region is also within a 90 minute flight to New York, Chicago, Boston and Washington which promotes Canadian-American commerce and tourism.



Economic & Business Environment Overview

Transportation & Accessibility

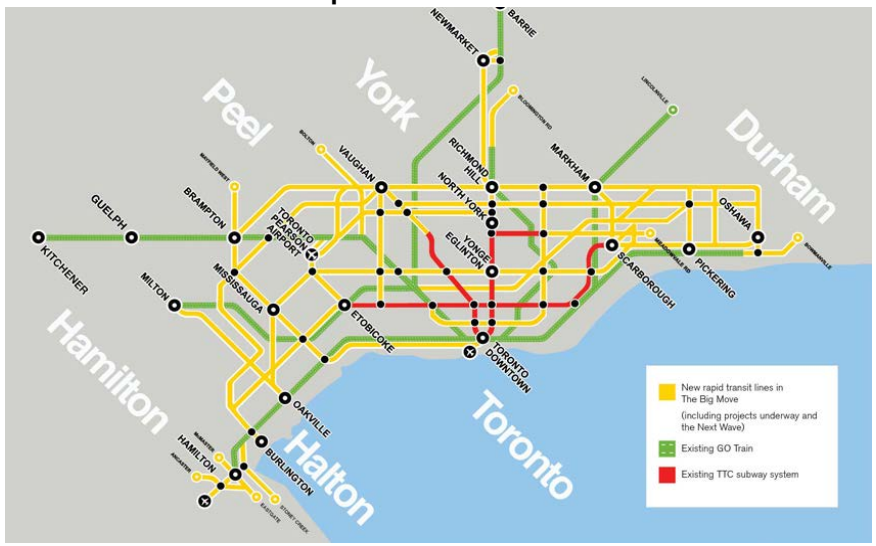
The region features numerous sky, rail and road connections

Toronto Pearson International Airport is Canada's busiest airport, processing over 45% of Canada's air cargo. Pearson offers non-stop and same-plane service via 75 carriers to 180 destinations worldwide. Billy Bishop Toronto City Airport is located conveniently on Toronto Islands, close to Downtown Toronto and welcoming more than two million business and leisure travelers each year, offering service to 18 cities in Canada and the U.S.

An extensive highway system connects the Greater Toronto and Hamilton Area to the North American market (400 series highways: 401, 403, 400, 404, 410, 407 ETR, and QEW). Significant infrastructure exists to transport freight through roads, rail, highway and other mechanisms as shown below.

The GTA is placed 2nd in transportation and infrastructure among 27 global cities.

Extensive public transit infrastructure



Highway system with easy access to US markets

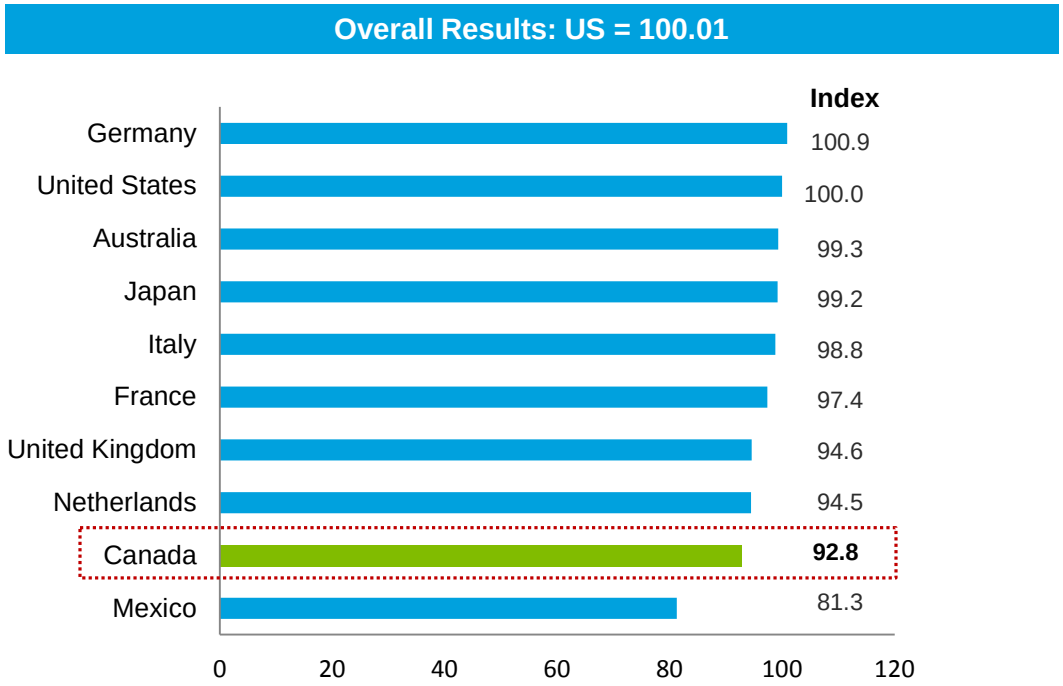
Economic & Business Environment Overview

Cost Advantage

The GTA has an incredible cost advantage when compared to other fast growth economies

A recent report in 2014 found that Canadian businesses held a cost advantage 7.2% lower than that of the USA. Ontario's competitive advantage is also pertinent as the province's combined Federal – Provincial Corporate Income tax (CIT) rate is lower than the average of G8 and G20 countries and lower than the average federal CIT rate in the USA**.**

Cost comparisons between Canada and other economies



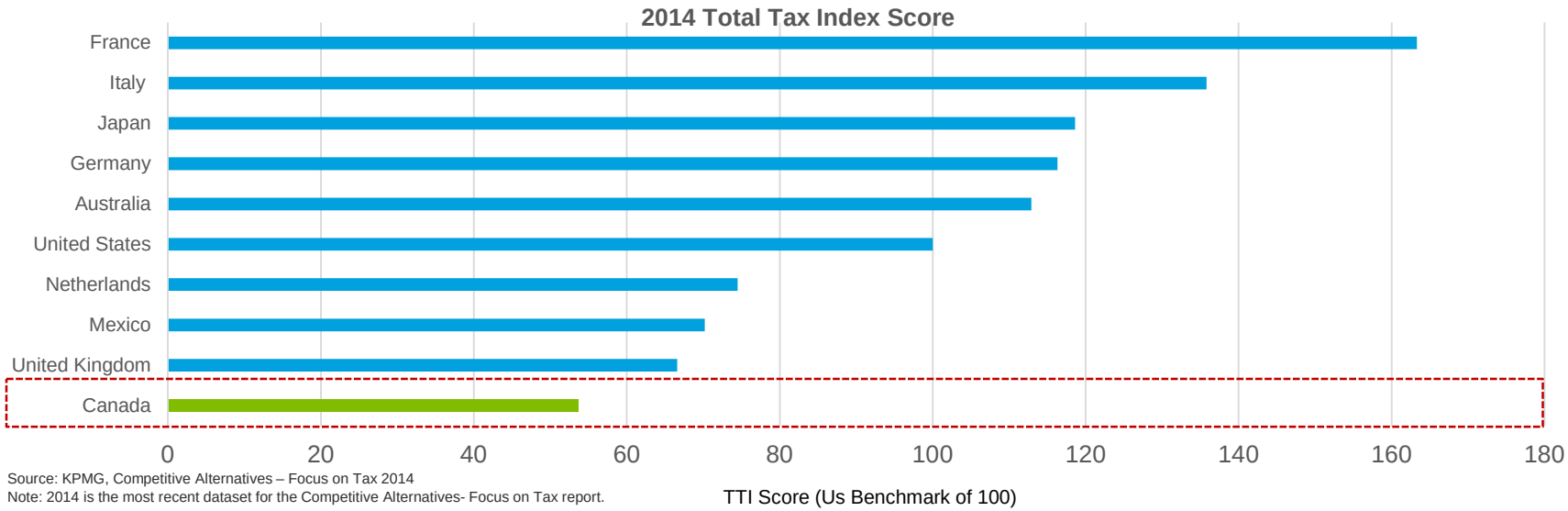
Source: KPMG, Competitive Alternatives, 2014.
2014 is the most recent dataset for the Competitive Alternatives- Focus on Tax report.

Economic & Business Environment Overview

Corporate Tax Advantage

Total tax costs in Canada are 46.4% lower than that of the United States

A recent study found Canada was the most competitive and hospitable tax environment for corporations globally. Canada's competitive advantage stems from a low effective corporate income tax policy combined with moderate statutory labour costs as well harmonized sales taxes**.**



Source: KPMG, Competitive Alternatives – Focus on Tax 2014
Note: 2014 is the most recent dataset for the Competitive Alternatives- Focus on Tax report.

Toronto is # 1!

Out of the 51 major international cities that were evaluated within the study, Toronto ranked first overall. A deeper delve into the rankings showed the multi-dimensional nature of this competitive advantage. Of the four sectors that were evaluated (digital services, R&D, corporate services and manufacturing), Toronto ranked fifth or higher in each sector. This would indicate that Toronto's competitive tax advantage is diverse. That said, Toronto was seen to be extremely competitive in the digital services sector.

Economic & Business Environment Overview

Key Employers

The GTA is renown for it's Food and Beverage, Financial Services and ICT Sectors

The GTA is the hub of commerce within the Canadian market. A number of prominent Canadian and international companies have a presence within the region.

Economic & Business Environment Overview

Key Conclusions

1. **The Ontario economy has demonstrated resilience and will benefit from a resurgence in exports due to a lower Canadian dollar and expanding U.S. demand. GTA is the backbone of the Ontario Economy, generating almost 20% of Canadian GDP.** The GTA thrives on a diverse economy and a strong business climate, built on well-connected transportation systems and a low risk environment.

2. Superior infrastructure and a low cost environment has attracted both goods and service-oriented industries**. GTA area businesses benefit from exceptional access to major North American metropolitan areas with two major airports, a large and busy freeway networks** featuring several 400-Series highways and a well-designed public transit system.

3. The office market in the GTA has attracted a wide variety of users and is home to almost **40% of Canadian business headquarters in sectors that lead innovation, including** Life Sciences, ICT, Energy and Environment and Automotive and Advanced Manufacturing, food and beverage manufacturers, financial services firms and information, communication and technology (ICT) companies.

Greater Toronto Area Office Market

Greater Toronto Area Office Market

Introduction

While the GTA is inevitably centered around the downtown core, the GTA West has historically been the primary suburban office node and is well positioned to capitalize demand moving forward

In order to clearly identify and exploit future opportunities, a thorough understanding of current office market dynamics is required. The following section clearly identifies current office market trends while also undertaking a comparative analysis of office trends in neighboring jurisdictions and macro trends in order to place Burlington in context of the overall GTA office market.

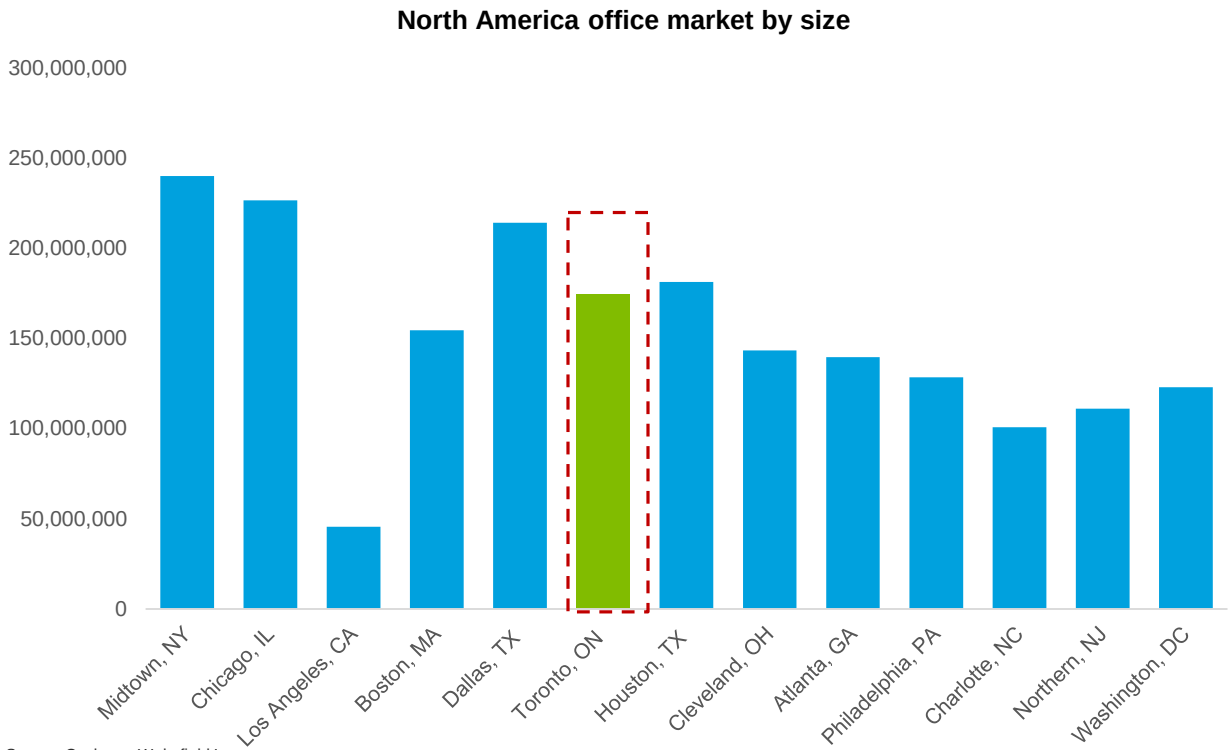
Our findings suggest that while there is a movement towards the financial core of the GTA, **the GTA West and Burlington are positioned to capture future suburban office demand.** However**,** development is likely to be seen to a greater extent in Oakville over the short-term, with Burlington expected to see more activity over the medium-term in the next 15-20 years.

Greater Toronto Area Office Market

GTA Market Size in Context

Toronto's office market comprises of some 175 Million SF split between downtown and suburban markets

Toronto is the **5th largest office market within North America with some 175 million sf of office space**, essentially split between downtown and suburban markets. It is approximately the same size as Boston and Houston. As such, Toronto is capturing significant international attention from the investment community and corporate occupiers.



Source: Cushman Wakefield Inc.

Greater Toronto Area Office Market

Historical Development across the GTA

Development in a Historical Context

A long term supply comparison indicates that in the past 30 years, **more than 52 million sf has been built in the suburbs, whereas only 31 million sf has been added downtown**. The resulting current office inventory is approximately evenly split between downtown and suburban markets.

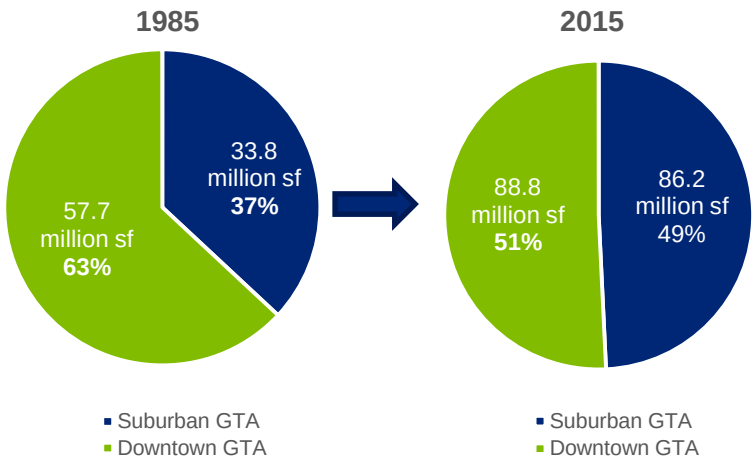
Over the past 15 years, **22.0 million sf** has been delivered in the GTA, representing almost 1.5 million sf of new development per year.

While in recent years there has been substantial development in Toronto's downtown, historically the 905 areas have enjoyed most of the activity. **The GTA West, in particular, has been the most active region with 687,000 sf (43%) of new supply per year** – the majority of new supply is likely to be in suburban business park form with 100,000 sf buildings in greenfield sites with significant parking.

Region	Total New Supply since 2001	% Share	Average Annual New Supply
GTA West	9.6M sf	43%	687,000 sf
GTA East	3.7M sf	17%	265,000 sf
GTA North	1.3M sf	6%	93,000 sf
Suburbs	**14.6M sf**	**66%**	**1.05M sf**
GTA Central	**7.4M sf**	**34%**	**482,000 sf**
GTA Total	**22.0M sf**	**100%**	**1.5M sf**

Source: Cushman Wakefield Inc.

The GTA has seen a rise in the prominence of the suburban office markets, dominated by the western submarkets



Greater Toronto Area Office Market

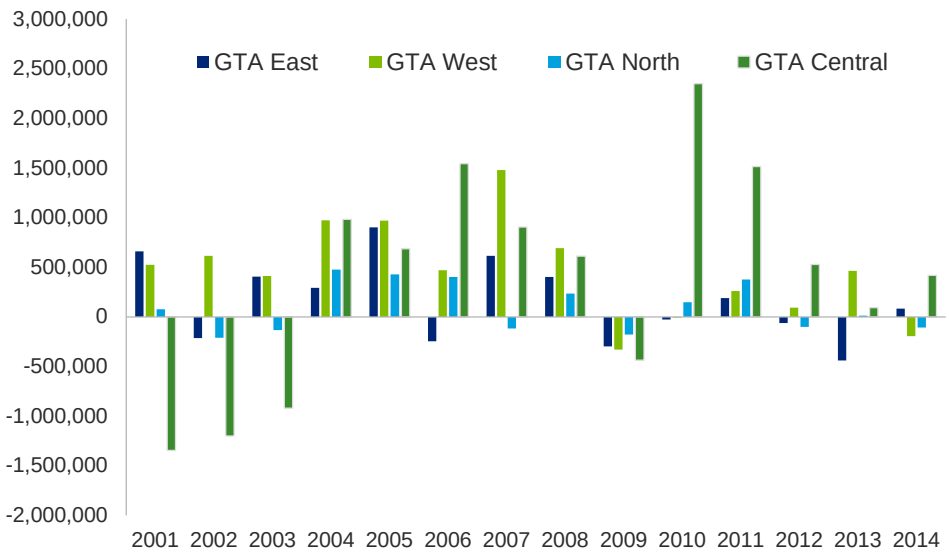
Historical Absorption

Recent absorption dominated by new-build activity downtown, followed by the Western sub-markets

Over the last 5 years, the overall GTA market experienced **annual absorption of approximately 1.2 million sf per annum,** with Central GTA leading overall leasing activity, largely attributed to the new builds that have been delivered over the past two construction cycles. Within the suburbs, **GTA West outperforms the other suburban markets and has generated strong demand for R&D/Flex office space**. GTA East and North have borne the brunt of the pain resulting from tenant migration towards downtown. Since 2009, 30 tenants have relocated downtown from the suburbs, occupying more than 2.1 million sf majority of which have relocated from GTA East and North.

