

Potential Economic Impacts of a CAC on New Office Development in Downtown Vancouver

Independent Real Estate Intelligence

May 10, 2016



Potential Economic Impacts of a CAC on New Office Development in Downtown Vancouver

Prepared for:

NAIOP Vancouver

Prepared by:

Altus Group Economic Consulting

33 Yonge Street Toronto Ontario M5E 1G4

Phone: (416) 641-9500 Fax: (416) 641-9501

economics@altusgroup.com

altusgroup.com

May 10, 2016

EXECUTIVE SUMMARY

The Greater Vancouver Region's service based economy accounts for over half of British Columbia's employment and GDP. With more than two-fifths of the region's office space, downtown Vancouver is undoubtedly the heart of the region's economy.

In 2013, the construction, maintenance, management, and sale of office buildings in downtown Vancouver supported 4,615 full-time equivalent jobs (person years of employment). Concurrently, workers in these buildings spent an estimated \$557 million in the vicinity of their offices, directly supporting almost 6,600 full-time equivalent jobs (person years of employment).

The downtown office sector generates significant tax revenue for the City of Vancouver

Purpose of This Report

NAIOP retained Altus Group Economic Consulting to provide an assessment of the economic benefits of downtown Vancouver's office sector and the potential negative impacts of the application of Community Amenity Charges (CACs) to office re-zoning developments in downtown Vancouver.

Community Amenity Contributions

The CAC is a charge applied to private rezoning applications within the city of Vancouver. The purpose is to address growth costs, area deficiencies, and/or other community needs and impacts. Until recently, CACs have only been applied to residential or mixed-use re-zoning applications, despite the fact that office development in downtown Vancouver is not explicitly exempt.

Recently the City of Vancouver has begun to negotiate "non-standard" CACs (or Community Benefits) on major office developments in downtown Vancouver.

This report sets out a wide array of evidence that imposing CAC at this time on downtown office development will bring about a number of negative economic and fiscal consequences for the City of Vancouver and the Vancouver economy. The City must assess the benefits of imposing CACs on major office developments downtown in the context of these costs and risks.

Economic Impact of the Office Sector in Downtown Vancouver

The estimated province-wide economic impact stemming from the construction and renovation of office buildings in downtown Vancouver in 2013, as well activity related to on-going operations are substantial:

- Construction, renovation, and on-going operations of office buildings in downtown Vancouver generated some \$407 million in direct economic activity;
- This contributes a total of \$435 million to GDP;
- An estimated 4,615 full-time equivalent jobs (person years of employment) are supported, 2,331 directly; and
- Some \$475 million in profits and labour income were generated and a total of \$96 million in taxes for federal and provincial governments.
- Recent office development alone contributes approximately \$34 million in annual property tax to the City of Vancouver.

Economic Impact of Downtown Office Workers

In addition, the people who work in these buildings contribute tremendously to the downtown economy. These people spend a significant amount of money in downtown Vancouver which supports a wide array of economic benefits:

- An estimated 107,100 office workers in downtown Vancouver spend approximately \$557 million in the vicinity of their workplaces annually. This contributes some \$297 million directly to GDP;
- An estimated 6,597 full-time equivalent jobs (person years of employment) are supported directly by this spending; and
- This creates \$331 million in profits and labour income and a total of \$60 million in taxes for federal and provincial governments.

Other Benefits of Downtown Office Workers

Beyond the tangible economic benefits, downtown office workers provide several important additional contributions to Vancouver's economic development:

- The close proximity of development in downtown Vancouver creates an **efficient clustering of businesses**, which spurs firm formation and increases productivity;
- The development of office space in downtown Vancouver, which is a nexus of higher-order transit, **encourages the optimal use of existing public transit**, reducing congestion and GHG emissions; and
- Planning for the development of major office space in the vicinity of major population centres **supports the development of live/work communities** which reduces the demand on infrastructure and the need for private vehicles.

Foregone Development

The imposition of CACs on office development in Vancouver could lead to a loss of new office supply in the downtown. Even if this loss was the equivalent of one typical office project, the foregone economic benefits that would be lost as a result are sizable. Using recent development applications as an example, a typical office development in the downtown might be about 345,000 sq. ft., and account for investment of approximately \$149 million (including soft costs and site development costs, but excluding the land value).

Such a development generates considerable jobs and economic activity during its construction on an ongoing basis during operation. Conversely the loss of such a development represents forgone activity of the following magnitudes:

The initial construction and first ten years of operations of a typical office development in downtown Vancouver would:

- Generate about **\$180 million** in direct economic activity;
- Provide almost **\$190 million** in contribution to (GDP);
- Support 1,990 full-time equivalent jobs (person-years of employment)
- Be responsible for the creation of some **\$204 million** in **personal wages** and **profits**;
- Generate some **\$43 million** in revenues for federal and provincial governments; and
- Generate **\$29 million** in **property tax** revenue for the City of Vancouver and the Metro Vancouver Region

Policy Alignment

The City of Vancouver recognizes the importance of its downtown as a place to develop office space and employment and has undertaken efforts in recent years to encourage these benefits. These efforts have included policies such as the Metropolitan Core Jobs and Economy Land Use Plan (2008) and the Office Conversion Policy (2009) both of which are focused on encouraging downtown employment development.

There is a serious risk that if the City of Vancouver tacks on these efforts and begins to discourage downtown employment through the expansion of CACs, it will forego important benefits from these developments as well as jeopardizing some of the momentum that has just begun to stem from recent policies.

While the expansion of CACs to include downtown office projects might appear to be an additional revenue source to the City, the negative economic consequences of introducing such a tax on such an important economic activity should also be carefully considered.

