

# Halton Region

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**Competitiveness Study  
Cost of Development Findings**

**Development Charges Advisory  
Committee**

**November 3, 2016**

# Introduction

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- Halton Region's 2016 Competitiveness Study includes an examination of non-residential cost of development competitiveness and feasibility.
- Analysis includes Halton area municipalities and comparator municipalities in the GTHA and GGH.
- Analysis updates and builds on 2011 Investment Readiness and Competitiveness Study (2011 Competitiveness Study)

# Introduction (cont'd)

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- Findings from the Study presented herein is intended to provide insight to the DC Advisory Committee with respect to:
  - The total cost of development and feasibility of typical industrial, office and retail development within Halton in comparison to other municipalities in the broader market; and
  - The impact on competitiveness for industrial, office and retail development within Halton under the proposed DC rates.

# Outline of Presentation

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- Overview of Study Approach and Methodology
- Cost of Development – Key Components
- Cost of Development – 2011 vs. 2016
- Cost of Development– Municipal Comparative Analysis
- Development Feasibility (Residual Land Value Analysis)– Municipal Comparative Analysis

# Overview of Prototypical Development Typologies

- Cost of development competitiveness and feasibility assessed across a range of prototypical non-residential developments:

Industrial (General Industrial Building)	<ul style="list-style-type: none"><li>• 75,000 sq ft.</li><li>• 150,000 sq.ft.</li><li>• 300,000 sq. ft.</li><li>• 750,000 sq ft.</li></ul>
Office	<ul style="list-style-type: none"><li>• 50,000 sq. ft. – suburban Class A</li><li>• 150,000 sq. ft. – suburban Class A</li><li>• 100,000 sq.ft. Flex Office</li></ul>
Retail	<ul style="list-style-type: none"><li>• 80,000 sq. ft. Neighbourhood Retail</li><li>• 400,000 sq.ft. Power Centre</li></ul>

# Pro Forma Analysis

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- Assessment of select prototypical developments in terms of:

## Total Development Cost/Annualized Cost

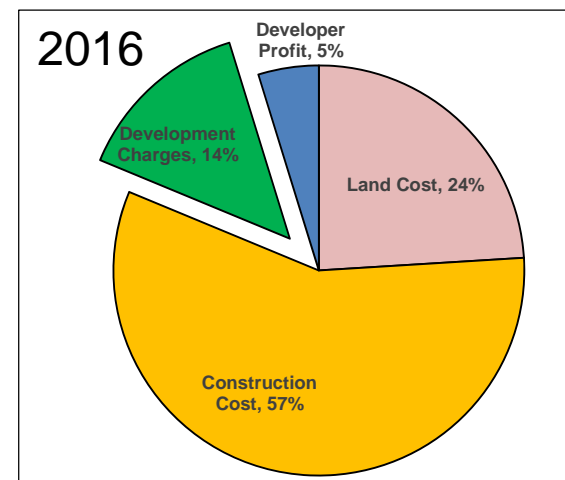
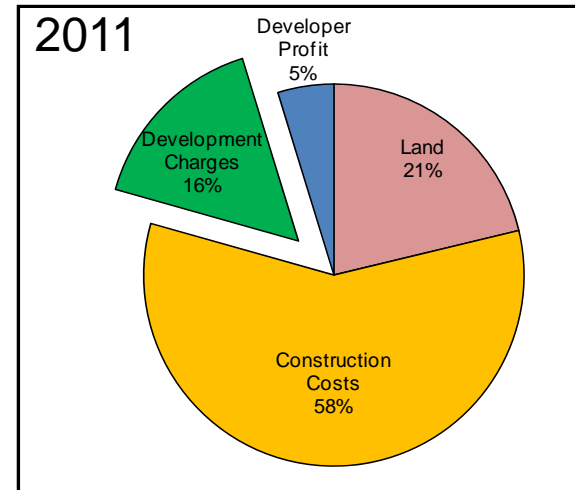
- Allows comparison of the total cost of development across municipalities and shows the impact of cost components on total cost.