Absorption levels in 2016 will be boosted by delivery of three new developments – Bay Adelaide Centre East, One York Street, and the Globe and Mail Centre, which will add 2.3 Million sf to existing inventory.

Historic Absorption across the GTA



Source: Cushman Wakefield Inc.

GTA Historical Absorption

Region	Average Annual Absorption (Past 15 years)	Average Annual Absorption (Past 5 years)	% Share (Past 5 years)
GTA West	458,111 sf	122,218 sf	10%
GTA East	161,238 sf	-52,448 sf	-4%
GTA North	92,338 sf	64,268 sf	5%
GTA Suburban	711,687 sf	134,038 sf	11%
GTA Central	409,156 sf	980,788 sf	79%
GTA Total	**1,832,530 sf**	**1,248,864 sf**	**100%**

Source: Cushman Wakefield Inc.

Greater Toronto Area Office Market

Development Trends

Development in Central and Suburban Toronto

Downtown Toronto is currently in the midst of a **construction boom, driven by influx of millennials and new employers in the core.** Between 2009-2011, six new Class A office towers were completed. Despite the addition of 4.4 million sf during that construction cycle, consistent demand from tenants initiated a second construction cycle in 2012-2016.

Currently, there is 6.0 million sf, or approximately 3.5% of current inventory being built in Toronto. All the buildings delivered so far have seen healthy levels of pre-leasing activity.

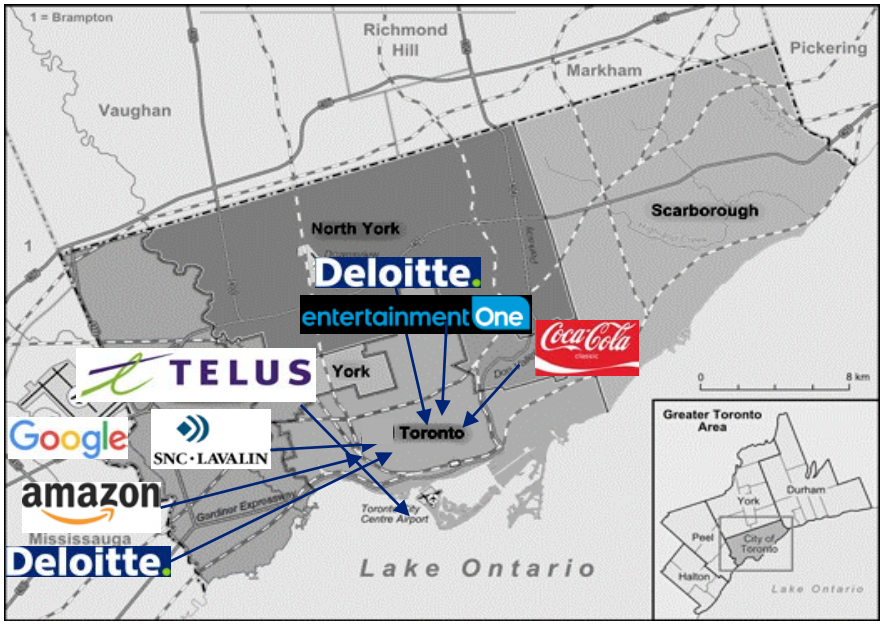
The majority of construction is concentrated in the Greater Core and Downtown South market, which face record-low single digit vacancies of 3.3% and 2.0%, respectively. Downtown Toronto currently has approximately 2.7 million sf of product in the pipeline.

Suburban growth focused to the west rather than east markets – the western suburbs have seen substantial delivery of new office supply including both the Airport Corporate Centre and Meadowvale office nodes, which both enjoy easy access and close proximity to Pearson International Airport to attract demand. The entire suburban GTA is currently seeing approximately **1.6 Million sf of new construction, predominantly in Meadowvale, Vaughan, and Oakville.**

Proximity to Toronto Pearson Airport, and to the major highways leading to US markets, have made the western suburbs appealing for space users and investors. There is however, substantial vacant land capacity which we believe is sufficient to address short-medium term demand.

Greater Toronto Area Office Market

Refocus on the Downtown



Tenant Relocations 2009-2016

From 2009-2016, the skyline of downtown Toronto has expanded rapidly with a large number of office and residential buildings delivered. Majority of this supply has been absorbed quickly attributed to robust tenant demand. Corporations have shown strong interest for newer Class A buildings offering high-quality finishes, extensive amenities, proximity to transit corridors and access to the PATH.

From 2009, an overall 30 tenants have relocated from Suburban Toronto contributing to record low availability rates in the Financial Core and Downtown South market, which is home to majority of the new towers. Majority of tenant relocations have been from the GTA East and Midtown market.

30 tenants have relocated downtown from the suburbs between 2009 to 2016, occupying 2.1 million sf of office space

Examples of key tenant relocations

Company	Previous Location	Current Location	Size
Telus	Multiple locations	Telus Tower	440,000 sf
Deloitte	5140 Yonge St. (North)	Bay Adelaide Centre E	419,000 sf
Amazon	6363 Millcreek Dr. (West)	Bremner Tower	126,000 sf
Coca Cola	42 Overlea Blvd. (East)	333 King St. E	100,000 sf
Google	151 St. Charles St. W (Kitchener)	111 Richmond St. W	89,000 sf
SNC Lavalin	2275 Upper Middle Rd. E. (West)	18 York St.	79,000 sf
Entertainment One	175 Bloor St. E (Midtown)	134 Peter St.	101,000 sf

Greater Toronto Area Office Market

The GTA Sub-Markets Compared

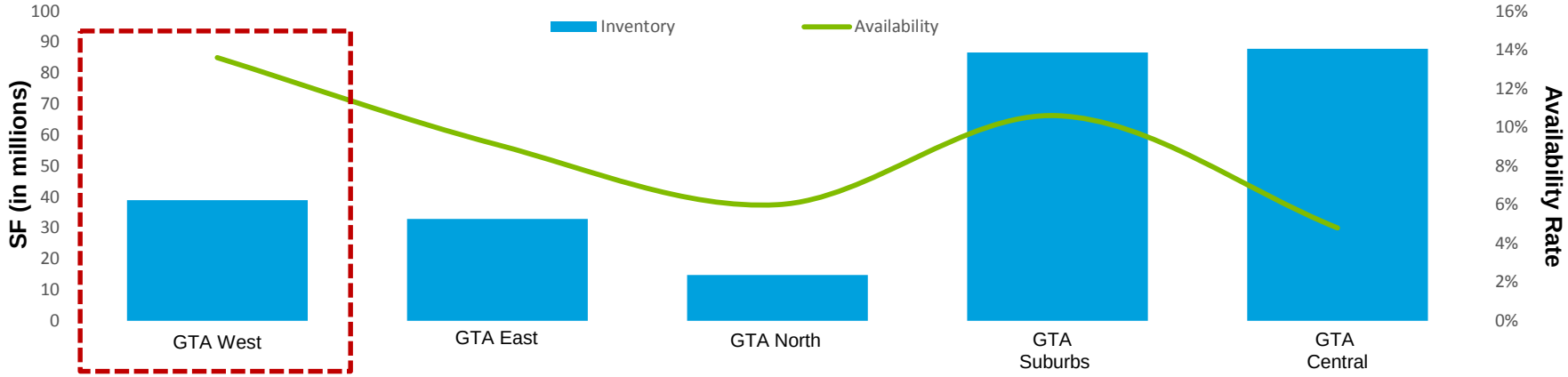
Availability rates in the suburbs outpace those found in the GTA Central; GTA West has the highest rate

The **175M sf GTA office market is split evenly between the central core and the suburban markets**. The GTA Central is home to the financial core which accounts for 82% of total supply within the Central region.

The suburbs feature established nodes in Mississauga, Markham/Richmond Hill and along the QEW corridor. The **GTA West is the largest suburban node with 39M sf or 22% of total GTA office inventory**. While suburban offices offer tenants with green space and plentiful parking that is not usually found in the financial core, availability rates in the suburbs outpace those found in the GTA Central**.**

Region	Inventory (sf)	% of Inventory	Availability Rate	Leasing activity (sf)
GTA West	39.00	22%	13.6%	2.80M
GTA East	33.00	19%	9.1%	1.60M
GTA North	15.00	8%	6.0%	0.70M
GTA Suburbs	**87.00**	**50%**	**10.6%**	**5.20M**
GTA Central	**88.00**	**50%**	**4.8%**	**5.40M**
GTA Total	**175.00**	**100%**	**7.7%**	**10.60M**

Source: Cushman Wakefield Inc.



Source: Cushman Wakefield Inc.

The GTA West is the largest suburban node with 39M sf or 22% of total GTA office inventory

Greater Toronto Area Office Market

Key Conclusions for GTA Office

1

The GTA office market comprises of some 175 million sf, split evenly between downtown and suburban markets. Toronto is the fifth largest office market within North America, being approximately the same size as Boston and Houston. As such, Toronto's office market captures significant international attention from the investment community and corporate occupiers.

2

The Suburban GTA office market, particularly GTA West has shown buoyancy as developers and landlords service demand from Canadian headquarters of U.S. companies. **GTA West outperforms the other suburban markets, even though it has the highest availability rate. Tenant demand is particularly strong for R&D/Flex office space.**

3

The majority of new supply in GTA West is in the suburban business park form with 100,000 sf buildings in greenfield sites with significant parking. Established nodes in the suburbs include Mississauga, Markham/Richmond Hill and along the QEW corridor. While suburban offices offer tenants with green space and ample parking that is not usually found in the financial core, availability rates in the suburbs outpace those found in the GTA Central**.**

Burlington in Context

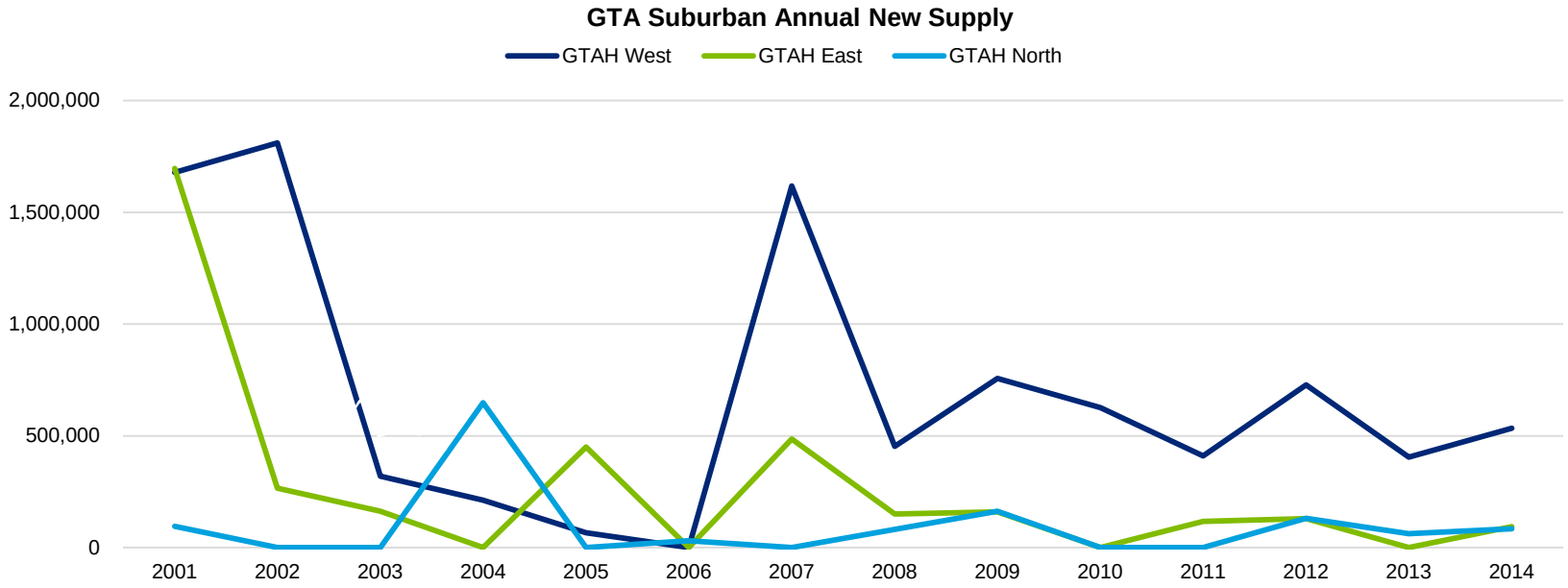
Greater Toronto Area Office Market

Office Supply in Suburban GTA

Suburban GTA has experienced a rebirth in office construction

To determine growth opportunities for Burlington's office market, it is important to consider the **supply pipeline in Greater Toronto marketplace**. Suburban Toronto has seen the completion of several office development projects, particularly in urban growth centres, which offer ample parking spots, amenities, and transit-oriented hubs.

Historically, the GTA East has seen a significant tapering in office construction with the **GTA West and North being the focus of development**. Investors and developers have chosen to capitalize on assets that can replicate the benefits of a downtown building in the Suburbs with the **GTA West and North being the focus for Canadian head offices of typical U.S. companies,** which choose to stay outside the city centre.



Source: Cushman Wakefield Inc.

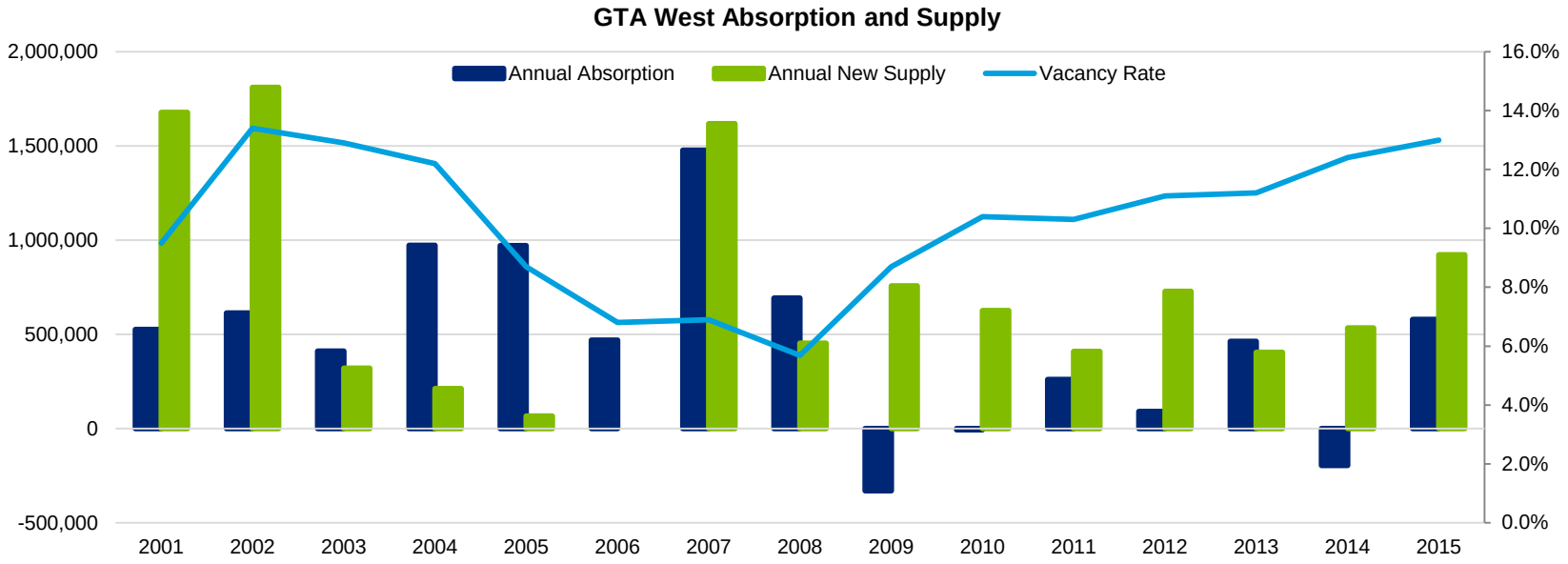
Greater Toronto Area Office Market

GTA Supply and Demand

Vacancy rates in GTA West have been on the upward trajectory since 2008

Post 2007, construction activity has been steady in the GTA West market, which has seen a consistent rise in vacancy as uptake of any new space delivered has been relatively modest. In the past 5 years, **on average, 600,000 sf was delivered to market in the GTA West** versus approximately 240,000 sf actually absorbed. Despite the prevalence for user-demand for high quality office space in the GTA West, there was a concern post 2009 of overbuilding and an abundance of speculative construction projects.

Real estate developers have been increasingly considering **flex-office space as a competitive option compared to traditional towers** due to generous parking ratios and lower construction costs as they typically lack basic core building elements (elevators columns and common areas) that generate higher initial construction costs and also higher ongoing maintenance costs. These flex-office space developments can be particularly attractive to smaller occupiers, particularly 'start-up' companies.



Source: Cushman Wakefield Inc.

Greater Toronto Area Office Market

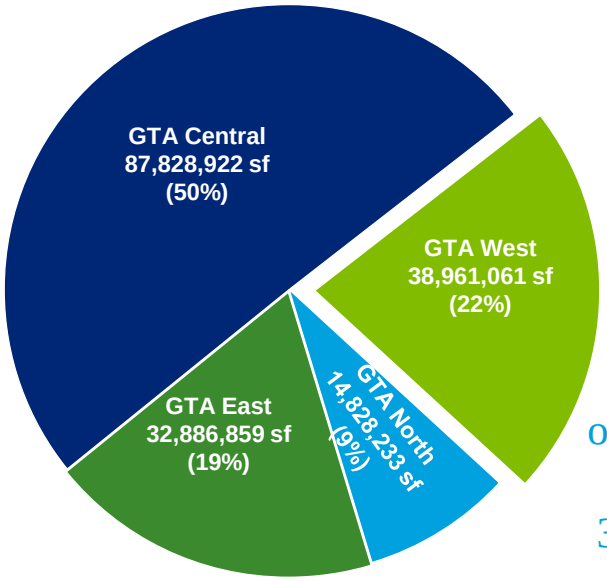
Burlington Inventory in GTA context

Burlington's office market encompasses 3.2 million sf of inventory

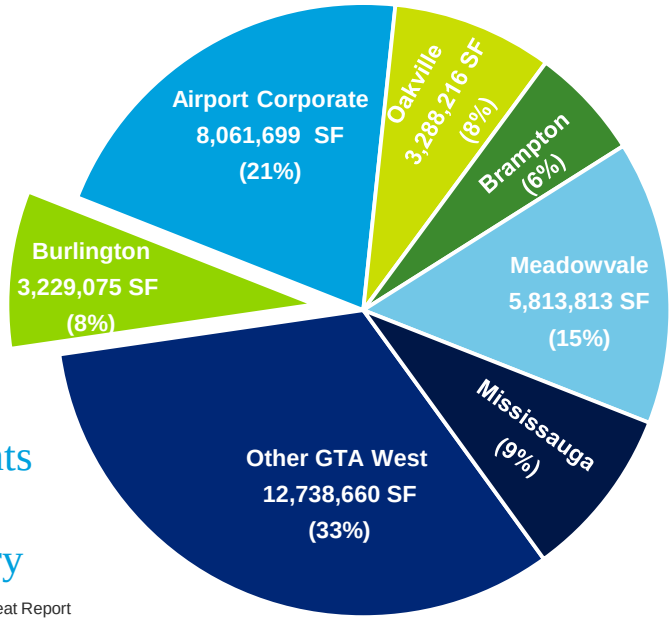
Total office inventory in the GTA adds up to 175 million sf, of which **Burlington accounts for approximately 2.0% of total inventory at around 3.2 million sf**.