Key Findings From the Altus Study of CACs in Vancouver

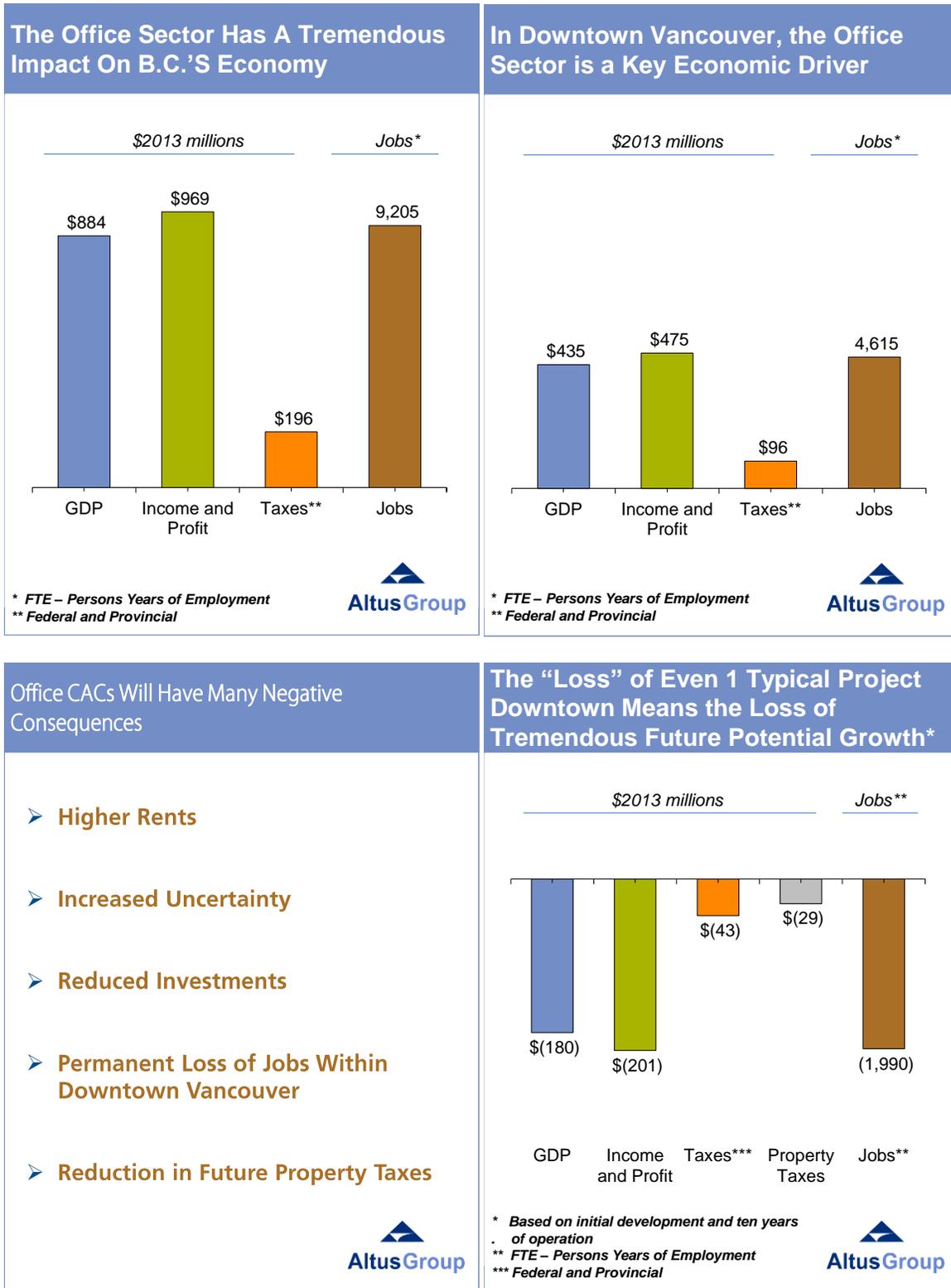


TABLE OF CONTENTS

	Page
EXECUTIVE SUMMARY	i
1 INTRODUCTION	1
1.1 Background	1
1.2 Structure of the Report.....	1
1.3 Caveat.....	1
2 COMMUNITY AMENITY CONTRIBUTION	2
2.1 Description and Purpose	2
2.2 City-Wide Policy	2
2.3 Non-Standard Rezoning.....	2
2.4 Implications	4
3 RECENT DEVELOPMENT IN THE OFFICE SECTOR	7
3.1 Composition of Office Supply.....	7
3.2 Trend in Vacancy Rates.....	8
3.3 Changes in Supply.....	9
3.4 Approved and Under Review.....	12
4 ECONOMIC IMPACTS OF THE OFFICE MARKET IN DOWNTOWN VANCOUVER.....	14
4.1 Economic Benefits Measured by This Report	14
4.2 Office Real Estate Sector Overview	16
4.3 Economic Impact	16
4.4 Potential Losses.....	21
5 CONCLUSION	24
5.1 Community Amenity Contributions	24
5.2 Economic Impact of the Office Sector in Downtown Vancouver	24
5.3 Economic Impact of Downtown Office Workers.....	25
5.4 Other Benefits of Downtown Office Workers.....	25
5.5 Foregone Development.....	25

1 INTRODUCTION

NAIOP Vancouver retained Altus Group Economic Consulting to provide an assessment of the economic benefits of downtown Vancouver's office sector and the potential negative impacts of the application of Community Amenity Charges (CACs) to office re-zoning developments in downtown Vancouver.

1.1 BACKGROUND

It has been the practice of the City of Vancouver to charge CAC's for re-zoning applications throughout Vancouver, however until recently CACs have been secured on residential land uses only. This practice has been applied to downtown Vancouver, even though the policy does not explicitly exempt office re-zoning applications within downtown Vancouver from the charge.

More recently, however, the City has begun to consider applying CACs more broadly to office development. CAC charges on office development in downtown Vancouver would have broad implication on local economic development.

1.2 STRUCTURE OF THE REPORT

In addition to this introduction, this report contains four chapters:

- Chapter 2 describes the design of the CAC and the subsequent negative implications of its application to downtown office development;
- Chapter 3 presents recent development in Vancouver's office sector, with a special focus on the downtown;
- Chapter 4 sets out estimates of the economic benefits of the downtown Vancouver office sector, as well as the potential foregone benefits stemming from a cancelled project; and
- Chapter 5 concludes.

1.3 CAVEAT

This report relies on information from a variety of secondary sources. While every effort is made to ensure the accuracy of the data, we cannot guarantee the complete accuracy of the information used from these secondary sources.

2 COMMUNITY AMENITY CONTRIBUTION

This chapter provides a description of the Community Amenity Contribution (CAC), its purpose, the methods of its application across the city of Vancouver, and the potential implications.

2.1 DESCRIPTION AND PURPOSE

The CAC is a charge applied to private rezoning applications within the city of Vancouver. The purpose is to address growth costs, area deficiencies, and/or other community needs and impacts. CACs may be a cash contribution or an amenity in-kind by the developer.

2.2 CITY-WIDE POLICY

The CAC is a charge applied to rezoning applications within the city of Vancouver. For the purposes of this report the term CAC covers both community amenity contributions and community benefits, both of which are negotiated between the City and the developer.

- The **purpose** is to address growth costs, area deficiencies, and/or other community needs and impacts;
- The **standard rate** is \$3.00 per sq. ft¹. This rate applies to the net increase allowed under the new zoning and includes commercial space that is converted to residential;
- **Non-residential space** is exempt outside of special policy areas; and
- CACs are **in addition to Development Cost Levies (DCLs)**, where DCLs apply. CACs may be for items that DCLs may not be applied to (such as libraries and recreation centres) or may be used to cover the difference between DCLs and full cost recovery for items that DCLs do apply to.

2.3 NON-STANDARD REZONINGS

There are several conditions under which the standard rate does not apply:

- If it is a **large site**. This applies when the site is more than 2 acres. Alternatively, if the site is more than 1 acre, but is located in a

¹ City of Vancouver. "Community Amenity Contributions – Through Rezoning". February 2015

Community Vision designated Neighbourhood Centre or Shopping Area;

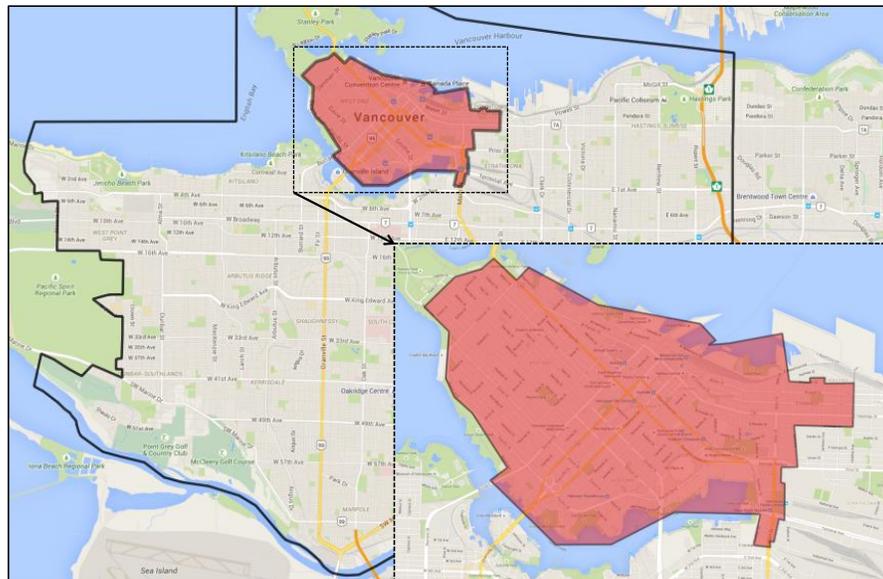
- If the rezoning involves a **change-of-use** from industrial to residential (including any variations of live-work);
- If the site is one of 6 special policy areas, where CACs range from \$11.50 to \$55.00 per sq. ft.; or
- If the site is in **downtown Vancouver**.