## Residual Land Value Analysis

- Reflects both revenue potential and development costs under two revenue scenarios:
  - Rental revenue stream – evaluates the financial viability of a development project subject to rental income
  - Sale of project – evaluates the financial viability of a development project if sold immediately after completion

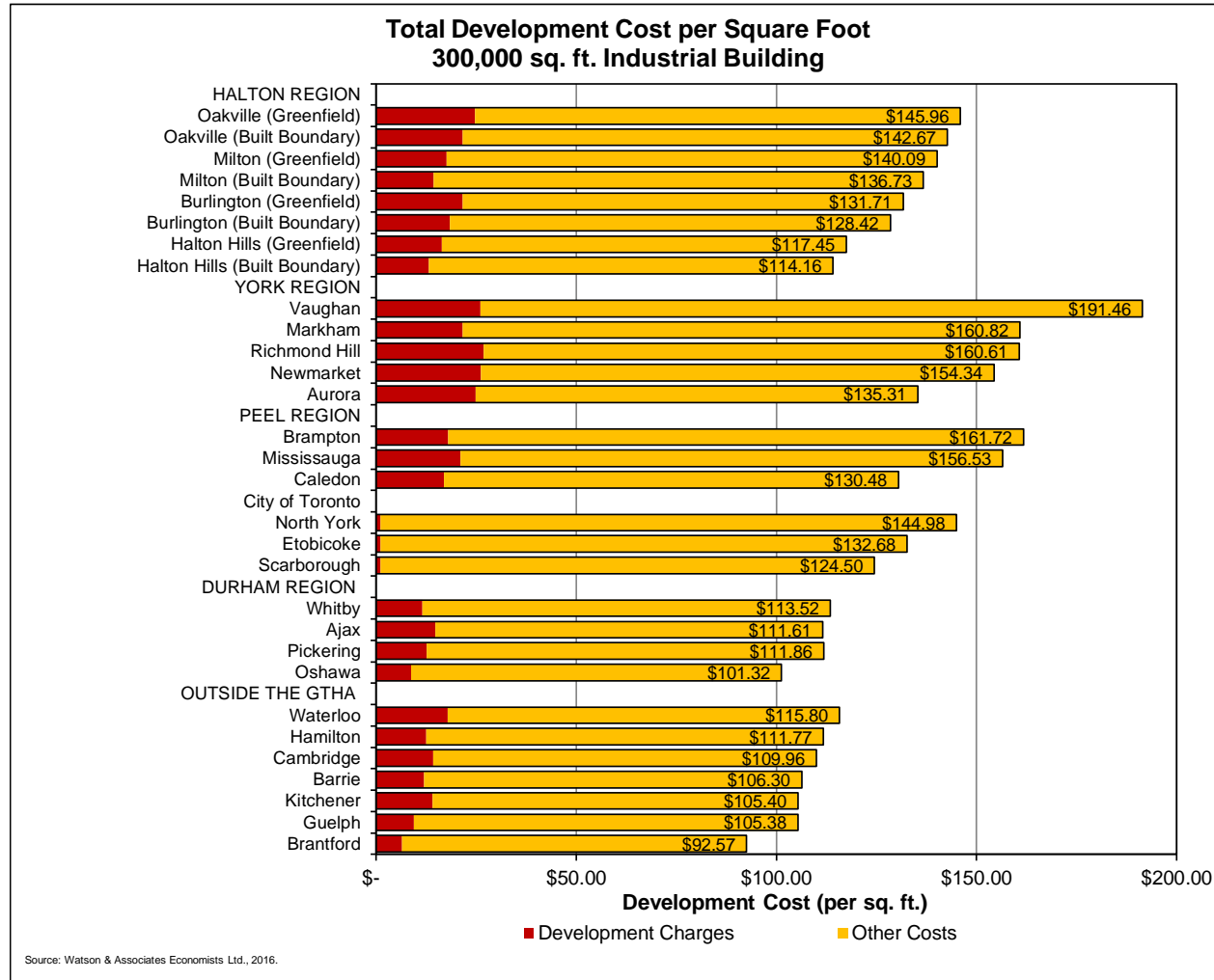
# Cost of Development – Key Components

- Key Cost Inputs:
  - Construction Costs – hard and soft costs
  - Cost of Land
  - Development Charges
  - Provision for Developer Profit
  
- In Halton, development charges account for an average of 14% of total development costs for a typical industrial development\*, a lower share than in 2011.



