

City of Hamilton Development Charge Exemptions Review Executive Summary

Watson & Associates Economists Ltd. and N. Barry Lyon Consultants Limited (NBLC) were retained by the City of Hamilton to undertake a Development Charge Exemptions Review Study.

Rules regarding calculations and the use of development charges are provided in the Development Charges Act, 1997 (D.C.A.) as amended. This Act, and the associated regulations (Ontario Regulation 82/98) provide guidance with respect to the use of exemptions and discounts. If a municipality elects to reduce the calculated development charges for a specific use for policy reasons, eligible D.C. costs relating to the reductions must be funded from sources other than development charges (e.g. taxes, water and sewer rates, other reserves). As with any government subsidy or program which is designed to influence private-sector investment decisions, it is important to ensure that the public expenditure or foregone revenue produces a community benefit of a greater magnitude.

The purpose of this study is to provide background information on the historical performance of D.C. exemptions in the City of Hamilton, a review of exemptions practices in comparator municipalities, assessment of existing and anticipated future market conditions, and application of investor perspectives through conceptual development feasibility analysis. Based on this comprehensive analysis, a series of objective D.C. exemption policy recommendations is provided.

Current D.C. Exemption Policies and Historical Performance

City of Hamilton By-laws 14-153 (as amended) and 11-174 (as amended) include a series of discretionary exemptions that apply to a range of residential, non-residential and mixed-use development. Over the 2013-2017 period, the Downtown CIPA has accounted for the largest share of total discretionary D.C. exemptions (27% of total dollars). Other major categories include Academic Facilities (20%), Transition Policy (13%), Agricultural Use (13%), Industrial Reduced Rate (7%), Non-Industrial Stepped Rate (6%), Parking Structures (4%), Non-Industrial Expansion (3%), and Student Residences (2%).



Key observations from the historical assessment (2013 to 2017 period) of notable discretionary D.C. exemptions include:

- **Downtown CIPA** – Exemption has historically been important to fund project feasibility “gap” for residential projects in downtown Hamilton; exemption has helped to revitalize downtown, generating population and employment growth, and helping achieve density and intensification targets.
- **Industrial Reduced Rate** – D.C. discount has been beneficial in improving industrial development feasibility; Hamilton is cost competitive for industrial development.
- **Non-Industrial Stepped Rates** – Retail/services sector key beneficiary – a sector with strong feasibility and market dynamics; qualifying projects have generated significant building space and employment.
- **Academic Facilities and Student Residences** – Significant “lost” D.C. revenues; qualifying projects have generated notable employment growth and expansion in student housing.
- **Affordable Housing D.C. Exemption** – Limited number of projects have benefited from exemption.

Market Analysis and Feasibility Assessment

The real estate market for higher density residential apartments in the City of Hamilton has improved significantly over the past several years. It is apparent that a number of factors are contributing to the downtown’s urban renaissance, of which the City’s package of financial incentives is notable. Other factors, however, such as the improving and diversifying economy, current and planned investments in transit, post-secondary growth, improving public realm and lifestyle changes, demographic shifts, improved built environment and public realm, and housing affordability relative to other markets, are also driving private-sector residential development.

As the downtown CIPA continues to experience public- and private-sector investment, it will increasingly become more attractive for continued residential intensification, subject to other market shifts or development impacts. The continued market strengthening of the area is considered highly important for the City to meet its intensification targets.

The residential projects modelled in the feasibility analysis do not currently display signs of viability without the City’s financial tools. Despite strong improvements in absorption



and achievable pricing over the past five years, development in the City's downtown is also experiencing rising development costs. The results of the analysis indicate that large projects that are located in strong market areas are nearing the point where they do not require the assistance of the City's financial tools. Should pricing and absorption continue to strengthen, the need for incentives will continue to decrease for these projects. Notwithstanding the above, smaller scale projects that are located in slightly weaker market areas are not "near-viable" without the City's financial tools.

Recommended Changes to D.C. Exemption Policy Framework

Based on the City's growth trends and development targets, forecast market conditions and development feasibility analysis, the following changes to the City of Hamilton D.C. exemptions policies are recommended:

Modify	Maintain	Remove
<ul style="list-style-type: none"> • CIPA – Phase out D.C. exemption. Continue to apply to residential, non-residential and mixed-use development except for standalone major office development; continue to provide the current exemption for standalone major office developments (Class A) greater than 20,000 sq.ft. G.F.A. • Non-Industrial Stepped Rate D.C. – D.C. exemption should be removed from non-office-based commercial and institutional developments; exemption should be maintained for office development, 	<ul style="list-style-type: none"> • Industrial Reduced Rate – maintain current D.C. exemption. • Parking Structures – continue to exempt parking structures which are associated with the development of, and serve the needs of, residential, mixed-use or non-residential uses; charge D.C.s for revenue generating parking. 	<ul style="list-style-type: none"> • Non-Industrial Expansion D.C. exemption. • Academic D.C. exemptions – remove, where permitted. • Student Residence D.C. • Affordable housing – replace with an equivalent incentive program.



Modify	Maintain	Remove
excluding medical office.		

There are a number of D.C. exemptions that could not be empirically analyzed on a market basis. As such, no specific recommendations have been provided for the following D.C. exemptions.

Agriculture	Redevelopment for Residential Facility
Heritage Building	Farm Help House
ERASE	Public Hospital
Places of Worship	Covered Sports Field
Transition Policy	Council Granted
Downtown Public Art	