2.3.1 Downtown CAC Policy

The downtown area is bordered by False Creek on the south, English Bay on the west, the Burrard Inlet on the north and extends as far as Heatley avenue on the east (Figure 1).

Figure 1

Downtown CAC Policy Area



Source: Altus Group Economic Consulting based on the Census of Canada and the City of Vancouver

The entirety of downtown Vancouver is subject to non-standard charges. These charges are the result of negotiations between the developer and the City.

Specific guidelines for negotiations are not provided by the City. However, the City typically negotiates a fee that is designed to capture a portion of the profits (sometimes referred to as “lifts”) that would accrue to the developer

as a result of the re-zoning. There are several challenges associated with the negotiation process:

- There are issues with confidentiality as many developers do not want the details of their proprietary development models made public;
- The calculation of the “lift” associated with the re-zoning is complicated and highly sensitive to a number of potentially contentious assumptions and valuation parameters such as soft costs and land value; and
- There is little transparency to the process.

The practice of negotiating CACs based on property value “lift” is inconsistent with the principles set out in the Province’s 2014 guide to CACs. The Guide “supports an approach that [...] links the CAC not to the “lift” in land value, but rather to the cost of providing a package of amenities that makes sense given the development being proposed”.²

2.3.2 Non-Residential Policy

It has been the practice of the City of Vancouver to charge CAC’s exclusively for residential re-zoning applications. This practice has been applied to downtown Vancouver, even though the policy does not explicitly exempt office re-zoning applications within downtown Vancouver from the charge.

More recently, however, the City has begun to consider applying CACs more broadly to office development. CAC charges on office development in downtown Vancouver could have broad implication on local economic development.

2.4 IMPLICATIONS

The nature of the current application of CACs within downtown Vancouver has a number of negative consequences and potential negative implications on the area’s future economic development.

These negative implications work directly against other economic development policies employed by the City that aim to encourage office development. For example, the City rezoned areas in the Central Business

² Province in British Columbia Ministry of Community, Sport and Cultural Development. “Community Amenity Contributions: Balancing Community Planning, Public Benefits and Housing Affordability.” March 2014

District (CBD) and CBD shoulder to expressly prohibit residential development. The purpose was to stabilize land prices and encourage new office development.³

This section explores those issues.

2.4.1 Higher Rents

CACs are a cost to the developer which will, in large part, be passed along to the end user. In this case, through higher rents charged to tenants of office space in Vancouver. Higher prices will always have a marginal impact on tenant location decisions, leading to reduced occupancy compared to a situation without a CAC being applied to office development. For example, if the CAC tax is applied only to office development in downtown Vancouver and not elsewhere in Metro Vancouver, it will, all things being equal, create a competitive disadvantage downtown. This could shift demand to suburban office locations and reduce office and occupancy requirements downtown.

2.4.2 Increased Uncertainty

The negotiated nature of the CAC adds an unknown cost to the development process and can delay the development schedule if negotiations are protracted. This adds additional risk for the developer and other investors in a new development project and inhibits investment.

This is a significant obstacle imposed by this unique process that is not encountered for commercial development in other major markets in North America.

2.4.3 Reduced Investments

Increased development timelines and higher, uncertain costs act as deterrents to investments in new office space. The result is a reduction in investment. Lower investment in new construction leads to reduced spinoff benefits and fewer jobs.

2.4.4 Reduced Sustainability

Newer office developments are significantly more energy efficient, which supports the City's goal of becoming the greenest city on earth by 2020.⁴

³ City of Vancouver. *Rezoning Policy for the Central Business District (CBD) and CBD Shoulder*. June 16, 2009

Office in the downtown core has the highest potential of utilizing the existing and planned rapid transit network. Curtailing investment downtown works against the City's own sustainability policies.

2.4.5 Permanent Loss of Jobs Within downtown Vancouver

A reduction in the new supply of office space in downtown Vancouver and higher rents could lead to potential occupants locating elsewhere in the Greater Vancouver Area or to other major cities in Canada. While these jobs still exist, they are unlikely to return to downtown Vancouver as office tenants typically sign long-term leases. This results in a loss of employment within downtown Vancouver and all the accompanying benefits.

2.4.6 Reduction in Future Property Taxes

An individual office building in downtown Vancouver can generate several million in property tax revenue every year, an important source of municipal revenue. Even if one potential "typical" downtown building of about 345,000 sq. ft. was curtailed, that would mean the loss of some \$2.9 million in foregone annual tax revenues.

If a CAC reduces the amount of new office development, this would lower the future tax base, necessitating either lower spending or higher tax rates. This is especially relevant as the commercial property tax rate in the City of Vancouver is over four times that of the residential rate.

⁴ City of Vancouver. *Greenest City – 2020 Action Plan*. 2012

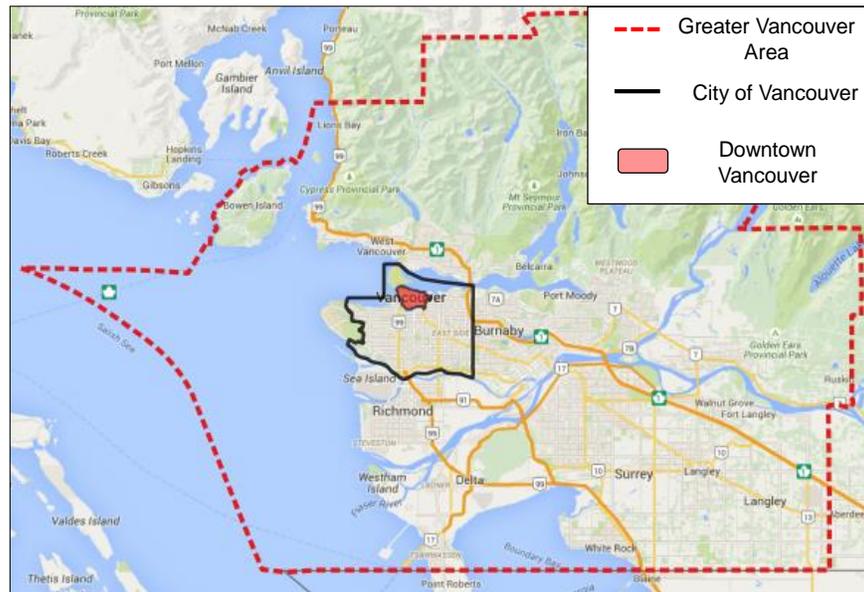
3 RECENT DEVELOPMENT IN THE OFFICE SECTOR

This chapter presents recent trends in office development in the Greater Vancouver Area and downtown Vancouver, specifically.

Figure 2 provides an illustration of downtown Vancouver within the city of Vancouver and the Greater Vancouver Area.