\* 300,000 sq.ft. industrial building

# Development Charges as a Share of Total Development Cost

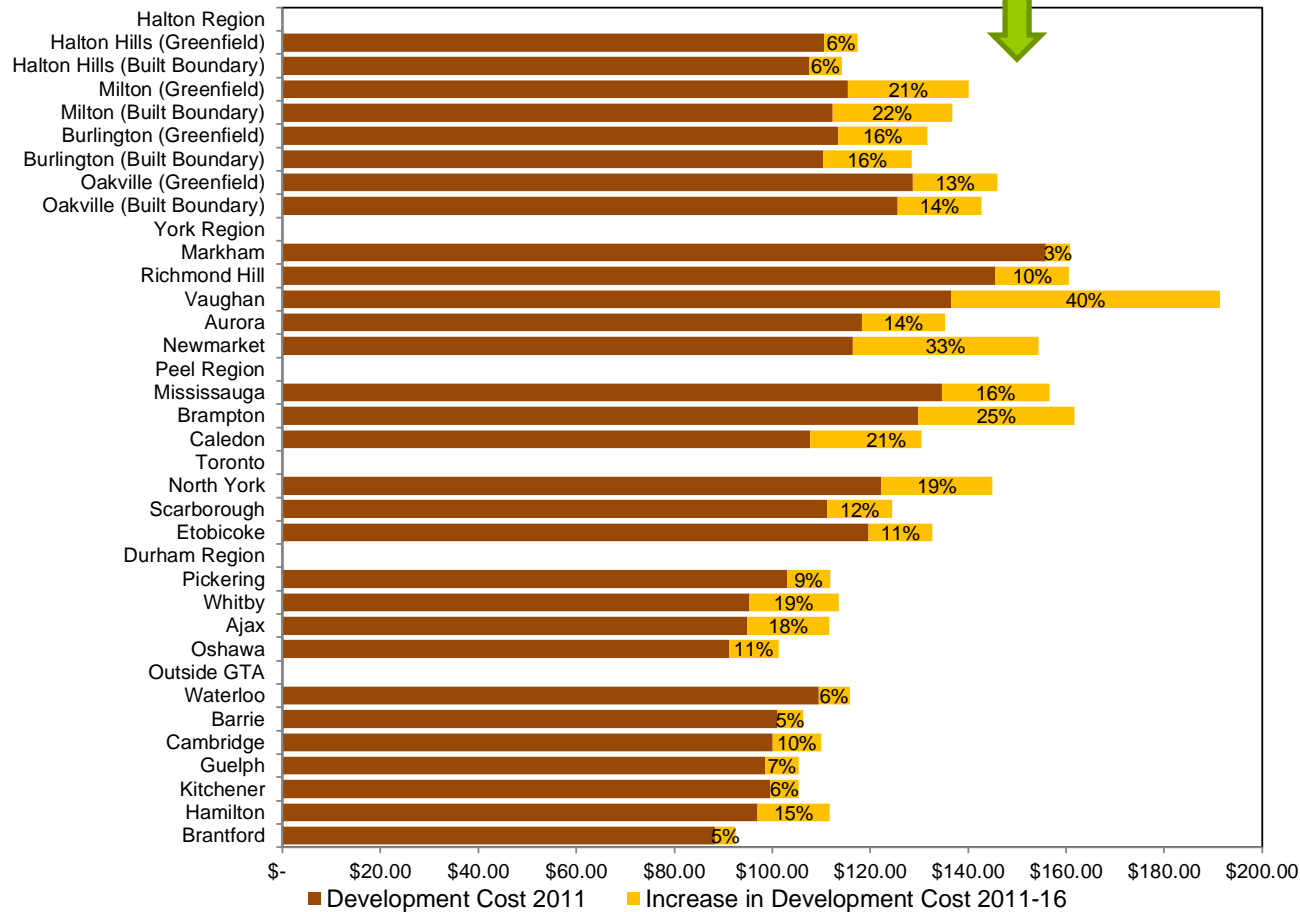




# Total Development Costs, 2011 vs. 2016

2011 vs. 2016  
Total Development Cost per Square Foot  
300,000 sq. ft. Industrial Building

Percentage Increase 2011-2016



# Annualized Cost Assessment - Framework

- Generating an annualized cost from the total development cost determines the average annual cost of developing and operating a building over a defined time period (i.e. 25 years)