Burlington is located within the GTA West market, which has a total 39.8 million sf of office space, therefore **Burlington represents 8% of the GTA West sub-market**. Burlington's economic strength lies in its diversity of economic base, mainly achieved because of its links to local businesses, proximity to large industries in southern Ontario, its location within the GTA and proximity to Hamilton, and superior access to transportation infrastructure. Total Inventory is represented in the charts below:

The GTA West consists of the following nodes: Burlington, Oakville, Brampton, Bloor & Islington, Hwy 427 Corridor, Airport, Airport Corporate Centre, Hurontario Corridor, Mississauga City Centre, Cooksville, Sheridan, Meadowvale, St. Clair West,



Burlington's 3.2 M sf office inventory represents 8% of the GTA West's 33.9M sf office inventory



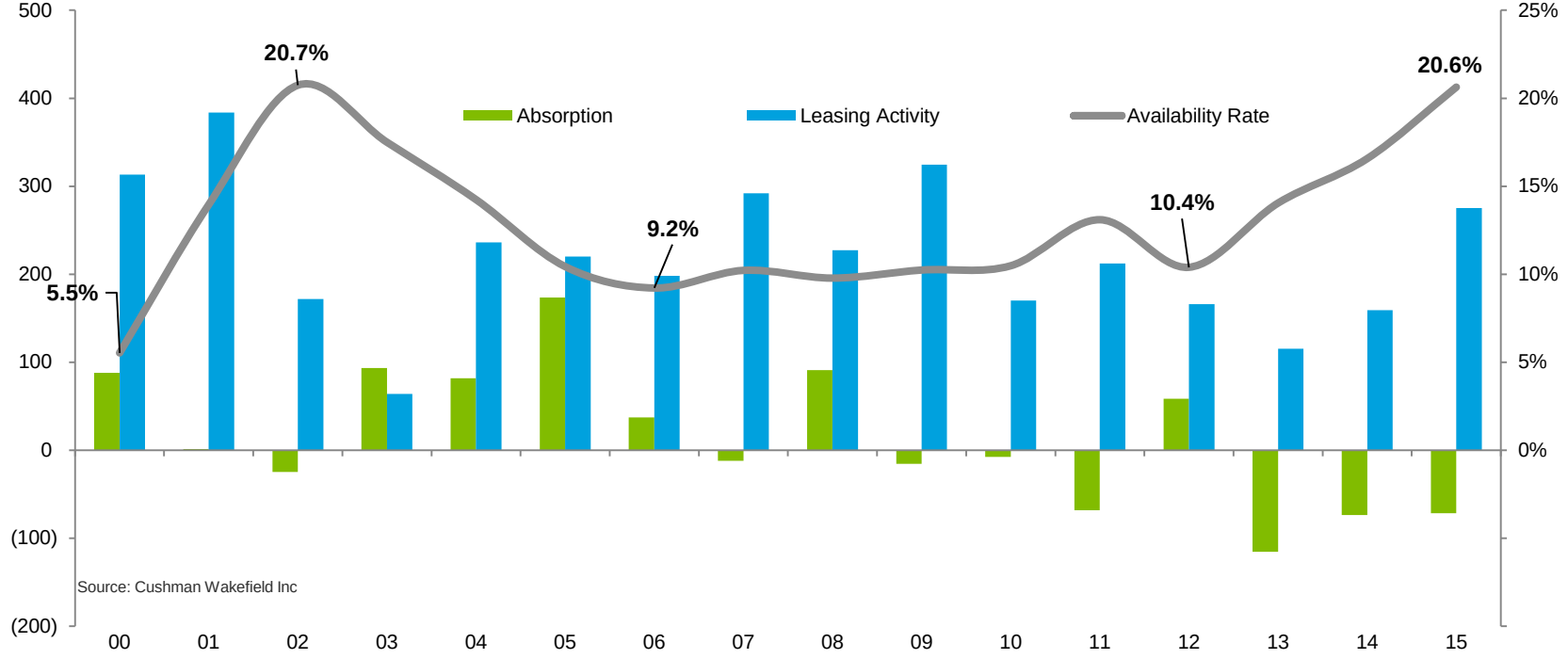
Sources: Q1 2016 Cushman Wakefield Office Marketbeat Report

Greater Toronto Area Office Market

Burlington historical snapshot

Burlington has seen increasing availability rates and negative absorption over the past 3 years

A historical snapshot of the Burlington office node can be seen below. Vacancy at year-end 2015 approached a record high of 20.6% which was last achieved in 2002. While leasing velocity has increased over the past three years, absorption has consistently remained negative with more new space being delivered than is being absorbed.



Burlington's 3.2 M sf office inventory represents 8% of the GTA West's 33.9M sf office inventory

Greater Toronto Area Office Market

Burlington comparative analytics

Burlington's 20.6% availability rate is significantly higher than its competitors

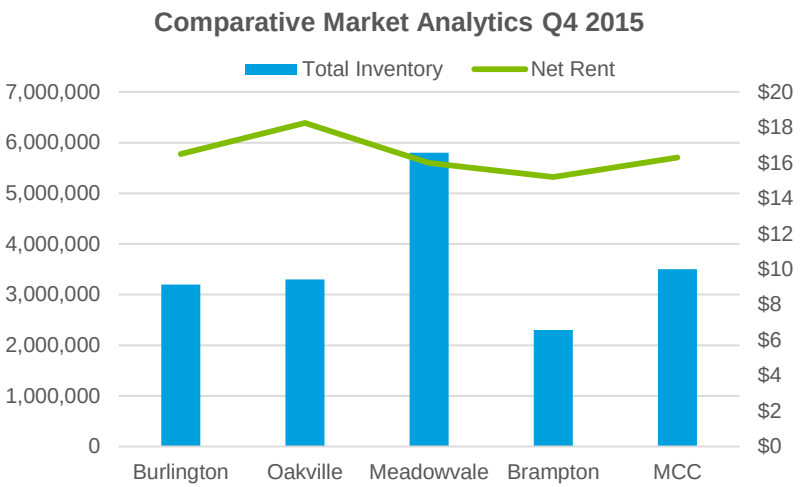
The GTA West features availability and vacancy rates that continue to trend toward their highest levels in recent history; however, these changes are not ubiquitous. The market shows geographical differentiation, **as tenants seek prime premises in accessible nodes such as Meadowvale and Oakville, leaving gaps elsewhere, often but not always in Class B and C buildings**.

Burlington's 20.6% availability rate is significantly higher than its surrounding neighbors. This higher rate is present irrespective of asset class as Class A and B buildings show 20% and 21% availability rates respectively. Developers have been forced to remove redundant and ineffective space within the GTA West as **tenants have placed an emphasis on buildings with lower operating costs and ability to deliver corporate social responsibility metrics**. Any building that is not consistent with this ideological shift (there are a significant number of buildings in Burlington) are likely to struggle to attract tenants.

Comparative Market Analytics Q4 2015

Nodes	Total Inventory (sf)	Under Construction	Availability Rate	SF Available	Net Rent ($/SF)
	3.2M	0	20.6%	666,253	$16.49
Oakville	3.3M	646,689	13.6%	447,940	$18.28
Meadowvale	5.8M	250,000	10.9%	631,758	$16.11
Brampton	2.3M	0	11.5%	265,868	$15.20
Mississauga City Centre	3.5M	0	11.7%	410,945	$16.31
Vaughan	2.0M	425,000	5.6%	110,327	$16.50

Sources: Q4, 2015 Cushman Wakefield and CBRE Office Reports



Burlington is located in a extremely competitive market with numerous alternatives for potential tenants

Greater Toronto Area Office Market

Burlington inventory composition

Class A office space accounts for the largest proportion in Burlington

According to market reports, Burlington's 3.2M sf of office space is largely split between Class A and B space. **Although Class A office space accounts for 43% of the total number of buildings, the 1.8M sf represents the largest proportion of space at 56% of all total inventory**. There are more Class B buildings; however, they only represent 41% of all space.

The properties illustrated below are representative of supply that is currently available for rent (or under construction) in Burlington.

Type of Building	# of Buildings	# of Buildings (%)	Total SF	Total SF (%)
Class A	20	43%	1.8M	56%
Class B	25	53%	1.4M	41%
Class C	2	4%	0.1M	3%
Total	**47**	**100%**	***3.2M**	**100%**

Sources: Cushman Wakefield Inc

* Note: Figure has been rounded

Supply in Burlington

1450 – 1550 Appleby Line – For Lease

Total Space: 114,889 sf

Class: N/A

Net Rent: $14.95 psf

5050 South Service Road – For Lease

Total Space: 66,659 sf

Class: C

Net Rent: $11.75 psf

5091 Fairview Street– Under Construction

Total Space: 63,204 SF

Class: A

Completion Date: 2016

Suburban business parks represent the dominant built-form within the Burlington area

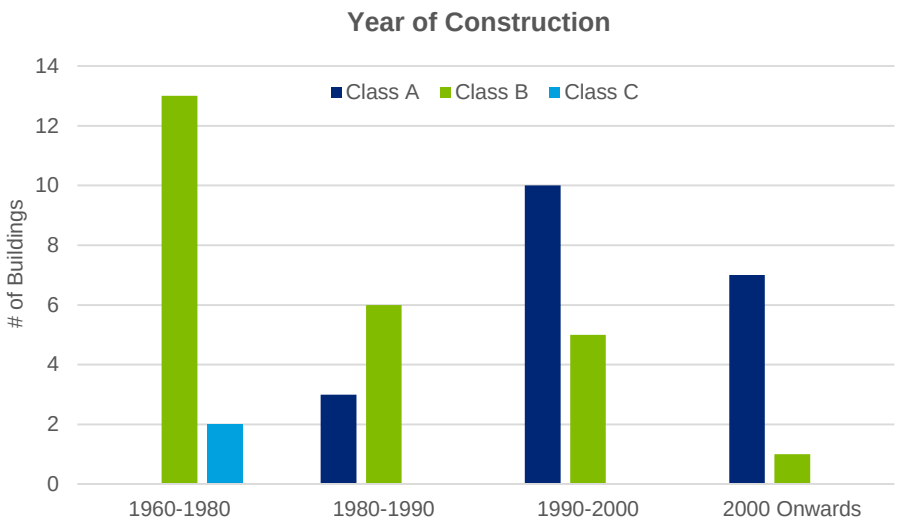
Greater Toronto Area Office Market

Burlington development activity

Large wave of office construction activity occurred predominantly in the 1990s

Studying Burlington's office inventory further suggests that majority of the inventory is dated and was built in the early 1990s. The large wave of construction occurred in the 1990s with **a total of 1.2 million sf, equating to 67% of current Class A inventory** built between 1990-2000. Class C inventory is negligible in Burlington with only 128,114 sf currently in existence. Average size of buildings in Burlington are relatively small, in comparison to other Suburban markets, ranging from 20,000-60,000 sf.

The delta between average net asking rental rates between Class A and B buildings currently sits at approximately $4.83 psf.



Type of Building	Average Construction Year	Average Size (sf)	Average Floor Plate	Average Net Rental Rate*
Class A	1999	89,043	19,313	$16.62
Class B	1982	57,353	26,585	$11.79
Class C	1972	64,057	20,779	N/A
Total	**1989**	**71,123**	**23,171**	**$16.49**

Sources: Cushman Wakefield Inc

*Average net rental rates reflect current weighted averages by Class type.

Inventory in Burlington is dated and in need of revitalization if the node is to remain competitive

Greater Toronto Area Office Market

Pricing: Gross and Net Rental Rates

Burlington is an affordable option for leasing space in comparison with the rest of the GTA

As of Q1 2016, **published net rental rates for Class A office space in the Suburbs were mostly comparable across the North, East and West** while the Downtown market commanded much higher lease rates on both a net and gross basis.

At the submarket level, within the Central regions, **Downtown South** commands the highest rates at $28.25psf, followed closely by **Financial Core** at $26.54psf where majority of the new development has occurred.

Looking further into the GTA West market indicates that Bloor/Islington and Mississauga City Centre quote the highest net asking lease rates at $41.42psf and $35.58psf, respectively.

Burlington, in comparison, has some of the lowest net asking Class rents, particularly for Class B and C product, suggesting **pricing is not necessarily the issue in relation to vacancy**.

Burlington Asking Rates by Class ($/psf)		
	Net Asking Rates	**Gross Asking Rate**
Class A	16.96	29.91
Class B	12.14	22.57
Class C	11.57	21.30

Source: Q1 2016, Cushman Wakefield Office Weighted Average Rental Rate Report

GTA Class A Rents		
Submarkets	Average Gross Rent ($/SF)	Average Net Rent ($/SF)
GTA Central	50.87	25.12
GTA North	35.89	17.21
GTA East	30.65	15.61
GTA West	31.50	17.16
Highway 427 Corridor	34.44	16.60
Bloor/Islington	41.42	20.54
Mississauga City Centre	35.58	18.37
Hurontario Corridor	28.76	15.10
Airport	30.16	16.19
Meadowvale	31.84	19.13
Oakville	32.00	18.74
Burlington	**29.91**	**16.96**

Burlington asking rents are lower than many competitors, suggesting pricing is not necessarily influencing vacancy rates

Greater Toronto Area Office Market

Major employers in Burlington

Burlington has a diverse business environment

Burlington is home to several innovative businesses and has a number of high profile companies in diverse business sectors. In particular, some of Burlington's leading employers are in:

- Advanced manufacturing
- Business and financial services
- Food processing and packaging
- Information and communications technology
- Life and Earth sciences
- Steel and Metal Fabrication
- Transportation and Logistics

Company	Employee count
QSR Group / Pioneer Food Services	750-1000
Evertz Microsystems Ltd.	500-749
Cogeco Cable Systems Inc.	500-749
L-3 Communications Wescam Inc.	500-749
Gennum Corp.	250-499
EMC2	250-499
Boehringer Ingelheim (Canada) Ltd.	250-499
The CIT Group Inc.	250-499
Voortman Cookies Ltd.	250-499
Cumis Life Insurance Company	250-499
Sylvite Group of Companies	250-499
Aker Construction Canada Ltd.	250-499
Dependable Home Tech	250-499
ABB Inc.	250-499
Siemens Canada Ltd.	250-499
UPS Supply Chain Solutions	250-499

Greater Toronto Area Office Market

Current Burlington Inventory

Class A Office Inventory

Address	Property Name	Size	Year Built	Typical Floor Plate	Rental Rate	Lease Type	Total Vacancy
390 Brant Street	Sims Square	65,000	1989	10,000	$17.50	Net	-
1100 Burloak Drive		124,363	1991	20,600	$17.50	Net	45,697
3115 Harvester Road		80,088	2008	20,542	$17.00	Net	4,841
3150 Harvester Road		20,920	2006	10,460	$17.95	Net	20,920
4281 Harvester Road		68,000	2002	17,000	$20.00	Gross	-
1111 International Boulevard	Westbury Business Park - Phase 1	128,700	2000	18,500	$18.75	Net	39,224
1122 International Boulevard	Westbury Business Park - Phase 2	133,805	2002	19,115	$17.95	Net	63,461
5353 John Lucas Drive	Burloak Business Park	30,720	1990	16,713	$12.95	Net	-
4475 North Service Road	Voortman Office Tower	66,612	2005	12,000	$16.00	Net	10,465
5420 North Service Road	Burloak Corporate Tower	134,895	1992	28,000	$17.50	Net	22,808
5500 North Service Road	International Tower	221,473	1999	21,000	$20.00	Net	78,448
5515 North Service Road	Burloak Business Park	84,570	1997	23,000	$17.50	Net	20,093
5575 North Service Road	Reimer Tech Park Tower	92,000	1999	16,700	$17.50	Net	28,436
649 North Service Road	Simcoe Erie Group	122,250	1991	40,000	$11.61	Net	-
1005 Skyview Drive	Princess Park	95,706	1998	35,000	$17.50	Net	19,928
1006 Skyview Drive		36,339	2015	16,500	$21.00	Net	12,203
3310 South Service Road		63,000	1986	21,000	$12.00	Net	8,580
5035 South Service Road	Appleby Business Centre - Phase 2	80,000	1999	15,000	$12.50	Net	5,328
5045 South Service Road	Appleby Business Centre - Phase 1	73,439	1999	15,300	$15.00	Net	8,349
1100 Walkers Line	Kamisa Executive Centre	58,971	2015	9,827	$18.00	Net	5,790
TOTAL INVENTORY		**1,780,851 SF**					

Source: Cushman Wakefield Inc.