Figure 2

Administrative Boundaries, Greater Vancouver Area



Source: Altus Group Economic Consulting based on data from the City of Vancouver

3.1 COMPOSITION OF OFFICE SUPPLY

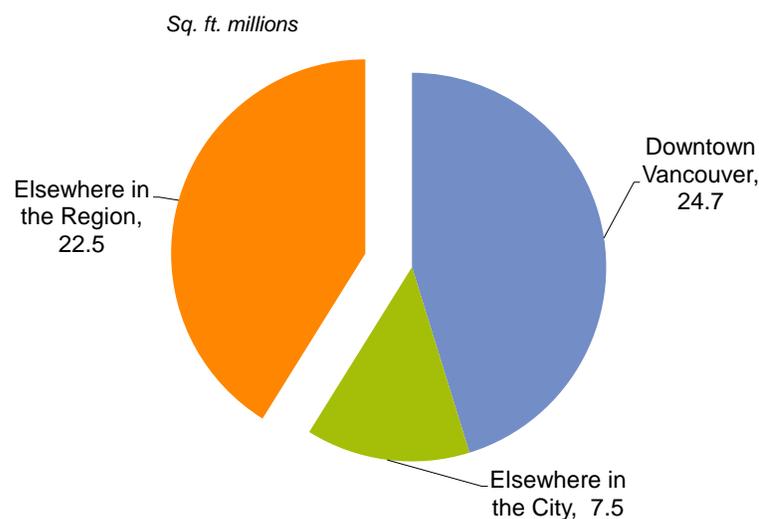
Figure 3 shows the distribution of office space within the Greater Vancouver area:

- There is approximately 55 million sq. ft. of office space within the Greater Vancouver Area. Some 44% of this (24.7 million sq. ft.) is located within downtown Vancouver;
- 57% of downtown Vancouver office space is classified as Class A office space, a lower concentration compared to elsewhere in the Greater Vancouver Area (63%);

- Based on the distribution of office space, it is estimated that downtown Vancouver accounts for almost 30% of private-sector office employment in the province of British Columbia⁵
- The rest of the city of Vancouver has just 7.5 million sq. ft., half of which is located within the Broadway corridor (between Alma street and Main street, from 16th avenue to False Creek); and
- The remainder of the region's office supply (22.5 million sq. ft.) is located outside of the city of Vancouver, with the largest concentration (9.8 million sq. ft.) located in Burnaby.

Figure 3

Existing Office Space, Greater Vancouver Area, 2015



Source: Altus Group Economic Consulting based on data from Altus Insite

3.2 TREND IN VACANCY RATES

- Vacancy rates for office space within downtown Vancouver have tracked vacancy rates for office space elsewhere in the city of Vancouver quite closely until recently (Figure 4);
- Since the middle of 2012, vacancy rates within downtown Vancouver have been trending upwards, reaching a high of 9.5% at the beginning of the 3rd quarter of 2015. In contrast, office space

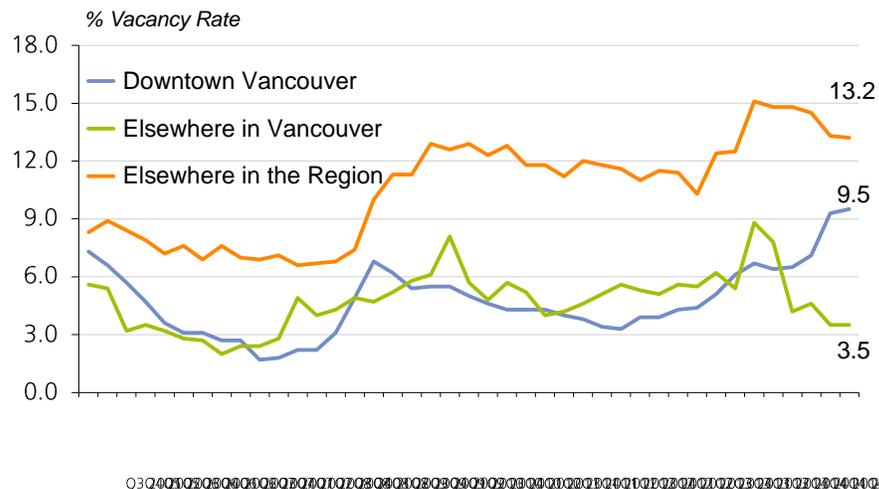
⁵ Excluding persons who work at home or do not have a usual place of work.

elsewhere in the city has seen falling vacancy rates since the middle of 2014, hitting just 3.5%; and

- Vacancy rates for office space outside of the City of Vancouver, but within the Greater Vancouver Area have consistently been higher than rates within the city, but has also trending down since 2014.

Figure 4

Vacancy Rate of Office Space, Greater Vancouver Area, 2005-2015



Source: Altus Group Economic Consulting based on data from Altus Insite

3.3 CHANGES IN SUPPLY

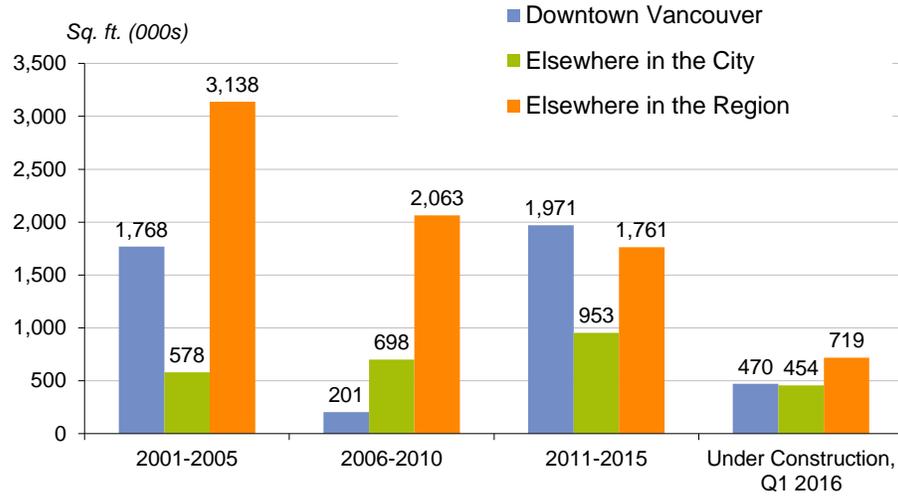
Figure 5 and Figure 6 illustrate trends in the construction of new office space within the Greater Vancouver Area:

- In 2015 there were some 10 new office buildings completed across the Greater Vancouver Area accounting for some 2.2 million square feet of new office space.
- Despite rising vacancy rates in downtown Vancouver, the vast majority of the new office space completed in 2015 in the Greater Vancouver Area is in downtown Vancouver (1.8 million sq. ft. in 7 new buildings).
- Over the last 15 years, some 139 new office buildings have come to market in the GVA adding about 13.1 million square feet. Looking at these trends in five-year blocks (in Figure 5) Vancouver downtown

accounted for the most new space in the most recent period (2011-2015) but lagged behind other parts of the GVA in previous periods.

Figure 5

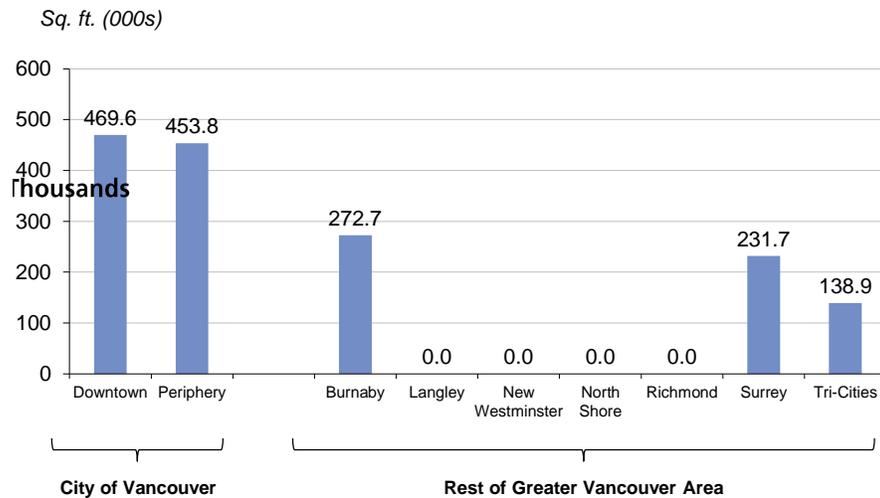
New Office Supply, Greater Vancouver Area, 2001-2015



Source: Altus Group Economic Consulting based on data from Altus Insite

Figure 6

New Office Area Under Construction, Greater Vancouver Area, January 2016



Source: Altus Group Economic Consulting based on data from Altus Insite

- As at the beginning of 2016, there is about 2.2 million square feet of office space under construction across 15 buildings. About 30% of this future space is located downtown.
- Areas outside of the city of Vancouver have seen declining amounts and shares of new stock added over the last fifteen years, but these areas still account for the largest share of space currently under construction at about 719,000 sq. ft. of office; and
- Of this space, the largest share is located in Burnaby in close proximity to higher-order transit.