## Development Cost - 300,000 sq.ft. Industrial Building in Milton (Greenfield)

Land Cost (per acre)	(A)	\$666,000
Land Cost (per sq. ft. of building)	(B)	\$40.23 (A) x 18.12 / 300,000
Construction cost (per sq. ft.)	(C)	\$75.64
Development Charges (per sq. ft.)	(D)	\$17.55
Developer Profit	(E)	\$6.67 5% x (B+C+D)
<b>Total Development Cost (per sq. ft.) (F)</b>		<b>\$140.09 (B+C+D+E)</b>
<b>Annualized Development Cost (per sq (G)</b>		<b>\$8.41 F x 6%</b>
Property Tax Rate (%)	(H)	2.49
Assessment (per sq. ft.)	(I)	\$83.40
Taxes (per sq. ft.)	(J)	\$2.08 (H x I)
<b>Total Annualized Costs (per sq. ft.) (K)</b>		<b>\$10.49 (G+J)</b>

Source: Watson & Associates Economists Ltd.

# Annualized Cost Comparative Analysis

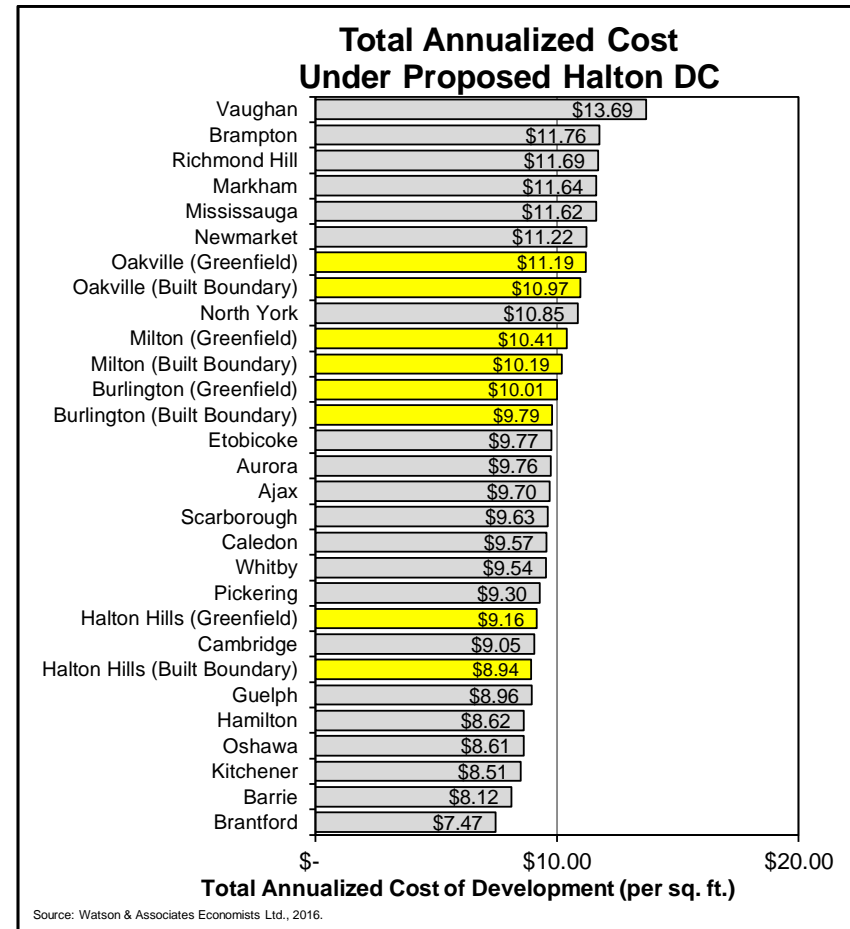
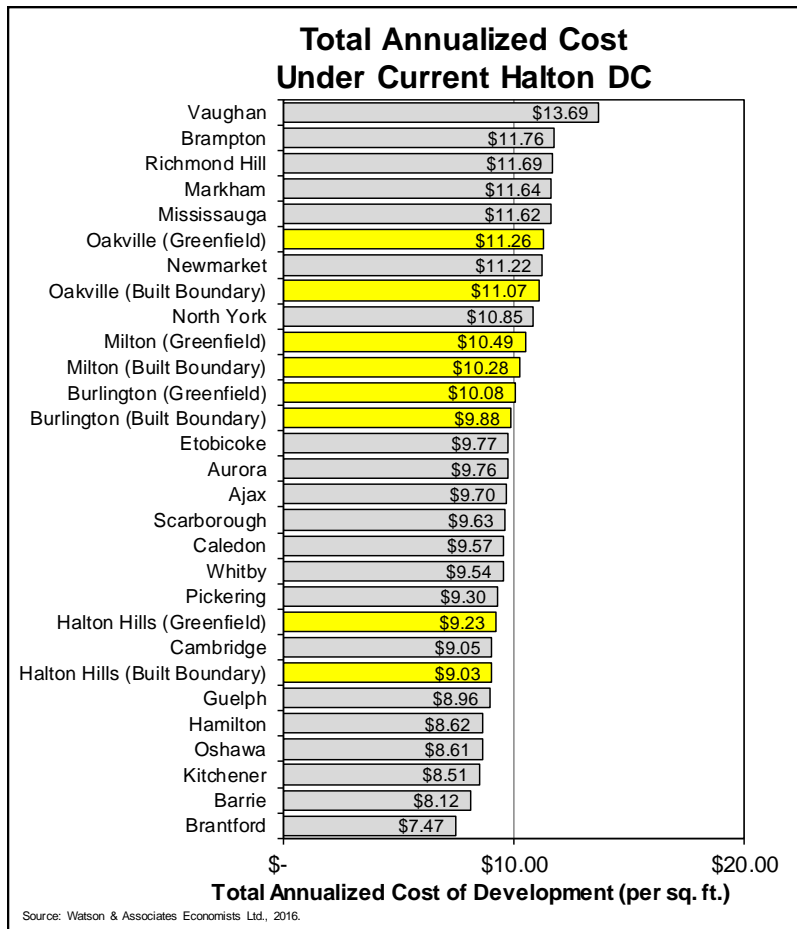
## 300,000 sq. ft. Industrial Building