Greater Toronto Area Office Market

Current Burlington Inventory

Class B Inventory

Address	Property Name	Size	Year Built	Typical Floor	Rental Rate	Lease Type	Total Space
3600 Billings Court	Scott Batenchuk & Co.	60,000	1973	20,000	$8.52	Net	-
460 Brant Street	Upper Canada Place	63,000	1976	20,000	$10.00	Net	-
1001 Champlain Avenue		61,500	1989	15,000	$14.00	Net	37,785
2289 Fairview Street	Fairview Business Park 1	65,900	1973	65,900		Negotiable	-
3027 Harvester Road	Sun Life Building	56,223	1974	11,245	$13.50	Net	2,643
3050 Harvester Road	Canron Building	30,000	1974	15,000	$20.00	Gross	3,464
3425 Harvester Road	Design Centre	30,000	1979	24,000	$10.00	Net	4,140
3450 Harvester Road	ABB Automation	160,000	2001	45,000	$12.00	Net	45,000
1375 Kerns Road		70,000	1960	35,000		Negotiable	-
880 Laurentian Drive	Marcam Building	52,000	1994	26,000	$19.75	Gross	6,750
3060 Mainway Drive	Mainway Business Centre - 2	30,000	1991	10,000	$10.00	Net	-
4145 North Service Road		62,385	1991	15,952	$14.00	Net	9,213
5063 North Service Road		39,948	1990	19,975	$13.50	Net	8,338
3228 South Service Road	Interchange 1	66,000	1973	32,000	$20.00	Gross	5,551
3350 South Service Road	Harvester Executive Park	46,100	1976	22,000	$18.00	Gross	44,940
3370 South Service Road	Harvester Executive Park	58,427	1977	19,475	$17.00	Gross	2,397
3380 South Service Road		65,000	1988	26,425	$18.50	Gross	11,049
3390 South Service Road	Harvester Executive Park	66,439	1981	22,146	$18.00	Gross	22,909
3410 South Service Road		50,325	1987	16,775	$13.00	Net	9,921
3430 South Service Road		30,689	1989	15,345	$13.00	Net	12,261
5050 South Service Road	Citicorp Leasing Canada Ltd.	66,248	1972	24,648	$11.75	Net	35,584
5230 South Service Road	Harvester Executive Centre	110,653	1978	110,653	$16.00	Gross	3,445
5360 South Service Road		41,200	1979	(blank)	$14.00	Gross	-
1016A Sutton Drive	Sutton Business Centre - Building A	26,276	1991	12,754		Negotiable	26,276
1016B Sutton Drive	Sutton Business Centre - Building B	25,508	1991	12,754	$10.00	Net	-
	TOTAL INVENTORY	**1,433,821 SF**					

Source: Cushman Wakefield Inc.

Greater Toronto Area Office Market

Current Burlington Inventory

Class C Inventory

Address	Property Name	Size	Year Built	Typical Floor	Rental Rate	Lease Type	Total Vacant Space
760 Brant Street	Burlington Square	68,114	1975	34,057		Negotiable	33,361
440 Elizabeth Street	CCAC Building	60,000	1969	7,500	$14.00	Net	3,149
	TOTAL INVENTORY	**128,114 SF**					

Source: Cushman Wakefield Inc.

Greater Toronto Area Office Market

Key Conclusions for the Burlington Office Market

1

The GTA West is well positioned to capture suburban office demand in the foreseeable future. Burlington is however located in a competitive market and developers and potential tenants have numerous alternatives. Overall, the GTA office market has shifted in recent years, with tenants seeking new, LEED certified space. This 'flight to quality' is affecting all communities, including older office complexes in Burlington which feature significant vacancy.

2

Burlington accounts for 2% of GTA inventory and 8% of GTA West inventory but has higher than market average vacancy rates. For any new developments to be successful in this market, owners must recognize and account for the significant competitive pressures from surrounding areas in the GTA West.

3

Burlington offers the lowest rental rates in the GTA West market. Rental rates in Burlington average $17.00 psf which is marginally lower than the GTA West average, suggesting pricing is not necessarily a major factor impacting above-average vacancy rates.

Workplace Transformation

Changing demand for office space

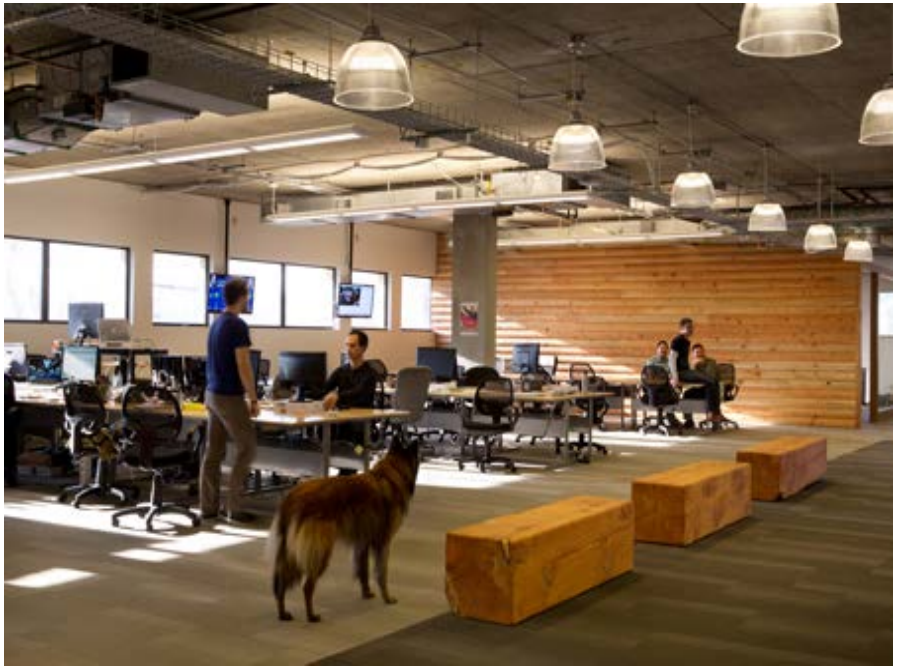
Workplace Transformation

Introduction

The workplace is evolving rapidly as landlords attempt to address the current pressures faced by office occupiers

The office market is constantly evolving and Burlington does face challenges as it faces significant competition from its surrounding neighbors. In order to clearly identify and exploit future opportunities, we have **examined the current pressures on office tenants with a particular focus on growth, location, access to transit and the impact of millennials**. We have also outlined the current thinking with respect to the built environment, both internal and external to the building envelope;

Our findings suggest that the **workplace is rapidly changing and will continue to evolve as the GTA grows.**



Workplace Transformation

Canadian competitiveness & productivity are behind

Productivity
23% less productive than the US and the gap is growing

Technology
Canadian corporate technology investment is just **53% of the US** rate

Competitiveness
Ranked 14th in global economic competitiveness, **down 5 places** from 2009

Real Estate
Costs increase every year yet utilization studies show average office space is **40-60% vacant**

Absenteeism
All-time high of **10** days per year, annual cost of **$16.6 billion** to Canadian economy

Skills Shortage
75% of new jobs are **highly skilled, yet 40%** of Canadian workers lack the necessary abilities

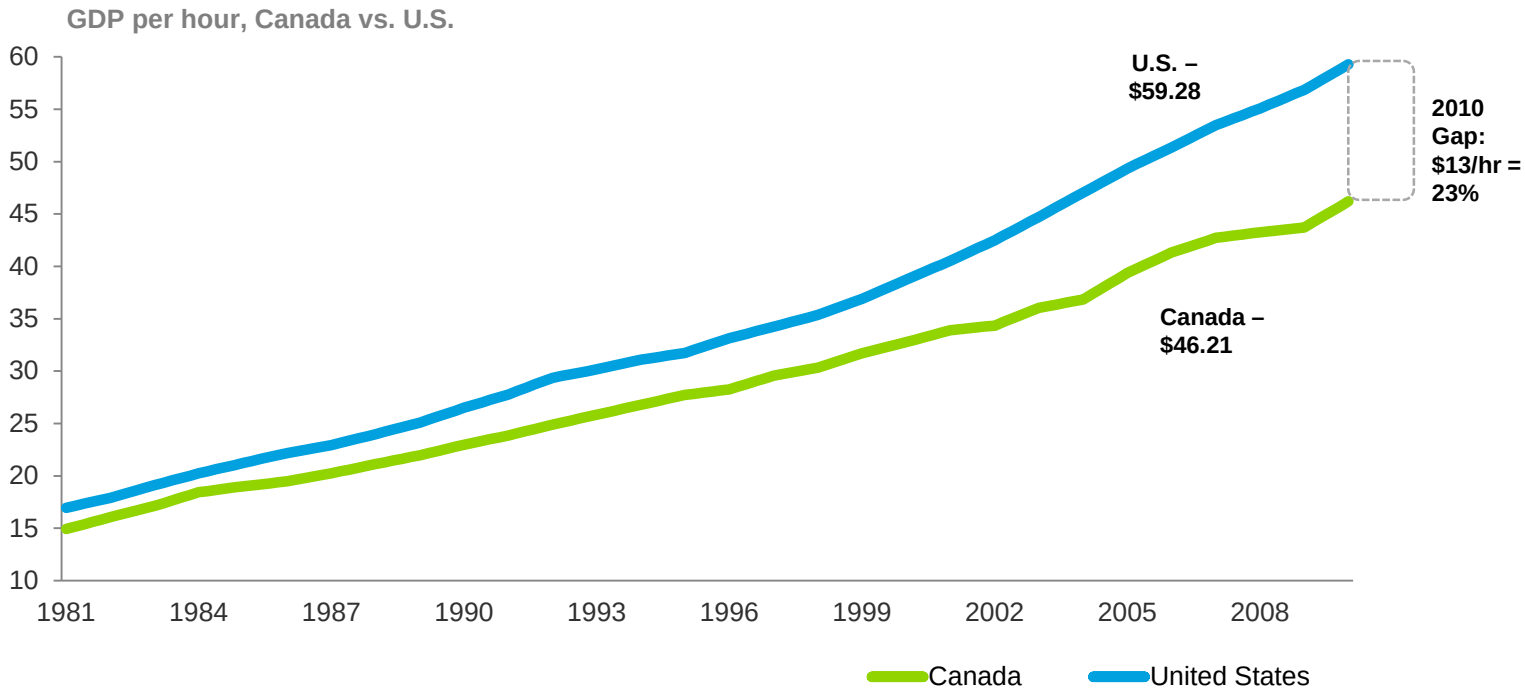
Infrastructure
Infrastructure deficit estimated at **$200 billion**. Traffic congestion alone costs Canadians **$3.1 billion annually**

Commuting Time
An average of **63 minutes round trip** for Canadians

Workplace Transformation

Canada's growing productivity gap relative to the U.S.

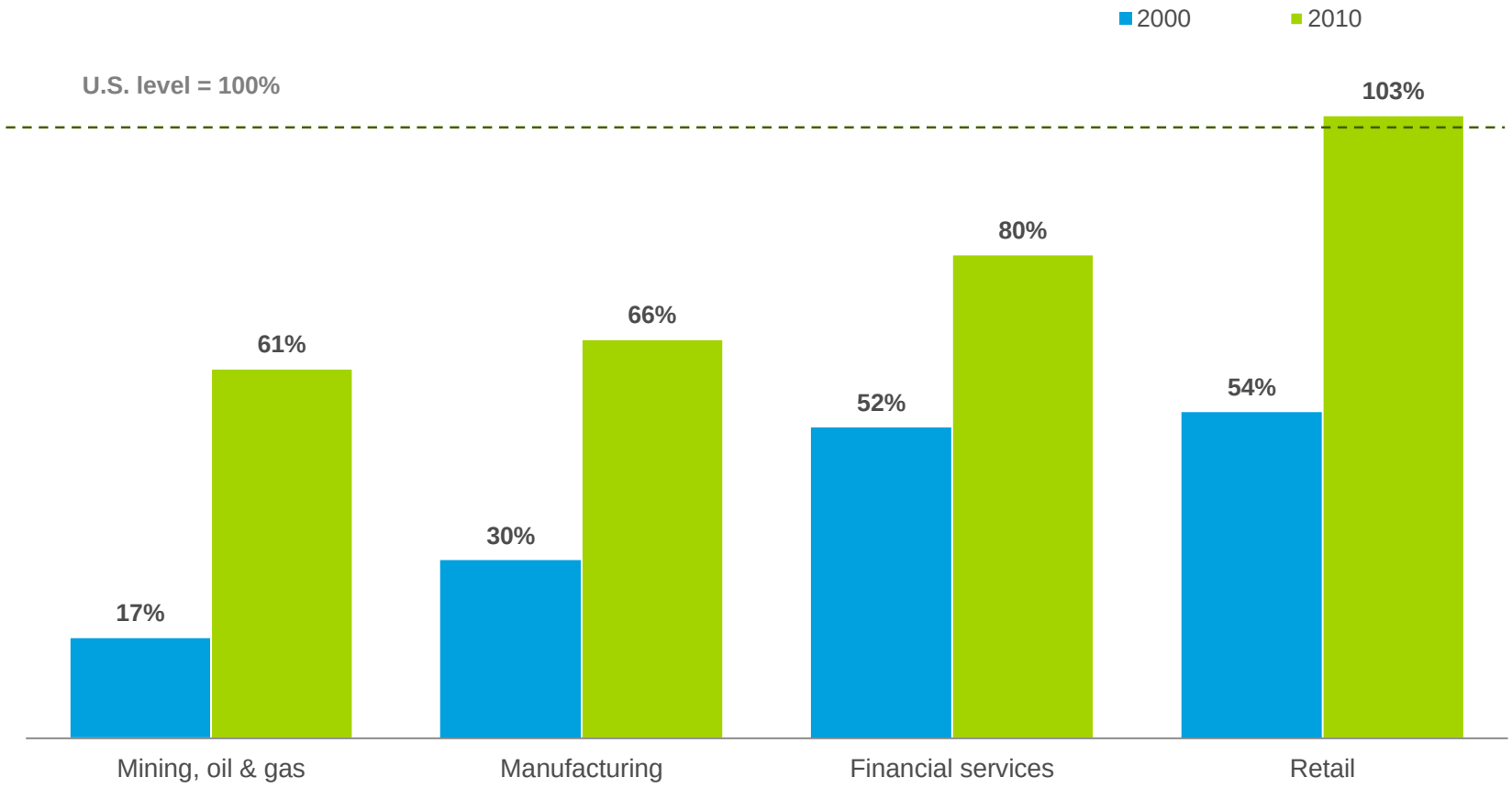
Employment Rate	×	Work Effort	×	Productivity	=	Standard of Living
% of total population that is employed		$\frac{\text{Hours}}{\text{Worker}}$		$\frac{Output}{Hour}$		$\frac{GDP}{Population}$



Workplace Transformation

Canada ICT investment per worker as a % of the U.S.

Industry sectors act as a proxy for commercial real estate



Workplace Transformation

The changing nature of work

Rapid pace of technological growth and evolving needs of millennials have transformed the corporate workplace

Today's office market is characterized by the evolving nature of workplace which has presented challenges for landlord of existing buildings. To fully capture the depth of demand in the office market, BEDC should familiarize itself with workplace transformation trends.

Technological change and **globalization** have been major factors in influencing how developers and space users envision the future of the office market. Technology has altered the way we work, how we work, where we work, and with whom. **As a result, organizations aim** to create an open, flexible work environment, which offers 24-hour connectivity to equip **Generation X and Y to work remotely and from their choice of location to complement their "live-work-play" lifestyle.**

Workplace factors provide insights into the physical requirements of office space. **The changing nature of work is putting pressure on current occupiers not just in recognizing where they would like to locate but also on recalibrating their existing office space to attract and retain talent to the Suburbs and drive productivity.**

Existing landlords in Suburban GTA have recognized the transformation of the workplace and are directing their efforts on:

Provision of more amenities

- Fitness Centres
- Shuttle buses
- Restaurants/Coffee shops
- Healthcare/clinics
- Gymnasiums
- Clubs

Retrofit office facilities

- Landlords have started to retrofit their existing facilities to match those of modern, high quality Class A Downtown properties

Proximity to major corridors

- Majority of suburban tenants prefer to be situated in proximity to a major public transit corridor and be accessible by highways, GO Transit stations, and/or TTC.

Workplace Transformation

Generational shift in the workforce

Differences in values, communication styles and work habits of each generation are becoming increasingly distinct

Workplaces have always had multiple generations working side by side. The modern workplace is no different than those of years past, with Generation Y, Generation X and baby boomers all coexisting in the same office. But as more boomers work past retirement age, and tech-savvy millennials graduate and enter the workforce, the stark differences in values, communication styles and work habits of each generation are becoming increasingly pronounced.

The Multi-generation workplace

Veterans

Work Hard, Be Grateful

Collaborate in offices and conference rooms only; do not like open concept

Comfortable with hierarchy

Boomers

Work, Work, Work

Benefit from collaborative work space

Open but reticent about new technology

Require acoustic privacy

Generation X

Work with flexibility and balance

Adapt well to mobile and diverse work settings with a focus on work/life balance

Like amenities and less formal

Millennials

Work anywhere, anytime and with access

Thrive on lots of visual stimulation

Prefer informal, group-focused settings

Expect high degree of technology

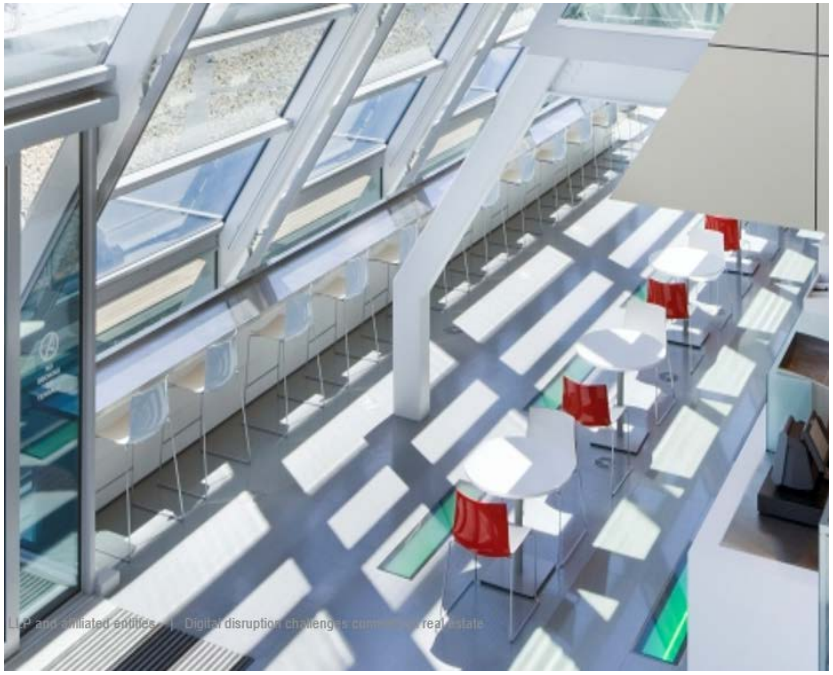
As the typical workplace evolves to keep up with changing technologies and mobile work trends, a consequent shift in cultural expectations has also occurred

Workplace transformation

The physical office space is evolving

The traditional ‘cube farm’ layout is being replace by open, collaborative workspaces

While the external envelope of new office buildings is relatively unchanged, buildings are evolving below the surface, with an **emphasis on more sustainable, energy efficient design**. In addition, Deloitte Real Estate Surveys show that internally, typical office space is some 40-60% vacant, indicating that people do not like/use their current configurations. When studying desirable built typologies for current and proposed structures, the built envelop style has not only evolved but there has been a **shift internally towards flexible, configurable spac**e that offers plenty of natural daylight.