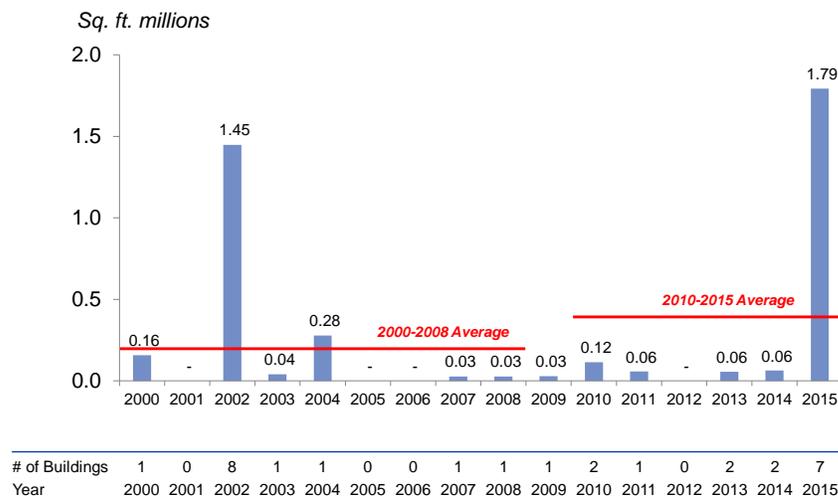
3.3.1 Role of Office Land Preservation Policies

Given the importance of downtown Vancouver in office supply, the City of Vancouver has developed policies to preserve employment lands and provide sufficient job space potential in the downtown area to meet future demand. These include:

- Metropolitan Core Jobs and Economy Land Use Plan: Part One, Proposed Downtown Policies (October, 2008), which recommends strengthening and intensifying commercial uses in the Central Business District.

Figure 7

New Office Supply, Downtown Vancouver, 2000- 2015



Source: Altus Group Economic Consulting based on data from Altus Insite

- Office Conversion Policy (June, 2009), which monitors the conversion of significant existing office buildings in mixed-use areas in downtown Vancouver.

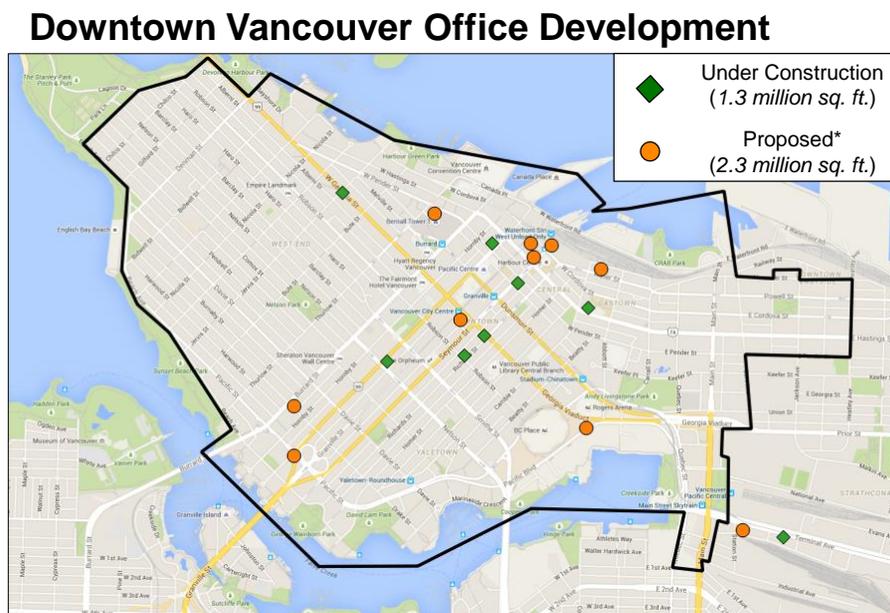
Figure 7 shows that new office supply in downtown Vancouver was slightly higher between 2010 and 2015 than the period prior to 2008. This could be a result of multiple factors including, for instance, general economic condition, corporate decision, and potentially the effect of these policies.

While it is difficult to attribute full causality between such policies and resulting investment, it is important to note the stronger quantity and share of total office development focused in downtown Vancouver since the introduction of these policies.

3.4 APPROVED AND UNDER REVIEW

In addition to buildings currently under construction, there have been a number of proposals put forth for new developments within downtown Vancouver (Figure 8):

Figure 8



*As of February 1, 2015

Source: Altus Group Economic Consulting based on data from the City of Vancouver

- As of February 1st, 2015, the City of Vancouver had 9 office developments whose proposals were either under review or had already been approved; and

- This amounts to 2.3 million sq. ft. of potential new space, in addition to the 1.3 million sq. ft. of space that is currently under construction.

4 ECONOMIC IMPACTS OF THE OFFICE MARKET IN DOWNTOWN VANCOUVER

This section provides an overview of economic indicators used in this report to measure the office real estate sector's contribution to the Provincial economy.

4.1 ECONOMIC BENEFITS MEASURED BY THIS REPORT

This report analyzes economic benefits of the office real estate sector in Downtown Vancouver. The various benefits are generated by three major components of the sector:

- **The initial development and construction of office properties:** The planning, design, site development and construction of office buildings contribute directly to the Provincial economy and generate substantial "spinoff" benefits;
- **Improvements to office buildings:** Improvements, including construction spending on an on-going basis for capital improvements to structures and tenant improvements (the construction associated with building interior space for new tenants), generate a substantial economic contribution annually; and
- **The on-going operations of office buildings:** A large number of the private rental office properties are managed by professional companies that specialize in property management. Their primary activities include daily maintenance and operations, leasing, collecting rents, budgeting and maintaining records. These activities generate billions of dollars in economic activity each year. In addition, office properties, valued in billions of dollars, exchange hands each year and generate value-add activities within brokerage and other professional services firms.

To quantify the economic impacts of the office real estate sector, this report focuses on several economic parameters, including:

- **Economic activity:** The volume of goods and services consumed in the economy related to the development, construction and ongoing operation of the office real estate sector;

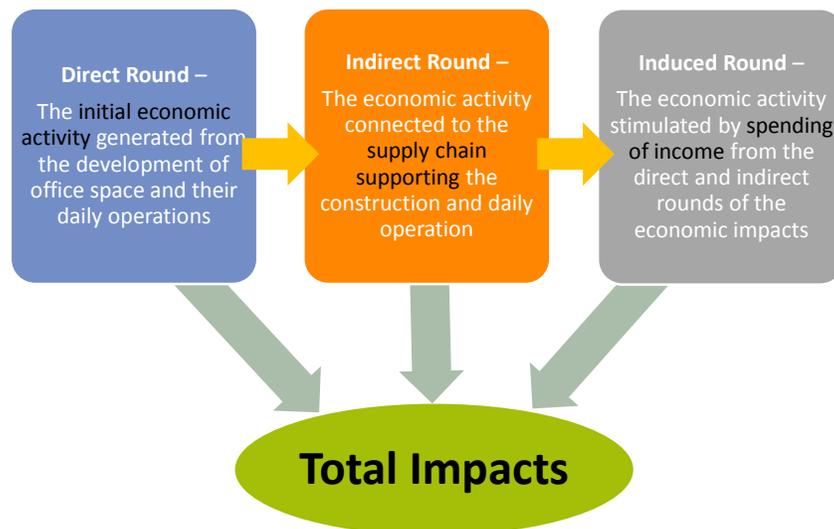
- **Contribution to GDP:** The value-added component of the economic activities, a measure of the contribution of the activities to British Columbia’s Gross Domestic Product (GDP);
- **Jobs:** The number of jobs generated from activities of the office real estate sector, including direct and spinoff jobs;
- **Income:** The volume of income generated through these various economic activities, including wages, other labour earnings, mixed income, and profits; and
- **Government tax revenues:** Federal and provincial tax revenues, primarily personal and corporate income taxes, and other payroll deductions.

