Feb 21st, 2024

Audit, Finance and Administration Committee
City Hall, 71 Main Street West,
Hamilton, Ontario, L8P 4Y5

Re: Hamilton Development Charge Review, Downtown Community Improvement Area

To Whom It May Concern,

We are writing with respect to the significant concerns our organization has with the staff recommendation to eliminate the 40% Development Charge exemption for the Downtown Community Improvement area. Development Collective is a land development group with a commitment to develop efficient, transit-oriented housing in Hamilton's core. We are currently completing due diligence investigations on several properties in the downtown core and can confirm the elimination of this exemption renders many properties economically unviable and/or introduces additional risk which would render them ineligible for financing based on standard requirements by the lending industry, particularly in an "emerging" high density market that has experienced a significant downturn due to the interest rate climate over the past several months. The principals of the Development Collective have nearly 50 years of combined experience in the land development field in both the approval and construction of high-density projects in urban settings. We believe it is important the committee considers the following factors in making its decision:

1. **Momentum:** after decades of little to no higher-density development in the downtown, prior to the more recent interest rate climate, there has finally been *some* momentum in downtown Hamilton housing starts. However, there are still large holes in the urban fabric, extremely high retail vacancy rates and many underutilized and/or contaminated properties. The development charge incentive policy, paired with a strong market, spurred progress but was stymied when interest rates rose. Eliminating the incentive now, in a weak market that will take considerable time to recover from, would further delay and limit the creation of new housing in downtown Hamilton.
2. **Contamination**: Most lands in downtown Hamilton are contaminated and/or have challenging, expensive, geotechnical/hydrogeological issues, beyond those of other municipalities in the GTHA. While the ERASE grant is helpful, <u>those funds are not guaranteed</u>, which introduces risk when buying land especially given the lengthy approval processes that are associated with obtaining approval for projects. Although this 40% discount was not targeted directly towards these issues, it was of considerable assistance in offsetting the financial risks associated with the remediation of contaminated and substandard soils.
3. **LRT:** As the City of Hamilton will be responsible for the operating costs of the LRT which is to commence construction imminently. It is critical that the ridership be supported through sufficient housing generation along the route in order to lessen the City's financial burden. This has not been considered in the reporting that is being provided to the Committee with the staff recommendation. Accordingly, the City should be focused on continuing to encourage development downtown with all the tools available to it, and not removing or limiting those tools as that would undermine population growth in the downtown and therefore ridership.

4. **Taxes**: The long-term, perpetual benefit of a massively improved tax base on currently underutilized lands has not been considered in the reporting provided to the Committee and is relevant to your consideration of this issue. Removing the development charge discount is likely to slow down, or stop, development in the downtown until the land markets respond – and markets in emerging markets such as downtown Hamilton respond slowly. Missing opportunities to significantly increase the long-term tax base downtown, helps no one.
5. **Small Business/Vibrant Downtowns:** Given the severe impacts of the Covid pandemic and high-interest rates, small businesses need people living and spending money in the downtown more than ever. The progress our downtown was making seems to be sliding backwards. The downtown has not yet reached a healthy level of density to support main street businesses and removing this incentive would likely stall the downtown's much needed growth.
6. **High-rise risk:** High-rise projects inherently present greater risk than low-rise. It is also the kind of development that should be encouraged as it stimulates small business, healthier more sustainable modes of mobility, reduces sprawl pressures and promotes the efficient use or land and infrastructure. A low-rise development can begin incrementally in blocks as sales progress, whereas a high-rise project cannot begin until a 70/80% sales threshold has been hit to attain a construction loan. Sales are currently slow, interest rates are up and the cost of carrying projects that used to take 3 months to sell are now taking years, creating substantial financial risk. Hamilton is still seen as an emerging market from a risk perspective in the eyes of investor and the financial industry, making this not the time to remove this incentive.
7. **Implementation:** In the event that some or all of the DC exemption is removed, we request that despite Bill 109 challenges, the City finds a process to accept Zoning By-law applications concurrently with Site Plan applications, so as not to fundamentally change the development economics of projects where the lands have already been purchased.

In summary, downtown Hamilton is still in the infancy of its recovery and viewed by investors as emerging and higher risk. The ambitious future of the downtown is too important to gamble with - by removing this proven financial tool, particularly during a housing crisis, the high interest rate environment and the largest real estate slump in over a decade, we would be doing just that. We strongly recommend this Council consider keeping the 40% DC exemption for the downtown and re-evaluate it during the next Development Charge review cycle.

Sincerely,

Kim Beckman, President
[redacted]

Shwaan Hutton, Executive Vice-President
[redacted]

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