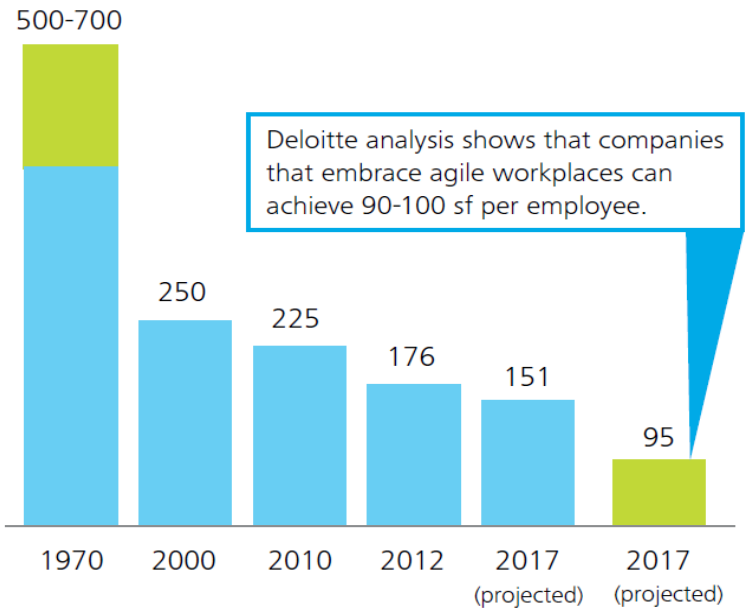
Organizations must abandon the traditional ‘cube farms’ if they want to attract the best talent

Workplace Transformation

Business case for real estate intervention

Organizations that embrace agile & innovative workplaces have a competitive advantage

Average space allotted per employee[11]
in square feet, North America



Source: Deloitte Real Estate Canada surveys, 2015

Valuable resources are redeployed into technology and productivity tools to accelerate growth and productivity for organizations.

Preferences of younger knowledge workers increasingly drive space design and locations. Recruitment & retention is crucial.

By 2025, Gen Y employees (now in their 20s) will grow to represent 75% of the workforce. For this emerging generation, work-life fit is valued more than compensation growth or skill development.

A creative and dynamic work environment is one of the most attractive attributes of a company for banking oriented students. Deloitte 2013 Global Talent in Banking Survey

There is higher demand for dynamically configurable office spaces that can be readily adapted to alternate uses. Interior architecture is focused on “future proofing” space rather than fixed real estate assets and costs.

Agile workplaces reduce space requirements and deliver long term savings

Workplace Transformation

Millennials desire transit connected offices

Public Transit is in high priority to ensure improved linkages and mobility between urban growth centres

Millennials are more likely to stay in a job when they work in agile workplaces located in urban growth centres which are accessible through public transit. As a result, improvement in public transit planning has been a key priority as part of the GGH Growth plan. Part of the improvement is to a create a cohesive transportation plan.

Metrolinx' Big Move will support intensification corridors and provide more accessible transit options to homebuyers and working professionals. The Big Move is the first long-term, regional transportation plan linking six regions and 30 municipalities within the Greater Golden Horseshoe. Policy framework allows for increasing density along existing TTC stations and GO station terminals which continue to operate significantly below optimal density levels.

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The first wave of TTC projects will focus on expanding rapid transit lines. The next wave will further strengthen the network to improve linkages between the other regions of the GTA.

Workplace Transformation

Key Conclusions

1. **Transportation planning is undergoing a seismic shift in many cities** and regions around the world – traffic congestion, economic costs and sustainability concerns are driving a switch from predict-and-provide approach to a more balanced approach integrating land use, infrastructure and behavioral techniques. Office developments within close proximity to transit hubs, such as Union Station, or Suburban GO stations are more in demand than ever, as employers see this as an opportunity to attract employees from a larger pool of talent.

2. Along with access to amenities and proximity to major transportation networks, many young professionals are looking to work in a more sustainable workplace. When studying desirable built typologies for current and proposed structures, the built envelope style has not significantly evolved, but there has been a shift internally towards more energy efficient, flexible, configurable space offering ample of natural daylight. The market still prefers greenfield in comparison to expensive urban form.

3. The physical workplace and how we work is ecosystem-based, with both real estate and technology enabling campus-type work environments that allow innovation, collaboration and cross-pollination between different areas of a business. If Burlington hopes to establish a successful office core, its planning policies must account for the growth and workplace transformation that is currently occurring across the GTA.

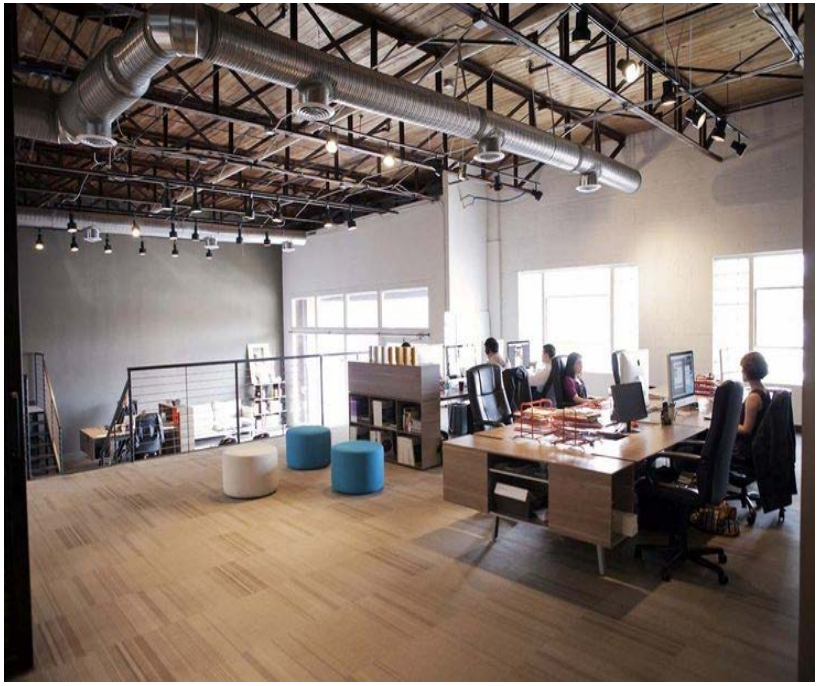
Growth Forecasts

Growth Forecasts

Introduction

GTA population growth has a significant role to play in Burlington's future endeavors

The GTA is the fastest growing major metropolitan area in Canada with **Halton having accounted for more than 5,000 new immigrants in the past 8 years.** In order to account for this dynamic within the analysis, we have evaluated the future growth factors impacting on this area of the market including short and long term market demand projections.



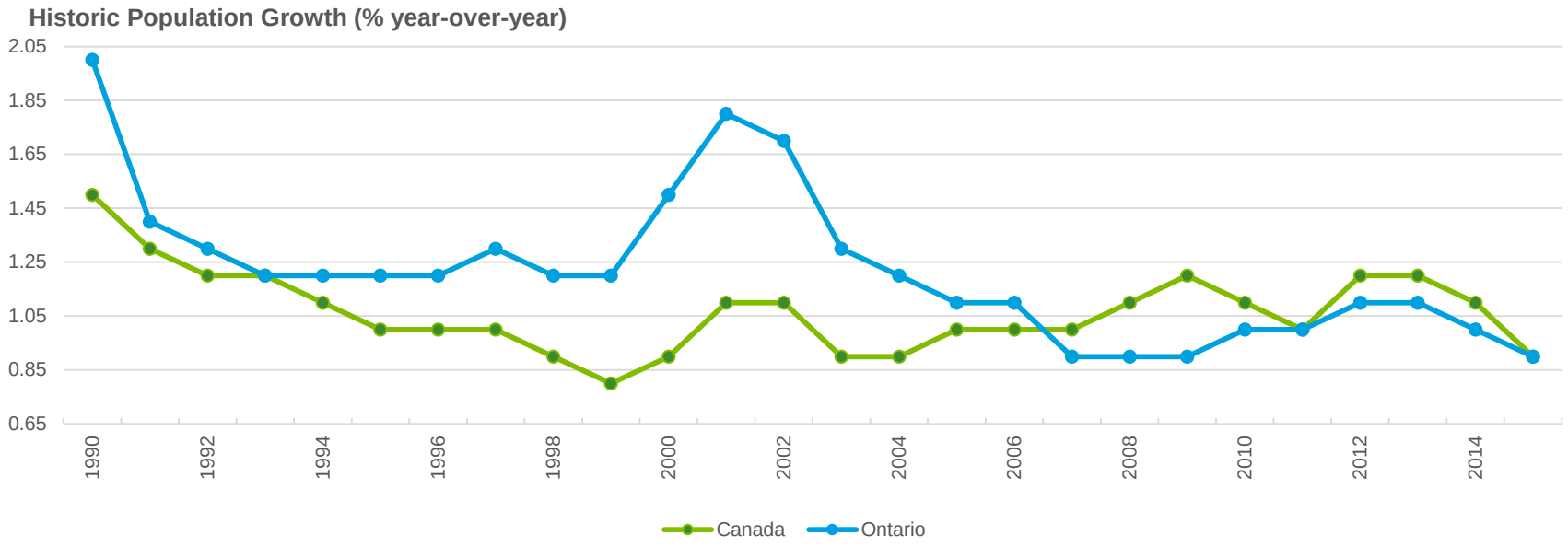
Growth Forecasts

Population & Growth: Canada & Ontario

Strong immigration activity between 2006-2011 led to an increase of population growth after two decades of decline

The rate of population growth in Canada has been moderate over the past two decades with a decline from 1990-2000. Between 2001 and 2006, the rate of growth picked up and grew at an average annual rate of 1.0%, mainly due to strong immigration activity.

Ontario's population growth rates have historically been above the rest of Canada's until the 2007-2008 financial crisis, where it dipped below 1.0% on a year-over-year basis. Since then, population growth rates have converged. Ontario accounts for 38.4% of the national population and net migration is expected to account for 73% of all population growth in the province from 2013-2041 period.



Ontario has traditionally seen higher than average population growth

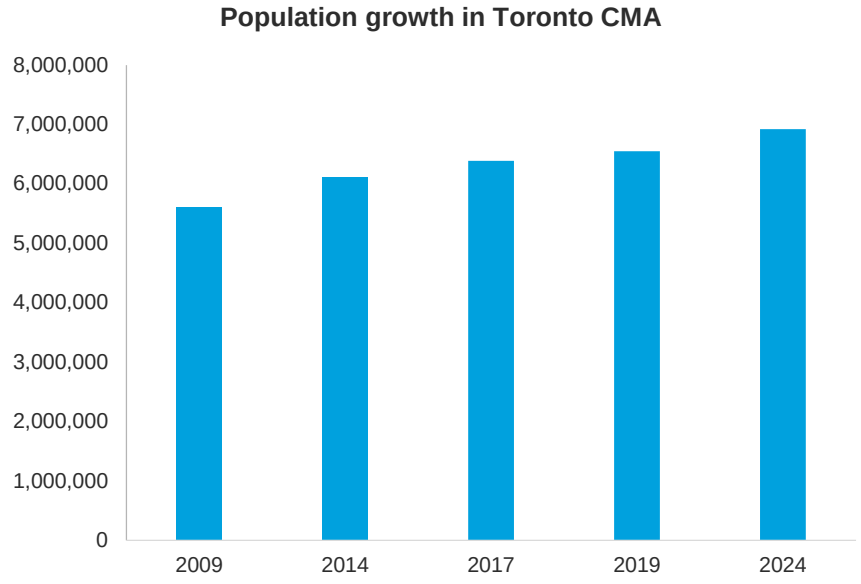
Growth Forecasts

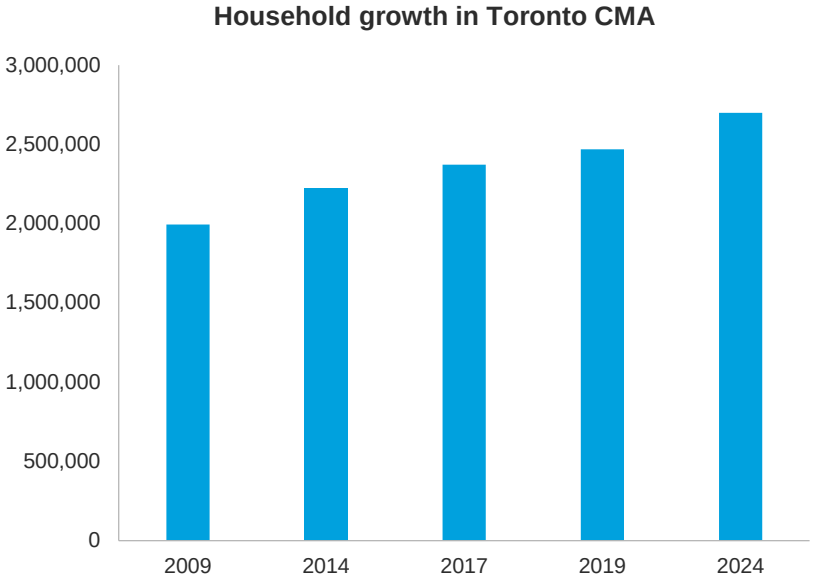
Population & Growth: Toronto CMA

The Toronto CMA – a population of over 6.5M persons but growth is slowing

The Toronto CMA's population was estimated 6,546,773 persons in 2014 and between 2009–2014, Toronto grew by 9.2% or 516,338 persons. **As we look forward the rate of growth is projected to slow, with only 800,000 people expected to move to Toronto over the next 10 years**, with a particular slowdown in 2019–2024 with growth reducing to 1.1%.

The number of households in the GTA seems to be maintaining steady growth. As an example, 2009–2014 saw an 11.4% increase in households and 2014–2019 is expected to see an 11.1% increase in the number of households. That said, researchers are also projecting a 'slow down' in the growth rate as the number of households from 2019–2024 is only expected to increase by 9.2%.





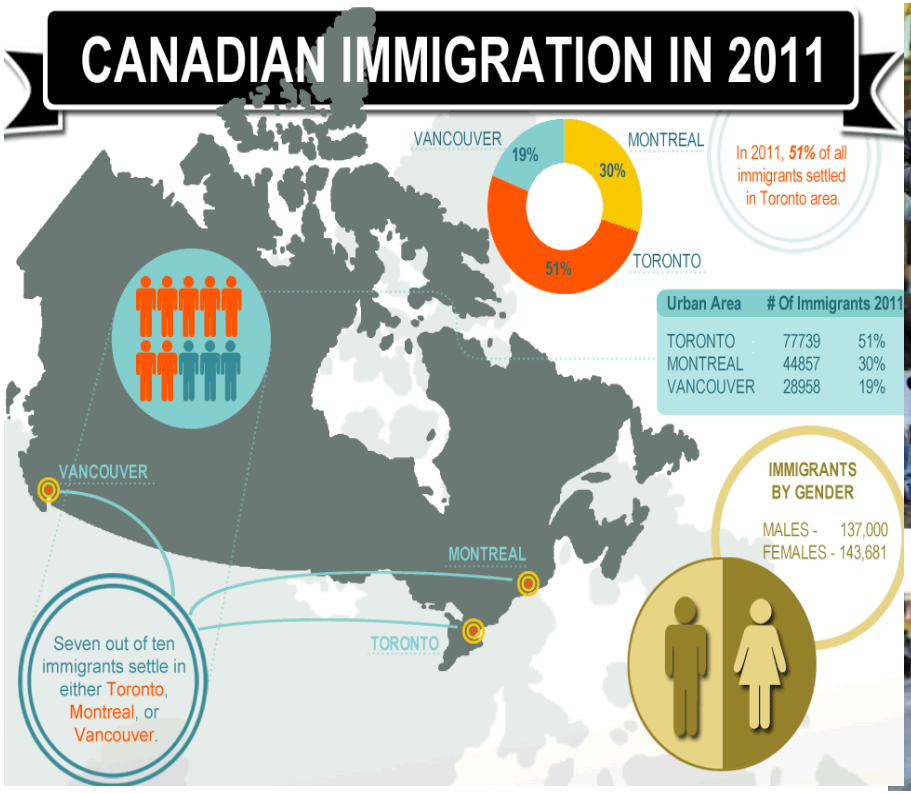
The GTA region has been experiencing slow and steady growth and this is expected to continue

Growth Forecasts

Immigration Demographics

The Greater Toronto and Hamilton Area (GTA) is a national hub for new immigrants into Canada

The GTA is one of the world's most international cities as 50% of population were born outside of Canada. As of 2011, over 163 languages and dialects were spoken in The Greater Toronto and Hamilton Area.



Source: Greater Toronto & Hamilton Marketing Alliance

Growth Forecasts

Immigration patterns

The Greater Toronto and Hamilton Area (GTA) is a national hub for new immigrants into Canada

Majority of net immigrants into the city of Toronto were in the form of millennials, which has contributed to a marked boom in the high-rise condominium market along with an increase in supply for new downtown office space.