There are generally said to be three “rounds” of economic impact (Figure 9)

- **Direct Round** – jobs and economic activity directly related to the construction of the office buildings and their daily operation once complete, including construction workers, brokers, administrative staff, etc.;

Figure 9

Three Rounds of Economic Impacts



Source: Altus Group Economic Consulting

- **Indirect Round** – jobs and economic activity connected to the supply chain supporting the construction and daily operation of office

buildings, including construction material suppliers, office supply providers, etc.; and

- **Induced Round** – jobs and economic activity stimulated by spending of income from the first two rounds.

4.2 OFFICE REAL ESTATE SECTOR OVERVIEW

Private office rental buildings play a vital role in Vancouver's economy by providing working space to private companies.

In addition, companies and professionals involved in the ongoing operations of office properties, such as building management and commercial brokerage services, generate significant economic contribution to the Provincial economy through activities such as:

- **Building management:** Providing services in planning and managing office buildings, while ensuring services, such as security, health and safety, and maintenance of the building, meet a satisfactory level. Building managers also collect rents and search new tenants on behalf of building owners; and
- **Commercial brokerage services:** Providing a connection between buyers and sellers, and leasers and lessees of office properties, and facilitating transactions of office buildings.

4.3 ECONOMIC IMPACT

In 2014, Altus Group Economic Consulting, on behalf of RealPAC undertook research on the economic impact of the commercial real estate sector in Canada.⁶ A summary of the results for British Columbia in 2013 is presented below:

- Construction, renovation, and on-going operations (including brokerage and management fees) of office buildings in British Columbia generated \$827 million in direct economic activity;
- This contributes a total of \$884 million to GDP;
- An estimated 9,205 full-time equivalent jobs (person years of employment) are supported, 4,637 directly; and

⁶ Altus Group. "Contribution of the Office Real Estate Sector to the Canadian Economy". 2014

- This creates \$969 million in profits and labour income and a total of \$196 million in taxes for federal and provincial governments.

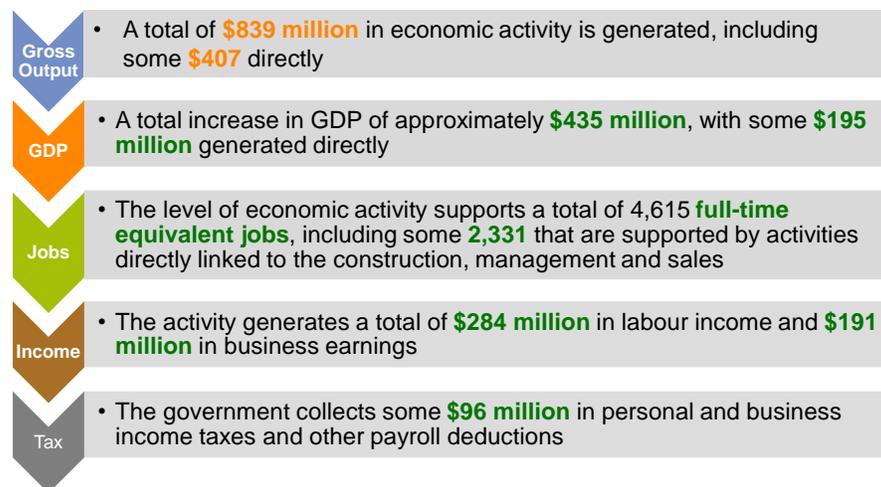
Further analysis in the area of downtown Vancouver shows that, in 2013, an estimated \$198 million was spent on the construction of new office buildings, including site development and soft costs. A further \$150 million was spent on improvements and \$60 million on management and brokerage fees. In total, the construction and on-going operations of office buildings in downtown Vancouver totalled \$407 million in spending.

Figure 10 presents the estimated province-wide economic impact stemming from the construction and renovation of office buildings in downtown Vancouver in 2013, as well as management fees and brokerage fees.

- Construction, renovation, and on-going operations (including brokerage and management fees) of office buildings in downtown Vancouver generated \$407 million in direct economic activity;

Figure 10

Province-Wide Economic Benefits, Construction and On-Going Operation of Office Space, Downtown Vancouver



Source: Altus Group Economic Consulting

- This contributes a total of \$435 million to GDP;
- An estimated 4,615 full-time equivalent jobs (person years of employment) are supported, 2,331 directly; and

- This creates \$475 million in profits and labour income and a total of \$96 million in taxes for federal and provincial governments.

4.3.1 Generation of Significant Municipal Tax Revenue

In addition to the array of economic benefits to the local economy from the development and on-going operations of the downtown office sector, there is also a substantial municipal fiscal benefit for the City of Vancouver. This study doesn't provide full segmentation of this important component, but based on recent assessment values and current tax rates, recent office development in the downtown (new buildings over the past 15 years) alone likely contributes approximately \$34 million annually in property taxes.

4.3.2 Benefits of Downtown Workers

The economic impact estimated above accounts for the construction, renovation, and fees related to office buildings in downtown Vancouver. What it does not fully take into account are the benefits that the occupants of this space bring to the local economy. These employees spend a significant amount of money in downtown Vancouver:

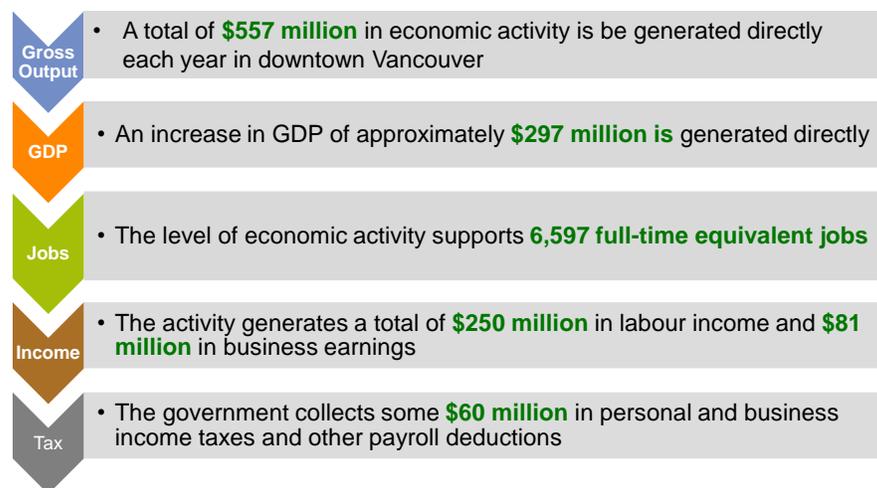
- As of 2011, the city of Vancouver had approximately 129,000 office employees in the private sector⁷;
- Based on the findings from the National Household Survey, it is estimated that around four-out-of-five of these jobs (105,000) are located in downtown Vancouver;
- Evidence from the Labour Force Survey suggests that this number grew to approximately 107,100 by 2013;
- Based on third-party research, it is estimated that the average urban office worker in the US spends some \$115.6/week in the vicinity of their office;⁸
- Excluding transportation costs and online purchases and accounting for inflation and exchange rates, this equates to \$115.7 in Canadian currency in 2013;
- After factoring in leave time, this equates to \$5,200 per year, per worker, or **\$557.3 million** in total.