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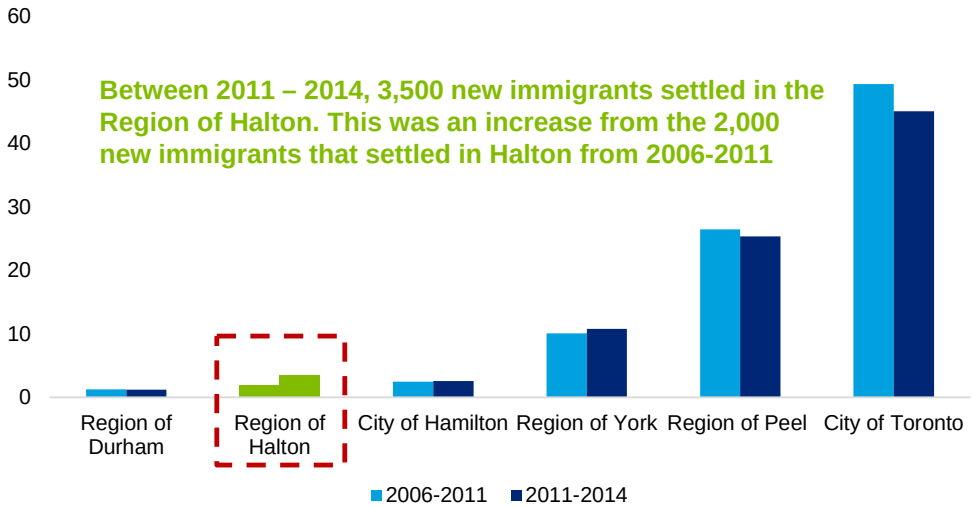
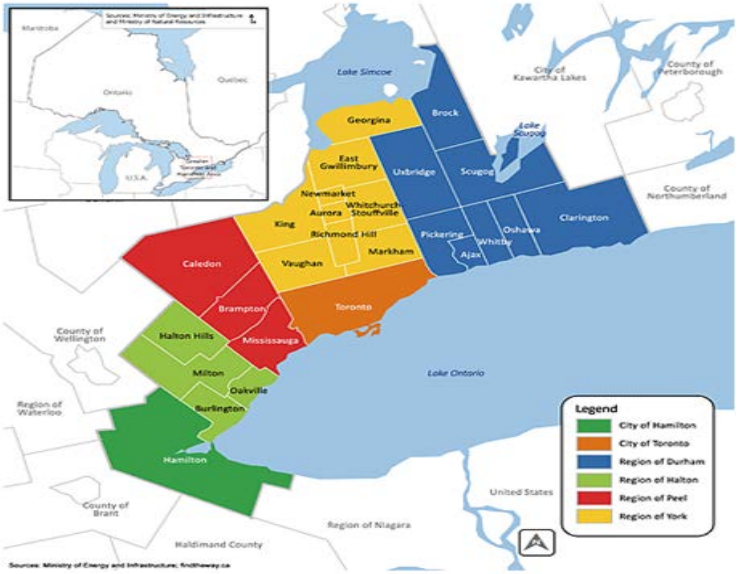
Average Annual Net Immigration to GTA (Persons 000s)



Source: Centre for Urban Research and Land Development forecasts, Nov 2015. **Research scope examines two time periods of 2006-2011 and 2011-2014 based on census data provided by Statistics Canada. Population counts are revised every five years and post-2011 results are preliminary and subject to revision once results of 2016 Census of Canada become available.*



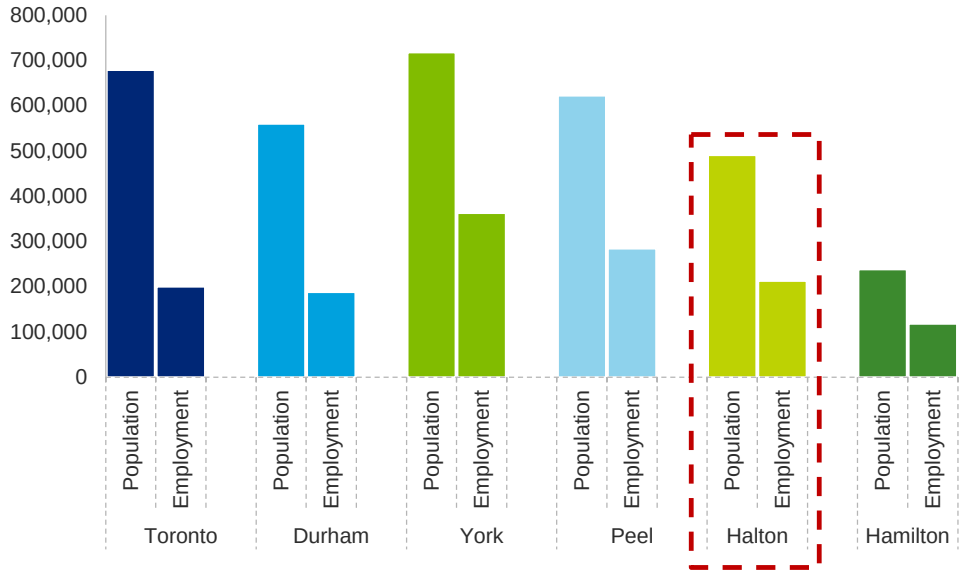
More than half of the Greater Golden Horseshoe (GGH) immigrants locate in the city of Toronto, followed closely by Region of Peel and York regions.

Growth Forecasts

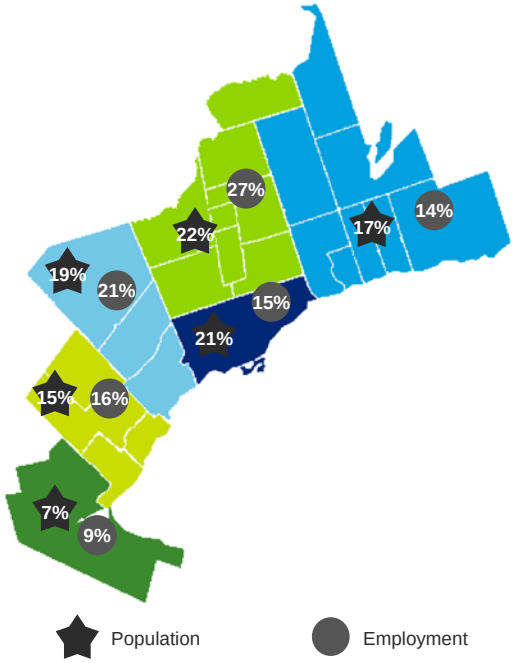
Allocation of Growth: Total Population & Employment

Halton is projected to increase by approximately 500,000 people through 2041

As can be seen below, the GTA metro area is forecast to see strong population growth, however employment is expected to be strongest in the Toronto, York and Peel regions.



Source: Greater Golden Horseshoe Growth Forecasts to 2041, Hemson Consutling Ltd. November 2012



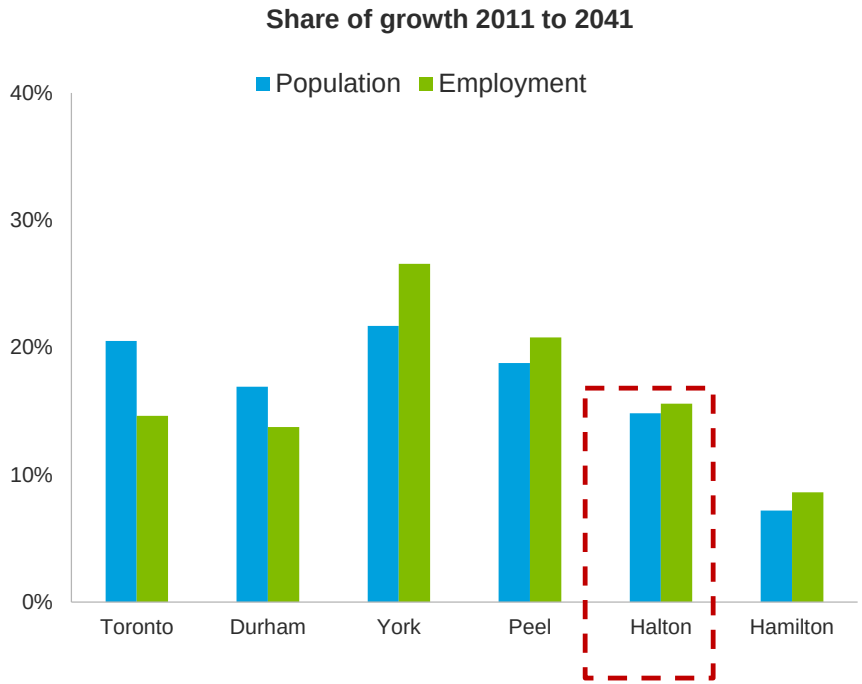
The GTA is expected to see 70 million sf office space and 300–400 million sf industrial space

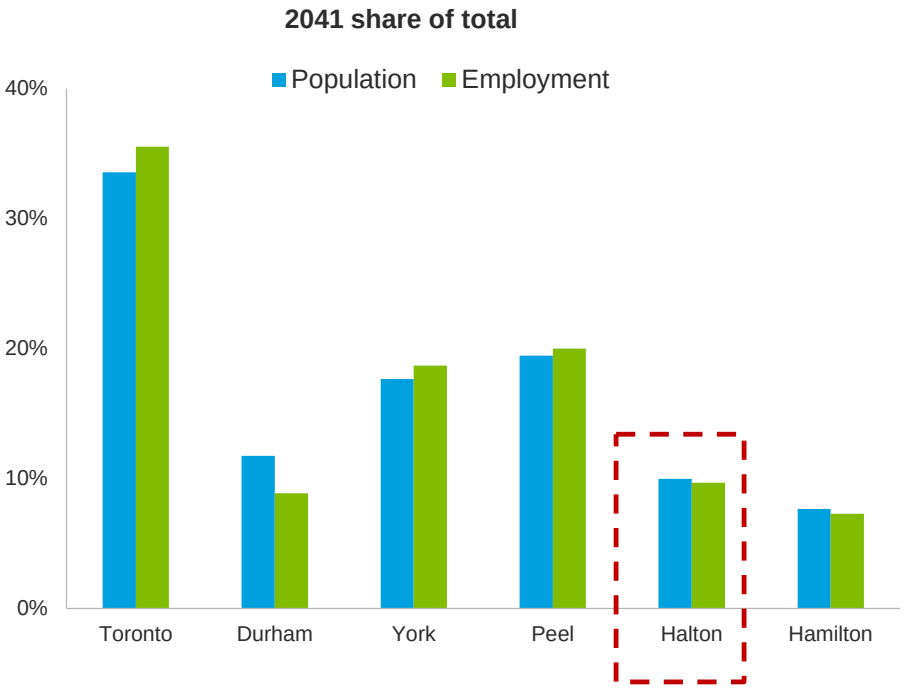
Growth Forecasts

Allocation of Growth: Share by Municipality

Halton is expected to see favorable employment growth through 2041

The GTA continues to experience population growth and this presents excellent opportunities in all areas of real estate. Growth will obviously differ across locations however and is expected to favour the west and north which favors Burlington.





Highest shares of growth will be secured in the York, Peel and Halton Regions while the City of Toronto remains largest concentration within the GTA

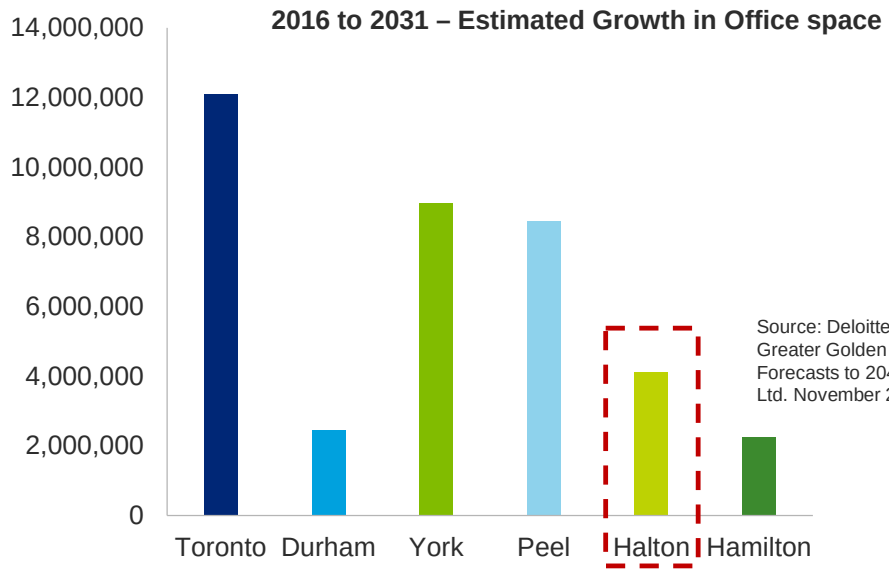
Growth Forecasts

Allocation of Growth: Translated Office Demand

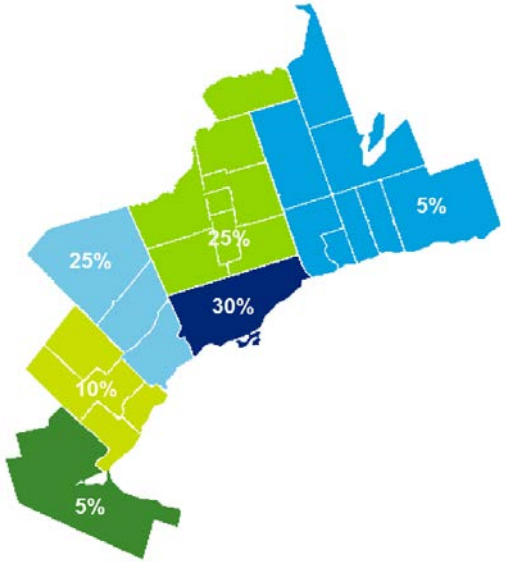
Halton is expected to attain approximately 10% of GTA growth or 4.1 million of office space through 2031

The Province of Ontario has forecast future growth across the GTA with positive growth in population and employment expected to translate into **approximately 40 million sf of additional office space from 2016 to 2031.**

These projections translate into an estimated annual requirement of 2.4m sf of new office space, although this **demand is expected to be tempered further by changing workplace formats and agility** and the resultant reduction in overall space occupancy standards. Furthermore, this forecasted growth will be dominated by the regions of York and Peel with only **258,000 sf of annual demand required within the region of Halton**.



Source: Deloitte Real Estate based on Greater Golden Horseshoe Growth Forecasts to 2041, Hemson Consulting Ltd. November 2012



Source: Deloitte Real Estate based on Greater Golden Horseshoe Growth Forecasts to 2041, Hemson Consulting Ltd. November 2012

Growth projections suggest that Halton will require 258,000 sf of new supply annually

Growth Forecasts

Allocation of Growth: Sensitivity Analysis

A sensitivity analysis has been completed with regional growth and square foot per FTE being manipulated

As previously mentioned, the **office growth outlook for Burlington is prepared within the context of the broader regional office market** over the period of 2011 to 2041. The regional office outlook is based on forecasts provided in the technical background report prepared by Hemson Consulting in 2012, as part of the Provincial Growth Outlook for the Greater Golden Horseshoe. **For the purpose of this analysis we have considered the time period from 2016 to 2031.**

According to this document, major office employment in the region overall (defined as employment in freestanding office buildings greater than 20,000 net sf in size) is forecast to grow by approximately 25,000 jobs over the 2016 to 2031 period. **This accounts for 11% of the total office employment growth forecast for the Greater Toronto Area and Hamilton (GTA).**

In order to estimate the total square footage that could be allocated to Burlington from 2016 to 2031, we have completed a sensitivity analysis based upon two primary factors:

- **Regional employment growth assumptions and**
- **Forecasted square footage per FTE assumptions**.

Key Points

- The base case is based upon a technical background report prepared by Hemson Consulting in 2012, as part of the Provincial Growth Outlook for the Greater Golden Horseshoe.
- The base case analysis assumed that Burlington and Oakville will each receive a 45% share of the Halton regional market based on current inventory metrics. As part of our due diligence, we engaged various market stakeholders and asked for their perspective on Burlington's future prospects. We have discerned that Oakville is likely to prosper in the short-term due to superior location and a larger critical mass. In order to account for this variability, we have subsequently modelled out a scenario where Burlington receives 35% share of Halton's regional market.
- The Hemson forecast report uses a 175 square foot per FTE metric to calculate it's baseline numbers. This is inherent in our analysis unless explicitly mentioned.

The analysis that follows provides a representative range for Burlington's future office space growth

Growth Forecasts

Halton's share of GTA growth ranges from 9% - 13%; Burlington retains 45% share of regional growth

Provincial forecast predicts Halton's share of total employment growth is approximately 11% through 2031.

The sensitivity analysis below shows how Burlington's potential share of regional growth translates into potential demand for new office space: the base case (11%), a low scenario (9%) and a high scenario (13%) while **holding the 175 sf / FTE metric and Burlington's 45% regional growth share constant.**

Scenario 1 – Base Case assuming 11% of all new employment is allocated to the Halton Region

Scenario	GTA	Halton	Burlington
Employment	~220,000 jobs	~24,000 jobs	~11,000 jobs
Square Footage	~38 million sf	~4.1 million sf	~1.9 million sf

- The base case results in approximately **2.0 million sf of office space to Burlington** which equate to 60% of Burlington's current inventory being built over the next 15 years.

Scenario 2 – Low Case assuming 9% of all new employment is allocated to the Halton Region

Scenario	GTA	Halton	Burlington
Employment	~220,000 jobs	~20,000 jobs	~9,000 jobs
Square Footage	~38 million sf	~3.5 million sf	~1.6 million sf

- Potential challenges contributing to this outlook include accommodating offices through intensification of the existing built up area or increased movement to the core and GTA North markets.

Scenario 3 – High Case assuming 13% of all new employment is allocated to the Halton Region

Scenario	GTA	Halton	Burlington
Employment	~220,000 jobs	~28,000 jobs	~13,000 jobs
Square Footage	~38 million sf	~5.0 million sf	~2.2 million sf

- This scenario could occur due to stronger-than-anticipated demand for office development within north Oakville and/or around existing GO transit stations in midtown Oakville, downtown Burlington and at the Waterdown station.
- Given the significant level of current and planned office construction, there is the potential for a longer-term softening in the Toronto office market which could bode well for suburban office markets, including Halton

Approximately 1.6 million sf to 2.2 million sf of office space will be allocated to Burlington

Growth Forecasts

SF per worker ranges between 120 sf / fte – 175 sf / fte; Burlington retains 45% share of regional growth

The transformation of the workplace has the potential to alter Burlington's future office space requirements

The sensitivity analysis below provides a range of square footage for the region: the base case (175 sf / FTE), a low scenario (120 sf / FTE) and a high scenario (150 sf / FTE) while **holding Halton's 11% regional employment growth and Burlington's 45% regional growth share constant**.

Scenario 1 – Base Case assuming square foot per FTE remains constant at 175 sf / FTE

Scenario	GTA	Halton	Burlington
Employment	~220,000 jobs	~24,000 jobs	~11,000 jobs
Square Footage	~38 million sf	~4.1 million sf	~1.9 million sf

- The base case results in approximately 2.0 million sf of office space to Burlington which equate to 60% of Burlington's current inventory being built over the next 15 years.

Scenario 2 – Low Case assuming square foot per FTE is reduced to 120 sf / FTE

Scenario	GTA	Halton	Burlington
Employment	~220,000 jobs	~24,000 jobs	~11,000 jobs
Square Footage	~ 26 million sf	~2.8 million sf	~1.3 million sf

- This scenario is predicated upon the assumption suburban office supply follows trends seen in the downtown in terms SF of space per employee, which has reached levels of sub-100 square foot per FTE in some instances.
- If the rapid pace of workplace transformation continues; occupiers will continue to diminish their office footprint thus making this scenario viable.

Scenario 3 – High Case assuming square foot per FTE is reduced to 150 sf / FTE

Scenario	GTA	Halton	Burlington
Employment	~220,000 jobs	~24,000 jobs	~11,000 jobs
Square Footage	~ 33 million sf	~3.5 million sf	~1.6 million sf

- This scenario is predicated upon the assumption that suburban office supply only sees a modest shift in square foot per FTE metrics.
- Although suburban office is certainly changing and intensifying around transit hubs, it is still a differentiated product from the downtown core offices, which have significantly diminished footprints. While this may be a conservative estimate, it is a possibility that must be considered.

Approximately 1.3 million sf to 1.9 million sf of office space will be allocated to Burlington

Growth Forecasts

Halton's share of GTA growth ranges from 9% - 13%; Burlington only receives 35% share of regional growth

Provincial forecast predicts Halton's share of total employment growth is approximately 11% through 2031.

The sensitivity analysis below provides a range of square footage for the region: the base case (11%), a low scenario (9%) and a high scenario (13%) **while holding the 175 sf / FTE metric but reducing Burlington's regional growth share to 35%.** The revised forecast for Burlington has been derived to account for the market's preference of Oakville in the short-term.

Scenario 1 – Base Case assuming 11% of all new employment is allocated to the Halton Region

Scenario	GTA	Halton	Burlington
Employment	~220,000 jobs	~24,000 jobs	~8,000 jobs
Square Footage	~38 million sf	~4.1 million sf	~1.4 million sf

- The base case results in approximately 1.4 million sf of office space to Burlington, equating to 40% of Burlington's current inventory being built over the next 15 years.

Scenario 2 – Low Case assuming 9% of all new employment is allocated to the Halton Region

Scenario	GTA	Halton	Burlington
Employment	~220,000 jobs	~20,000 jobs	~7,000 jobs
Square Footage	~38 million sf	~3.5 million sf	~1.2 million sf

- This scenario could result from acceleration of new office development in the City of Toronto and other established suburban nodes, with potential challenges including accommodating offices through intensification within the existing built up area or increased movement to the core and GTA North markets

Scenario 3 – High Case assuming 13% of all new employment is allocated to the Halton Region

Scenario	GTA	Halton	Burlington
Employment	~220,000 jobs	~28,000 jobs	~10,000 jobs
Square Footage	~38 million sf	~5.0 million sf	~1.7 million sf

- This scenario could result from stronger-than-anticipated demand for office development within north Oakville and around existing GO transit stations in midtown Oakville, downtown Burlington and in at Waterdown station.
- Given the significant level of current and planned office construction, there is the potential for a longer-term softening in the Toronto office market which could bode well for suburban office markets, including Halton.

Approximately 1.2 million sf to 1.7 million sf of office space will be allocated to Burlington

Growth Forecasts

SF per worker ranges between 120 sf / fte – 175 sf / fte; Burlington only receives 35% share of regional growth

The transformation of the workplace has the potential to alter Burlington's future office space requirements

The sensitivity analysis below provides a range of square footage for the region: the base case (175 sf / FTE), a low scenario (120 sf / FTE) and a high scenario (150 sf / FTE) while **holding Halton's 11% regional employment growth constant but reducing Burlington's regional growth share to 35%.** The revised forecast for Burlington has been derived to account for the market's preference of Oakville in the short-term.

Scenario 1 – Base Case assuming square foot per FTE remains constant at 175 sf / FTE

Scenario	GTA	Halton	Burlington
Employment	~220,000 jobs	~24,000 jobs	~8,000 jobs
Square Footage	~38 million sf	~4.1 million sf	~1.4 million sf

- The base case results in approximately 1.4 million sf of office space to Burlington equating to 40% of Burlington's current inventory being built over the next 15 years

Scenario 2 – Low Case assuming square foot per FTE is reduced to 120 sf / FTE

Scenario	GTA	Halton	Burlington
Employment	~220,000 jobs	~24,000 jobs	~8,000 jobs
Square Footage	~ 26 million sf	~2.8 million sf	~1.0 million sf

- This scenario is predicated upon the assumption that suburban office supply follows the example of downtown supply, which has reached occupier metrics of sub-100 square foot per FTE in some instances.
- If the rapid pace of workplace transformation continues to occur; occupiers will continue to diminish their office footprint thus making this scenario viable.

Scenario 3 – High Case assuming square foot per FTE is reduced to 150 sf / FTE

Scenario	GTA	Halton	Burlington
Employment	~220,000 jobs	~24,000 jobs	~8,000 jobs
Square Footage	~ 33 million sf	~3.5 million sf	~1.2 million sf

- This scenario is predicated upon the assumption that suburban office supply only sees a modest shift in square foot per FTE metrics. Although suburban office is certainly changing and intensifying around transit hubs, it is still a differentiated product from the downtown core offices which have significantly diminished footprints. While this may be a conservative estimate, it is a possibility that must be considered.

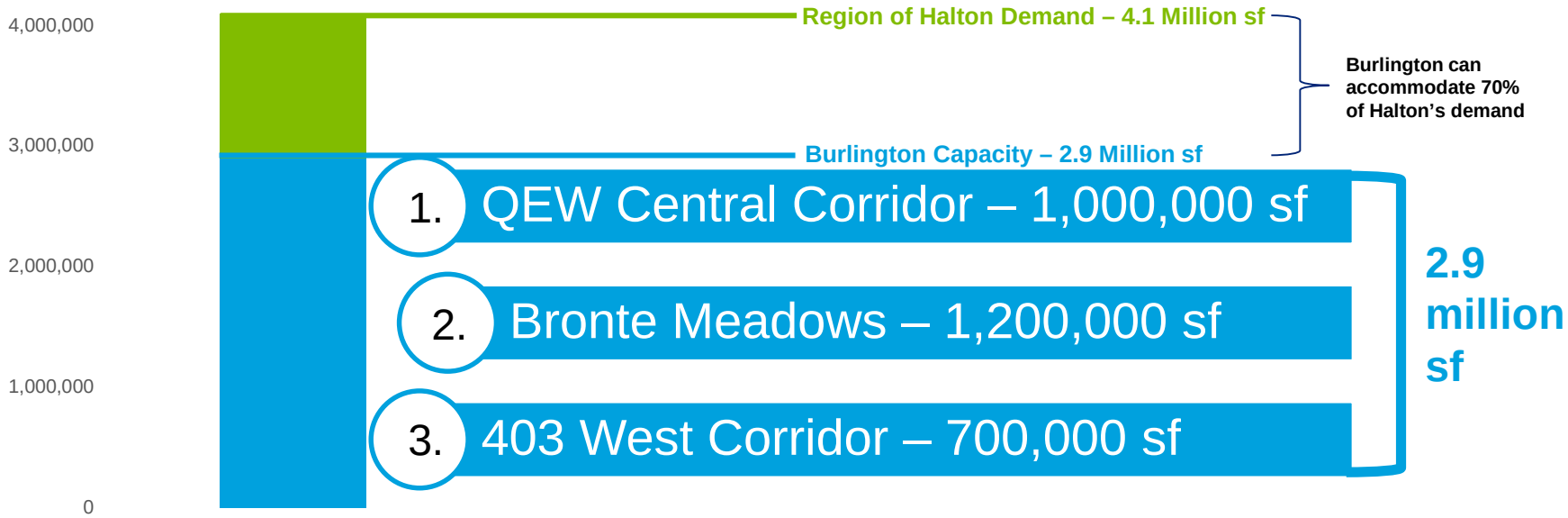
Approximately 1.0 million sf to 1.4 million sf of office space will be allocated to Burlington

Growth Forecasts

Burlington has excess development capacity

Burlington has capacity for 2.9M sf of office space to 2031 which satisfies 70% of occupational demand for Halton

The provincial forecasts indicates **Halton is expected to see an additional 4.1 Million sf of supply by 2031**. A review of BEDC's employment lands suggests three primary areas of focus: The QEW Central Corridor, Bronte Meadows and the 403 West Corridor. The analysis revealed these three areas have potential capacity for an **additional 2.9 Million sf through 2031**. This volume of developable area would account **for 70% of the anticipated demand for the entire Halton region.** Assuming Burlington retains 45% or 1.85 million sf of Halton's 4.1 million sf share, the 2.9 million sf of development capacity would be **160% of the forecasted demand for the city.** At the revised 35% figure, Burlington would be forecasted to receive 1.45 million sf which would result in a development capacity of **200% when compared to the forecasted demand for the city.**



Burlington has sufficient employment land capacity to satisfy a significant portion of Halton's forecasted demand

Growth Forecasts

Key Conclusions

1. Burlington's office market growth outlook is based on regional employment forecasts. The Region of Halton is expected to grow by approximately 500,000 people through 2041. **Halton region is expected to capture 4.1 million sf of office space through 2031.** For the purpose of the sensitivity analysis, the time period considered is 2016-2031, and is based upon regional employment growth assumptions and forecasted FTE assumptions.

2. Assuming Burlington does retain 45% of Halton regional share, Burlington could see office growth **between 1.3 – 2.2 million sf.** However, market stakeholders have suggested Oakville is better positioned to capture more of Halton's regional demand moving forward. Assuming Burlington only receives 35% of Halton's regional share, **Burlington could see office growth between 1.0 – 1.7 million sf**.

3. A review of BEDC's employment lands suggest an additional 2.9 million sf of capacity through 2031. Based on the demand forecasts of 1.0 - 2.2 million sf of office space, Burlington is expected to have excess employment land capacity. The surplus land will be concentrated in the QEW corridor, Bronte Meadows and the 403 West corridor.

Planning Policy & Incentive Programming

Planning Policy & Incentive Programming

Introduction

Planning policy and financial incentives have a significant role to play in Burlington's future endeavors

The topic of land use policy and its impact on development and growth is often debated among all key stakeholders. In order to account for this dynamic within the analysis, we have worked to identify both provincial and municipal planning policy frameworks and the viability of existing incentive programming.

In particular, we look at current development economics and whether development within more urban locations requiring higher intensification of use are viable without financial incentives to level the 'playing field'.

Planning Policy

Planning Policy & Incentive Programming

Urban Growth Plan

The Growth Plan's Urban Growth Centres are intended for higher-density development

One of the **primary objectives of the Province's Growth Plan** for the Greater Golden Horseshoe is to shift the pattern of development away from the traditional suburban form to more **compact, mixed-use, urban-type forms**. Accordingly, there is a desire to develop for high-density employment and residential uses under the following parameters:

- Provide a focal area for investment in major institutional and region-wide public services, as well as commercial, recreational, cultural, and entertainment uses;
- Achieve very high densities of residents and jobs combined per hectare by 2031 or earlier;
- Accommodate and support major transit infrastructure;
- Serve as high density major employment centre capable of attracting provincially, nationally, or internationally significant employment uses.
- Accommodate a significant share of population and employment growth;

There is an inherent link between the Growth Plan's objectives and the prevalence of public transit and infrastructure. Ideally, the Urban Growth Centre's (UGC's) would represent development opportunities within a high-order, transit-supported intensification node.



The Growth Plan attempts to shift the current pattern of suburban office development with surface parking to a denser urban setting, with the associated increased costs that result from requirements for structured or underground parking.

Planning Policy & Incentive Programming

Competing realities: Suburban greenfield vs. UGC office locations

The cost to develop a UGC office must be reduced or market rents must rise if these projects are to become feasible

The **characteristics of a premiere suburban office building located within an urban growth centre differ significantly from the traditional suburban office**. A suburban office space's main competitive advantage is a greater amount of space and more parking options. Intensified spaces, however, require structured (underground) parking.

The **income characteristics for suburban offices are not particularly supportive of structured or underground parking** – downtown office developments attract much higher rents which offset the higher cost for this requirement – however **unfortunately when developing within a UGC that is already largely developed, this is often the requirement**.

With construction costs fixed, unless higher rents can be achieved this route becomes problematic, particularly in areas that may be viewed as somewhat secondary to office occupiers. In addition, **there are still established suburban office nodes that still possess capacity to accommodate highway-friendly new development**.

Ultimately, unless steps are taken **to level the 'playing field' between the UGCs and typical greenfield development**, the potential for achieving Provincial objectives for high density employment in these locations is limited. The cost to develop a UGC office can be substantial due to parking requirements and hence financial incentives will typically need to be provided to incentivize new development.

While UGCs are priority areas for high-density population and employment growth; current development economics strongly favor lower density greenfield locations, with superior highway access and surface parking except in a handful of locations.

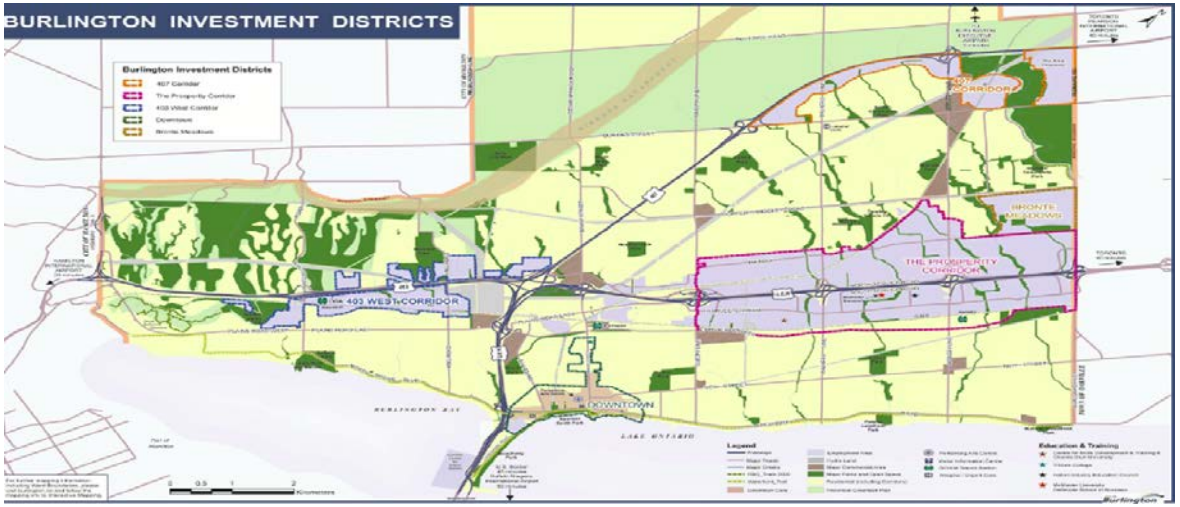
Planning Policy & Incentive Programming

Accommodating future growth in employment

The City's planning framework has been to encourage developments within existing designated employment areas

The City of Burlington's is expecting its population to reach 182,000 people over the next five years, of which 108,000 will be employed. Growth rates for both population and employment exceeds national rates and this will need to be accommodated by expansion within the Burlington borders. With the natural restriction of Lake Ontario to the south and Conservation Greenbelt to the north, **Burlington's downtown is constrained and is largely built out,** meaning supply of lands for employment purposes is limited in this location.

Major office buildings (buildings greater than 20,000 square feet) will play an increasingly important role in meeting employment needs over the period to 2031 in the HTAH, although if Burlington focuses on local start-up businesses – who will naturally have smaller requirements – this may not be the case for the City. The City's planning framework has sought to encourage office developments within the existing designated employment areas – **QEW Central Corridor, Bronte Meadows and 403 West Corridor - as well as in Urban Growth Centres within the downtown region and Mobility Hubs serviced by transit.**



Source: City of Burlington Official Plan

Planning Policy & Incentive Programming

QEW Central Corridor

The existing stock of space in the QEW Central Corridor has the potential for redevelopment and intensification.

What is it? The QEW Central Corridor extends from Guelph Line to Burloak and from Mainway to the Go Transit Line. It is home to a number of office, industrial and light industrial multiple tenant developments. Currently, there are four office developments along the corridor.

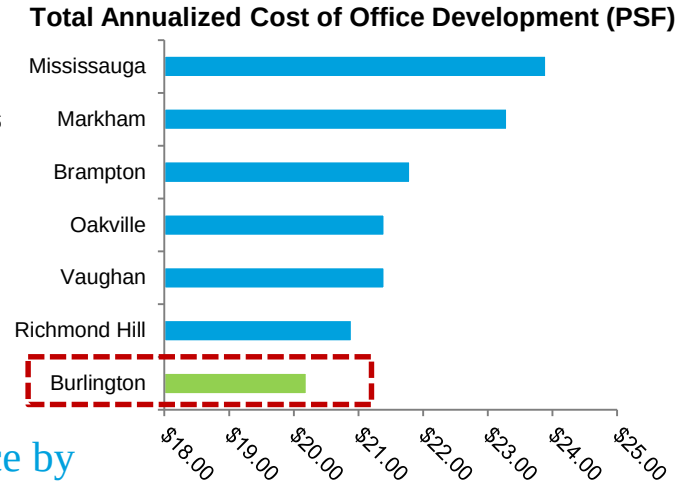
How is it currently being used? Much of the existing office inventory consists of mid-rise office buildings sprawled throughout. This presents an opportunity for creative re-development solutions for what is seen as underutilized lands through intensification to increase overall density.

How would the City like to see it being used? : According to the Employment Lands Operational Plan – Confidential Appendix, BEDC has identified parcels of employment land, totaling 57 hectares, having development and/or intensification opportunities. When developed these lands have the potential to produce approximately 231,000 square meters of built space of which 42% includes office space by 2031.

Advantages:

- Exposure and visibility is high off a major 400 series highway
- Proven success of Oakville and Mississauga office nodes along QEW
- Within close proximity to residential areas that could cut travel time of some employees

Source: BEDC Employment Lands Appendix



Overall goal is to increase number of jobs within existing space by converting developments into higher density sites. Future potential congestion will require further infrastructure to be developed.

Planning Policy & Incentive Programming

Bronte Meadows

Bronte Meadows largely made up of vacant land located within close proximity to residential developments.

What is it? The Bronte Meadows area extends from Burloak Drive to Creek Way and is bordered between Upper Middle Road and Mainway.

How is it currently being used? Bronte Meadows is made up of 2 parcels, one of which is currently under consideration to be transitioned into residential use and **the second making up 24% of the total available employment land inventory in Burlington**. Much of this area is made up of greenfield sites and a provincial park with some residential developments scattered throughout.

How would the City like to see it being used? According to the Employment Lands Operational Plan – Confidential Appendix, the amount of vacant land allows for development not found in many other parts of the city. As with all greenfield sites, the land requires servicing and infrastructure. The city would like to see flex and multi-use industrial/office space being developed

Advantages:

- Exposure and visibility is high off a major 400 series highway
- Proximity to U.S. and border cities
- Potential for larger lot sizes

Source: BEDC Employment Lands Appendix

Bronte Meadows is likely better suited for flex office or industrial development as opposed traditional suburban Class A offices

Planning Policy & Incentive Programming

403 West Corridor

The 403 West Corridor consists of vacant lands that are partially serviced and served by transit options

What is it? The 403 West Corridor extends from Waterdown Road/Howard Road to Brant Street and from the CN Rail tracks to the North Service Road. The area has recently undergone infrastructure investment in the form of the completion of the 403/Waterdown interchange in 2010 as well as the construction of the King Road/CN Rail underpass currently underway.