⁷ Does not include those that work at home or that have no fixed workplace address

⁸ Niemira, Michael P & Connolly, John. "Office-Worker Retail Spendnig in a Digital Age". International Council of Shopping Centres. 2012

Figure 11

Economic Benefits, Expenditure of Office Employees in Downtown Vancouver



Source: Altus Group Economic Consulting

This expenditure supports a significant amount of jobs and other benefits in the downtown economy (Figure 11):

- \$557 million in employee spending contributes some \$297 million directly to GDP;
- An estimated 6,597 full-time equivalent jobs (person years of employment) are supported directly; and
- This creates \$331 million in profits and labour income and a total of \$60 million in taxes for federal and provincial governments.

4.3.3 Other Benefits of Downtown Workers

In addition to the economic benefits described above, the density of employment in downtown Vancouver provides a number of other benefits to the city and region.

4.3.3.1 Optimal Use of Higher-Order Transit

Vancouver's downtown Vancouver is a confluence of multiple high-order transit lines, including three Skytrain lines and the West Coast Express. In a growing region with increasing traffic-congestion problems, encouraging development around high-order transit nodes is essential to sustainable long-term growth:

- Locating new office development near higher-order transit allows future employees to take public transit, reducing the number of car trips compared to the number that would prevail if new development occurred outside of downtown Vancouver;
- Locating high-density office development in close proximity to major public transit routes reduces greenhouse gas emissions, with urban auto travel producing 2.6 times as much GHG emissions per kilometre travelled compared to urban transit travel;⁹ and
- This is in line with the City's goal to become the world's "greenest" city by 2020.¹⁰

4.3.3.2 *Support of Healthy, Live/Work Communities*

Downtown Vancouver is also home to a sizable population, many of whom also work in the area. Planning for the development of major office space in the vicinity of major population centres supports the development of mixed-use communities. This type of development has several economic benefits:

- Mixed use communities reduce the demand on transportation infrastructure and, thus, the need for private vehicles. This encourages foot traffic, for both locals and non-locals; and
- Foot traffic encourages interaction which encourages innovation and leads to more local spending. Pedestrians spend notably more in an area than those that drive, supporting local businesses¹¹

4.3.3.3 *Efficient Clustering of Businesses*

Business attracts business. The types of businesses located in downtown Vancouver display a strong tendency to cluster together. The more business are co-located, the more incentive there is for other businesses to locate in that area:¹²

- Clusters increase productivity by allowing for more efficient information and technology access and improving the coordination with related companies;

⁹ Canadian Urban Transit Association. "Public Transit: A Climate Change Solution". 2005

¹⁰ City of Vancouver. *Greenest City – 2020 Action Plan*. 2012

¹¹ Transport for London. "Town Centre Study 2011". 2011

¹² Porter, Michael C. "Clusters and the New Economics of Competition" Harvard Business Review. 1998

- Clusters drive the pace of innovation by allowing companies within a cluster to learn early about new technologies and marketing concepts; and
- Clusters encourage new firm development in part because barriers to entry are generally lower as needed staff and other assets are readily available.

4.4 POTENTIAL LOSSES

Taxes will always have a marginal effect on supply. In the case of office development, this would come in the form of new developments that are either scaled back, moved elsewhere, or cancelled altogether.

This section examines the potential negative economic impacts in the form of a potential foregone office development in downtown Vancouver as a result of the imposition of CACs. Underpinning subsequent analysis is a prototypical downtown office development:

- As of January 2015, there were 5 proposals for office developments in downtown Vancouver that had a rezoning application approved. As such, they serve as useful examples of developments that could be delayed or cancelled due to CACs; and
- These applications averaged about 345,000 sq. ft., which would cost approximately \$149 million to develop, including soft costs and site development costs, but excluding the land value.

4.4.1 Relocation to Elsewhere in the Greater Vancouver Area

With the added costs of developing office space in Vancouver's downtown Vancouver, it is possible that a development that would have taken place will be shifted to another municipality within the Greater Vancouver Area.

This would have an impact on the economic benefits presented earlier in this report, as the proportion of the benefits that would accrue to the city of Vancouver would be drastically reduced:

- Some of the employees involved in the construction and on-going management of the building would live in the city of Vancouver. Furthermore, many of the needed ancillary services would be provided by companies that are located within the city of Vancouver,

meaning that some of the indirect and induced impact would still accrue to Vancouver; however

- The municipality that the development ultimately locates in would gain the lion’s share of these benefits at the cost of Vancouver; and
- All of the benefits that the occupants have on the surrounding businesses and local development would be lost.

4.4.2 Cancellation of a Project

It is also possible that this prototypical development would be cancelled altogether or moved to elsewhere in the country. In that instance, all of the economic benefits of its construction and operation would be lost.

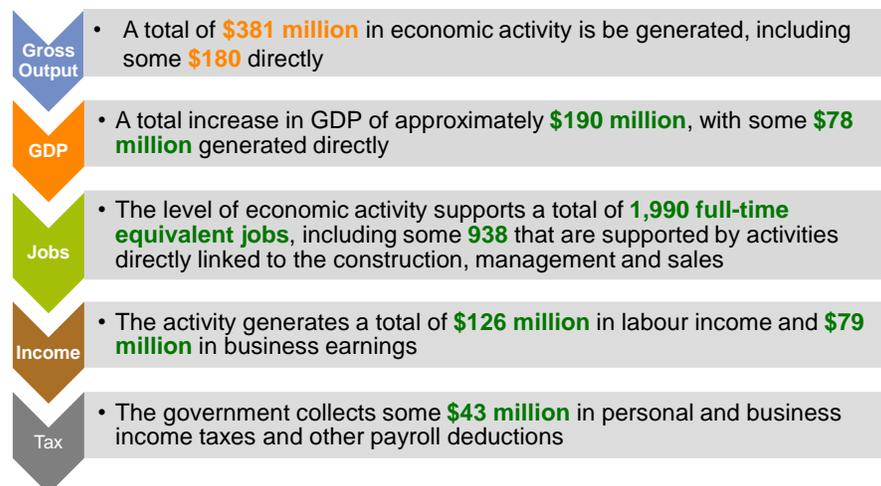
4.4.2.1 Province-Wide Impact

Figure 12 lays out the estimated province-wide economic impact stemming from the initial construction and 10 years of on-going operations of a foregone office development in downtown Vancouver:

- The initial construction and on-going operation of the building would generate \$180 million in direct economic activity;

Figure 12

Economic Benefits, Construction and On-Going Operation of an Individual Office Development



Source: Altus Group Economic Consulting

- This would contribute a total of \$201 million to GDP;

- An estimated 1,990 full-time equivalent jobs (person years of employment) would be supported, 940 directly; and

This would create \$204 million in profits and labour income and a total of \$43 million in taxes for federal and provincial governments.

4.4.2.2 Municipal Tax Impact

In the event that a potential office development in downtown Vancouver does not go through as a result of the CAC, the City and the Region would be foregoing significant future revenues in the form of lost property tax revenues:

- The foregone development being considered is 345,000 sq. ft. ;
- Analysis of recent sales of office buildings in downtown Vancouver indicates an average price per sq. ft. of \$552, which generates an assessed value for the foregone development of approximately \$191 million;
- The current applicable tax rate in the City of Vancouver is around 1.50%. This would generate annual property tax revenue of \$2.9 million; and
- Over ten years, this would amount to almost \$29 million in lost property tax revenue for the City of Vancouver and Metro Vancouver.

5 CONCLUSION

NAIOP retained Altus Group Economic Consulting to provide an assessment of the economic benefits of downtown Vancouver's office sector and the potential negative impacts of the application of Community Amenity Charges (CACs) to office re-zoning developments in downtown Vancouver.

5.1 COMMUNITY AMENITY CONTRIBUTIONS

The CAC is a charge applied to rezoning applications within the city of Vancouver. The purpose is to address growth costs, area deficiencies, and/or other community needs and impacts. CACs have heretofore only been applied to residential re-zoning applications, despite the fact that office development in downtown Vancouver is not explicitly exempt.

Recently the City of Vancouver has begun to negotiate "non-standard" CACs on major office developments in downtown Vancouver.

This report has set out a wide array of evidence that imposing CAC at this time on downtown office development would bring about a number of negative economic and fiscal consequences for the City of Vancouver and the Vancouver economy. The City must assess the benefits of imposing CACs in the context of these costs and risks.

5.2 ECONOMIC IMPACT OF THE OFFICE SECTOR IN DOWNTOWN VANCOUVER

The estimated province-wide economic impact stemming from the construction and renovation of office buildings in downtown Vancouver in 2013, as well as management fees and brokerage fees are substantial:

- Construction, renovation, and on-going operations (including brokerage and management fees) of office buildings in downtown Vancouver generated \$407 million in direct economic activity;
- This contributes a total of \$435 million to GDP;
- An estimated 4,615 full-time equivalent jobs (person years of employment) are supported, 2,331 directly; and
- This creates \$475 million in profits and labour income and a total of \$96 million in taxes for federal and provincial governments.

5.3 ECONOMIC IMPACT OF DOWNTOWN OFFICE WORKERS

The above estimates do not fully capture the benefits of the office sector in downtown Vancouver. These employees spend a significant amount of money in downtown Vancouver which supports a wide array of economic benefits:

- An estimated 107,100 office workers in downtown Vancouver spend approximately \$557 million in the vicinity of their offices. This contributes some \$297 million directly to GDP;
- An estimated 6,597 full-time equivalent jobs (person years of employment) are supported directly by this spending; and
- This creates \$331 million in profits and labour income and a total of \$60 million in taxes for federal and provincial governments.
- Recent office development alone contributes approximately \$34 million in annual property taxes to the City of Vancouver

5.4 OTHER BENEFITS OF DOWNTOWN OFFICE WORKERS

Beyond the readily quantifiable economic benefits, downtown office workers provide several important contributions to Vancouver's economic development:

- The close proximity of development in downtown Vancouver creates an **efficient clustering of businesses**, which spurs firm formation and increases productivity;
- The development of office space in downtown Vancouver, which is a nexus of higher-order transit, **encourages the optimal use of existing public transit**, reducing congestion and GHG emissions; and
- Planning for the development of major office space in the vicinity of major population centres **supports the development of live/work communities** which reduce the demand on infrastructure and the need for private vehicles.

5.5 FOREGONE DEVELOPMENT

The imposition of CACs on office development in Vancouver could lead to a loss of new office supply in the downtown. Even if this loss was the equivalent of one typical office project, the foregone economic benefits that would be lost as a result are sizable:

- The initial construction and on-going operation of a typical development would have generated \$155 million in direct economic activity;
- This would have contributed a total of \$163 million to GDP;
- An estimated 1,690 full-time equivalent jobs (person years of employment) would have been supported, 769 directly; and
- This would have created \$174 million in profits and labour income and a total of \$37 million in taxes for federal and provincial governments; and
- Approximately \$29 million in property tax revenue would have been collected by the City of Vancouver and Metro Vancouver.

Moreover, downtown office developments are typically more energy efficient and transit oriented than suburban, thus curtailing downtown developments could work against the City's own sustainability policies.

While the expansion of CACs to include downtown office projects might appear to be an additional revenue source to the City, the negative economic consequences of introducing such a tax on such an important economic activity should also be carefully considered.

Appendix

Economic Benefits of the Office Real Estate Sector in Downtown Vancouver, 2013

	New Construction	Site Development	Improvements	Management Fees	Brokerage Fees	Total
Spending (\$Millions)	180	18	150	43	17	407
Gross output (\$Millions)						
Direct gross output	180	18	150	43	17	407
Indirect gross output	119	15	79	27	11	250
Induced gross output	84	8	71	13	5	182
Total gross output	383	41	300	83	33	839
GDP (\$Millions)						
Direct GDP	75	6	82	23	9	195
Indirect GDP	62	8	39	15	6	130
Induced GDP	51	5	43	8	3	111
Total GDP	189	18	164	46	18	435
Employment (Number of jobs)						
Direct employment	918	60	1,049	219	86	2,331
Indirect employment	637	74	434	151	60	1,355
Induced employment	428	41	361	70	28	929
Total employment	1,983	175	1,844	440	174	4,615
Personal income (\$Millions)						
Direct personal income	62	4	68	11	4	149
Indirect personal income	42	5	26	9	3	85
Induced personal income	23	2	19	4	1	50
Total income	127	11	113	23	9	284
Company Profit (\$Millions)						
Direct profit	27	2	33	16	6	84
Indirect profit	21	3	15	7	3	48
Induced profit	27	3	23	4	2	58
Total company profit	75	7	70	27	11	191

Note: **Indirect impacts** are related to economic activity in industries providing goods and services to the companies directly involved in the CRE Sector. **Induced impacts** are generated from the expenditure of incomes generated in the direct and indirect rounds.

Source: Altus Group Economic Consulting based on Statistics Canada's Input-Output Model

Economic Benefits of a Typical Downtown Vancouver Office Building, Construction and 10 Years Operation

	New Construction	Site Development	Improvements	Management Fees	Brokerage Fees	Total
Spending (\$Millions)	135	13	22	7	3	180
Gross output (\$Millions)						
Direct gross output	135	13	22	7	3	180
Indirect gross output	89	11	12	4	2	118
Induced gross output	<u>63</u>	<u>6</u>	<u>11</u>	<u>2</u>	<u>1</u>	83
Total gross output	288	31	45	13	5	381
GDP (\$Millions)						
Direct GDP	57	4	12	3	1	78
Indirect GDP	47	6	6	2	1	62
Induced GDP	<u>39</u>	<u>4</u>	<u>6</u>	<u>1</u>	<u>0</u>	50
Total GDP	142	14	24	7	3	190
Employment (Number of jobs)						
Direct employment	691	45	156	33	13	938
Indirect employment	479	56	65	23	9	631
Induced employment	<u>322</u>	<u>31</u>	<u>54</u>	<u>11</u>	<u>4</u>	422
Total employment	1,492	131	275	67	26	1,992
Personal income (\$Millions)						
Direct personal income	46	3	10	2	1	62
Indirect personal income	32	4	4	1	1	41
Induced personal income	<u>17</u>	<u>2</u>	<u>3</u>	<u>1</u>	<u>0</u>	23
Total income	96	8	17	4	1	126
Company Profit (\$Millions)						
Direct profit	20	1	5	2	1	30
Indirect profit	16	2	2	1	0	22
Induced profit	<u>20</u>	<u>2</u>	<u>3</u>	<u>1</u>	<u>0</u>	27
Total company profit	57	6	10	4	2	79

Note: **Indirect impacts** are related to economic activity in industries providing goods and services to the companies directly involved in the CRE Sector. **Induced impacts** are generated from the expenditure of incomes generated in the direct and indirect rounds.

Source: Altus Group Economic Consulting based on Statistics Canada's Input-Output Model