How is it currently being used? As with Bronte Meadows, 403 West Corridor is also largely made up of undeveloped land but offers better infrastructure through its access to the Aldershot GO station. A strong advantage lies in the fact that the Lands are already partially serviced with further work required.

How would the City like to see it being used? According to the Employment Lands Operational Plan – Confidential Appendix, the City of Burlington would like to see 6 office buildings be developed with the remaining employment space dedicated to retail, and light industrial/business service development.

Advantages:

- Exposure and visibility is high off a major 400 series highway
- Good accessibility and limited congestion
- Strong public transit, including the Lakeshore GO Line, Via Rail, public transit routes, etc.

Source: BEDC Employment Lands Appendix

Mobility Hub

Areas centered around major transit sites that present high residential and employment development potential. The City of Burlington is serviced by three GO train stations – Aldershot, Burlington and Appleby. These areas are also within close proximity of the QEW. Downtown Burlington also benefits from this transit access.

This employment corridor features two GO train stations – Appleby & Burlington - that allows commuters from all over GTA easy access and makes it an attractive office location.

Incentive Programming

Planning Policy & Incentive Programming

Introduction

Municipalities are considering innovative planning and development financing tools to facilitate development

The benefits to creating a new UGC's are well documented; however, the economics of such projects make them extremely complicated. Yet governments remain committed in their attempts to stimulate economic development and urban renewal. **Municipalities are increasingly considering and turning to innovative planning and development financing tools and techniques** that are designed to encourage the private sector to participate in **economic development and renewal activities**.

A number of municipalities offer significant **financial assistance in the form of grants or loans**, provide financial incentives through the **waiving of fees and charges, or provide indirect incentives through more flexible planning, parking and zoning requirements**. Some of these programs are permanent, while others are available for a limited time to establish a critical mass of development in the affected area, after which they are discontinued

There are a number of direct and indirect financial tools available to incentivize developers

Planning Policy & Incentive Programming

Jurisdictional scan

A number of jurisdictions have implemented programs to attract investment and development

The infographic below outlines the main type of incentives used, their key benefits and the municipalities who have adopted such policies.

Incentive Type	Benefits	Select municipalities
Reduced Development Charges	• Makes proposals more affordable to developer; • Provides a financial incentive to developers to achieve municipal and regional strategic development objectives	The City of Barrie, Hamilton, City of Pickering, Brantford, Brampton Flower City, The City of Windsor
Exemption from Building Permit and Other Application Costs	• Partial or complete waiving of application fees provides additional financial relief for developers as these fees, depending on what is required on site, can be substantial	The City of Barrie, Kitchener, The City of Windsor
Tax Increment Grant Programs	• No upfront reduction in costs, but reduction in taxes continues for between 5 and 10 years; • Could provide some relief to the developer by advertising for lower property taxes	The City of Barrie, Toronto, Kingston, City of Guelph
Parkland Dedication Reductions	• Provide a reduction or exemption to the required parkland dedication rate for specific area or use.	Toronto
Policy and Process Incentives	• Expedite the application and approvals process; • Potential to pre-zone and designate lands for a specific development which would save time and money for developers;	The City of Barrie, Brampton Flower City, Gananoque

Financial incentives are not an uncommon practice within the GTA

Planning Policy & Incentive Programming

Implications for future

The financial incentives that are ultimately implemented must be tailored towards the issues that face Burlington

There are several compelling reasons to take proactive steps to narrow the cost gap and incentivize developers to develop in Burlington. If financial constraints imposed on developers cannot be overcome, **growth will direct itself to more competitive locations** with lower development costs.

Specifically, many other communities will be competing for the same finite pool of high-density development and have established policies to incentivize office development. **Burlington would be best served to move aggressively to attract new development, implement the vision and ensure that future economic opportunities are captured**.

It is our understanding that Burlington Economic Development Corporation (BEDC) has been asked to review and assessment of potential Community Improvement Plan (CIP) Incentives for the City of Burlington. As mentioned within the report itself, it is imperative that whatever incentives are implemented **must be tailored towards the issues that face Burlington** while aiming to provide economic growth and the ability to create and retain talent which will **lead to increase development** and a more robust business community.

No potential alternatives, whether exemption from building permits and other application costs or tax increment grant programs, should be eliminated without consideration. The primary focus of incentives should be from an office construction point of view but BEDC may want to consider incentives for renovation and rehabilitation.

If the financial constraints imposed on developers cannot be overcome, growth will occur in more competitive locations which are ‘development friendly’

Planning Policy

Key Conclusions

1

Urban growth centres represent development opportunities, particularly within a high-order transit-supported intensification node. However urban growth centre offices are difficult to justify from a financial feasibility perspective. This is because developments in these locations often require structured parking, which is often uneconomical given the lower rents that are typically achieved in the suburban markets.

2

The City of Burlington's planning framework encourages office developments within existing designated employment areas – QEW Central Corridor, Bronte Meadows, and 403 West Corridor. The existing stock of space in QEW has potential for redevelopment and intensification; Bronte meadows is largely made up of vacant land; and 403 corridor consists of partially serviced vacant land with two GO stations – Appleby and Burlington.

3

Municipalities offer a range of direct and indirect financial tools to incentivize development in the form of reduction of fees and charges or flexible planning, parking and zoning requirements. In Burlington's case, the financial incentives that are ultimately used must be tailored towards the goals and mandates of Burlington to provide economic growth and improve retention of talent.

Conclusions

Conclusions

Overall Assessment

There are a number of internal and external factors which will affect Burlington's office market going forward

An analysis of the office markets both at the GTA level and with Burlington in context, along with growth forecasts and planning policy programs **suggest there are opportunities for office development in Burlington**, but both internal and external competing factors and risks need to be considered.

Significant factors that must be taken into consideration

- Focus on local occupiers
- Oakville poses a long-term challenge to Burlington
- The economics of developing a UGC are problematic
- Current workplace transformation trends will alter the demand for office space
- Repatriation of jobs to downtown

Broker soundings indicated local occupiers, not international or institutional tenants, are focused upon Burlington. **Generally speaking, Oakville's location and critical mass is preferred, with development occurring in close proximity to the GO station**, with new inventory generally of a higher standard in Oakville. Ultimately, Burlington is a local hub likely to attract smaller, flex users who do not require large space requirements.

The above factors must be taken into consideration as Burlington develops its office strategy

Conclusions

Burlington faces significant competition from Oakville

Burlington itself is currently a preferred location for local parties as opposed to international occupiers

Burlington possesses a highly educated and skilled workforce, which provides a tangible competitive advantage when trying to attract and retain employers. However, Burlington is located in the GTA West, **the most competitive suburban office market in the Greater Toronto and Hamilton area**.

While activity in the Burloak corridor is seeing increased activity, our conversations with various market stakeholders indicates that Oakville possesses a competitive advantage when compared to Burlington. **Oakville's location and established critical mass** is attracting new development into the city which should be a cause for concern. The development occurring in North Oakville, while a longer-term threat, is an exacerbation of the existing problem that Burlington faces; **Oakville is preferred by the international and institutional occupiers and that is unlikely to change in the short or medium-term**.

Burlington itself is currently a preferred location for local occupiers and lends itself to development as a regional hub for smaller users who desire office space that is different from traditional institutional uses. Ultimately, The BEDC and Burlington stakeholders must find creative measures to attract and retain developers and tenants as there is a significant competition in the marketplace.

The BEDC and Burlington stakeholders must identify and implement creative measures to attract and retain occupiers who would otherwise be drawn to a competing node

Conclusions

Market will favor traditional greenfield development

QEW Corridor and the 403 West Corridor represent traditional greenfield development locations

Historically, the majority of new major office buildings outside of the City of Toronto have been accommodated in **business park environments featuring superior 400 series highway access or GO train access in some instances**. The most successful suburban office nodes, such as those in Mississauga, prospered due to their proximity to **major arterial highways, high visibility and branding for large office users**, proximity to employee populations and large areas of surface parking to satisfy to tenant requirements for high parking ratios.

The 2.9 million sf of supply has been identified for Burlington following this traditional narrative with an emphasis placed on suburban business parks and campus environments. **If the market is left to act freely, the QEW and 403 West corridors are likely to see lower density, greenfield development due to lower construction costs,** however this is at odds with the Province's growth plan which promotes UGC's and further intensification. Bronte Meadows is better suited for flex office or industrial development as most Class A office employers desire highway signage with easy access to neighborhoods and highways.

If the market is left to act freely, Burlington is likely to see lower density, greenfield development

Conclusions

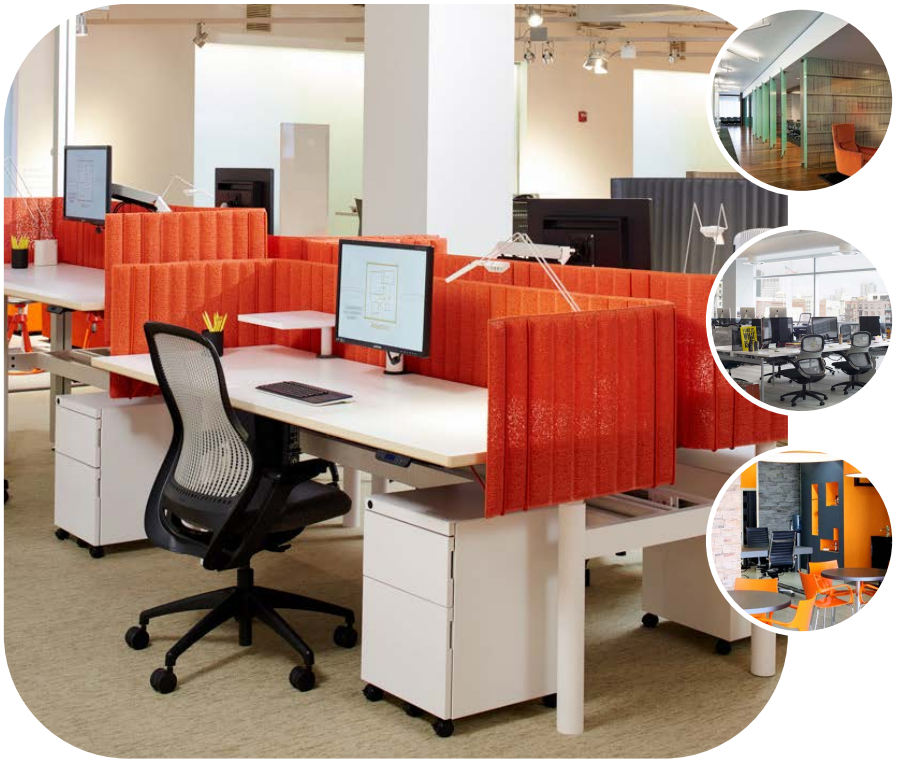
Workplace transformation will affect potential growth

Open concept and collaborative environments are steadily becoming the norm for new office developments

The demand for office use is changing increasingly as companies choose to offer teleworking and agile work environments – **ultimately resulting in less space per worker and reduced demand**. Furthermore, there has been a shift internally towards flexible, configurable space that offers plenty of natural daylight.

In the face of this evolution, **developers are reconsidering those traditional norms which dictated office construction in the past**. **Tenants and developers are demanding new office spaces that allow for more open space and collaborative environments**.

Many of the new developments in competing nodes, such as Oakville, are currently being constructed in such a manner. If Burlington hopes to establish a successful office core, **its policies must account for the growth and workplace transformation that is currently occurring across the GTA**. Burlington must be cognizant of this transformation and embrace it's potential moving forward.



Collaboration

Natural Light

Creativity

Burlington must encourage and embrace the workplace transformation and it's built-form in order to attract developers and tenants

Conclusions

Burlington needs to leverage its role as a regional hub in the marketplace

Burlington must embrace its status as a regional hub and subsequently create a strong brand to guide future attraction and retention

As previously mentioned, **Burlington is a regional hub that is a preferred location for local users** (while Oakville is a target for larger international and institutional entities). This dynamic is unlikely to the change in the short or medium-term as Oakville will always be closer to Downtown Toronto, Pearson International Airport and other established infrastructure. **Ultimately, The BEDC and Burlington stakeholders must find embrace their role as a regional hub and implement creative measures to attract and retain tenants who are more likely to invest and stay in Burlington**.

Policy Framework

The city must take a leadership role throughout the development process. Whether this is through the use **of financial incentives** to attract development or facilitating **expedited planning approvals** (while still maintaining **w**hat the municipality was envisioning), the city should strive to make Burlington attractive and investment ready for developers and occupiers alike.

Focus on Amenities & Transport

The advent of the millennial generation has ushered in new live, work, play choices. A focus on the drivers for millennials (amenities, urban lifestyle, proximity to transit) will help the creation of a successful office node. There remains an appetite for mixed-use projects that follow workplace transformation trends; an embrace of this new standard will help to attract more tenants and developers alike.

Stakeholder Engagement

As the BEDC further refines its office strategy, engagement of the business community and other stakeholders will be critical. Business retention and expansion will be essential to drive further growth and development within the area. The first step in this process will be the development and implementation of a business retention and expansion strategy.

An implementable strategy will be required to attract further business investment and retention

Next Steps

Making Burlington 'Investment Ready'

A strategy is required to attract further business investment and retention

The basis of a new strategy should be focused on Burlington's role as a regional hub. As Burlington further establishes it's brand, the City will be able to differentiate itself within the broader marketplace as a superior location for local and regional new business investment and development. Key steps that need to be undertaken include:

1

- **Begin consolidating information for an office market database**
  - This database will improve accuracy of office market metrics (vacancy rates, availability, number of buildings, key areas of vacancy, major lease expiries and key occupiers). This framework should be utilized both quantitatively and qualitatively at a high level once detailed and reliable information has been inputted.

2

- **Conduct further research into specific sector targets**
  - An active effort to identify high-potential business sectors could result in a more targeted effort towards end users. Once target sectors have been identified, BEDC officials will have a clear understanding of Burlington's value proposition which will maximize lead generation and ensure investment/development readiness. Business retention and expansion is an excellent starting point for a strategy as it results in a structured action-oriented, community-based approach to business and economic development.

3

- **Further evaluate and finalize planning policy and incentive programs**
  - The economics of developing UGC offices are currently not in Burlington's favor; thus, Burlington remains likely to see greenfield development. BEDC officials should continue to evaluate what planning and incentive programs are attractive to end-users but still maintain the goals and mandates of the city. As target sectors are identified, various incentive strategies will become clear and viable.

Burlington is facing challenges and must develop the strategies and policies that will be required to attract new office investment over the years to come

Appendix

Appendix

Broker Interview Summary #1

Brokers were contacted in order to understand the market's perspective of Burlington's future prospects

Deloitte contacted a number of commercial real estate brokers in an attempt to understand the market's perspective of Burlington's future prospects. The process was also utilized to confirm the results of our study while providing further insights regarding potential opportunities for Burlington. Each interview followed the same general process; however, the discussions were open-ended depending upon the interviewee's answers and insights.

Findings from Broker Interview # 1:

- Velocity hasn't been overly-strong in the Burlington market as there has been a lot of competitive growth as you move west (Hamilton, Oakville). Tenants do have traffic concerns about Burlington due to the QEW.
- The GTA West, specifically Burlington and Oakville, are seeing a flight to quality as tenants are demanding 'better space.s'
- As a result of the flight to quality, the market is recycling with upgraded product. A big 'market' question is what is going to happen with the older, existing stock? There currently is not enough demand to backfill these spaces.
- Oakville is a stronger market than Burlington due to superior location and critical mass.
- North Oakville is a longer-term (10+ year) threat to Burlington
- Oakville has been very resistant to any sort of development that is not consistent with medium density business parks. There could potentially be an opportunity for Burlington to capitalize on mixed-use development (this would be in the long, long-term)

Appendix

Broker Interview Summary #2

Findings from Broker Interview # 2

What are the demand drivers?

- There is not a lot of traction in the Burlington market. The majority of the deals we see come from within Burlington (ie, people who are already there are there for geographic reasons so we rarely see tenants from other nodes coming in).
- There is a cross-section of professional offices in the node including: financial services and lawyers (it is not a tech node)

Why is vacancy increasing?

- This is a trend across the suburban GTA and it is not specific to Burlington.
- Tenants are more efficient with space and there is a lot of consolidating and downsizing

What are the short-term prospects for the Burlington market? Are there any particular corridors in Burlington that are more likely to prosper in the short-term

- Burlington's supply is concentrated in Central Burlington; however, the new node north of the 407 is establishing itself but is not substantial yet

What are the medium-term prospects for the Burlington market?

- It will continue as is since geographic forces tend to set Burlington as a natural local market. The City is trying its best to attract other clientele but it's an internally driven, organic growth market

Our findings indicate that Oakville is poised to account for the majority of development and tenant activity Halton, is this a fair assessment?

- Oakville is a superior market due to location and mass.
- North Oakville is poised to see office and industrial development but not much happening in the short-term. This land north of the 407 is likely 5+ years away from being developed so is a medium-long term issue.

Appendix

Broker Interview Summary #3

Findings from Broker Interview # 3

What are the short-term prospects for the Burlington market? Are there any particular corridors in Burlington that are more likely to prosper in the short-term?

- Burlington faces challenges as it's too far away from the Core and if anything, people are more focused on transit and being connected to the younger millennials
- Oakville has traditionally be the preferred destination for tenants looking at the Halton region. They have also seen new office supply that has been well received while Burlington's stock is outdated (second generation, not institutionally owned).
- Burlington is a location for service tenants not major companies. Major companies would ask 'why would we be in Burlington' and decide that they need to be closer to the action. These factors are significant leasing challenges that Burlington must overcome, especially given Oakville.

What needs to occur (or what can be done) in the medium/long-term to make Burlington a significant player within the GTA West?

- The city needs to work with the development community on transit accessible options.
- The quality of buildings need to improve given flight to quality

Our findings indicate that Oakville is poised to account for the majority of development and tenant activity Halton, is this a fair assessment?

- As mentioned, Oakville is a superior market due to location and mass. The new supply in Oakville has been well received (PWC building at the Oakville GO Station).
- The majority of major development, barring any substantial shift, will move to more attractive spots in Oakville such as the Oakville GO
- The impact of North Oakville on Burlington will be negligible. The location is in the middle of nowhere and tenants are unlikely to want to leave the QEW. Why move to North Oakville or Burlington when you can be right next to the Oakville GO?

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Limiting Conditions

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