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- Ranges between \$7.47 and \$13.69 per sq. ft. (average of \$10.01 per sq. ft)
- Milton and Burlington close to survey average
- Oakville higher than survey average while Halton Hills is below
- Proposed Halton DC rates would reduce total annualized cost

# Annualized Cost Comparative Analysis

## 300,000 sq. ft. Industrial Building



# Annualized Cost Comparative Analysis

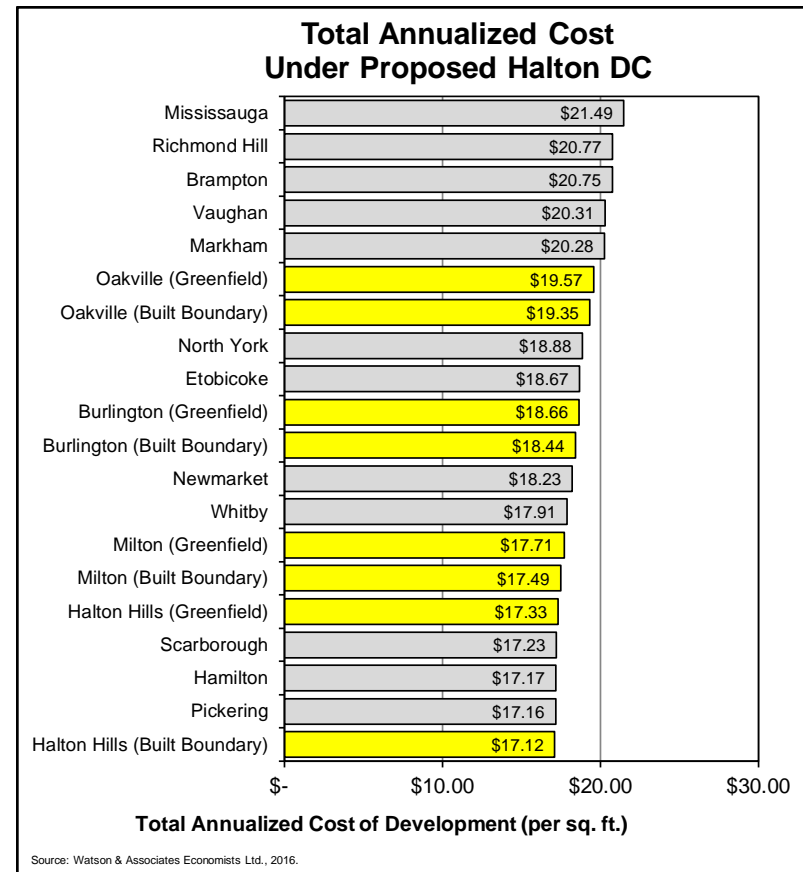
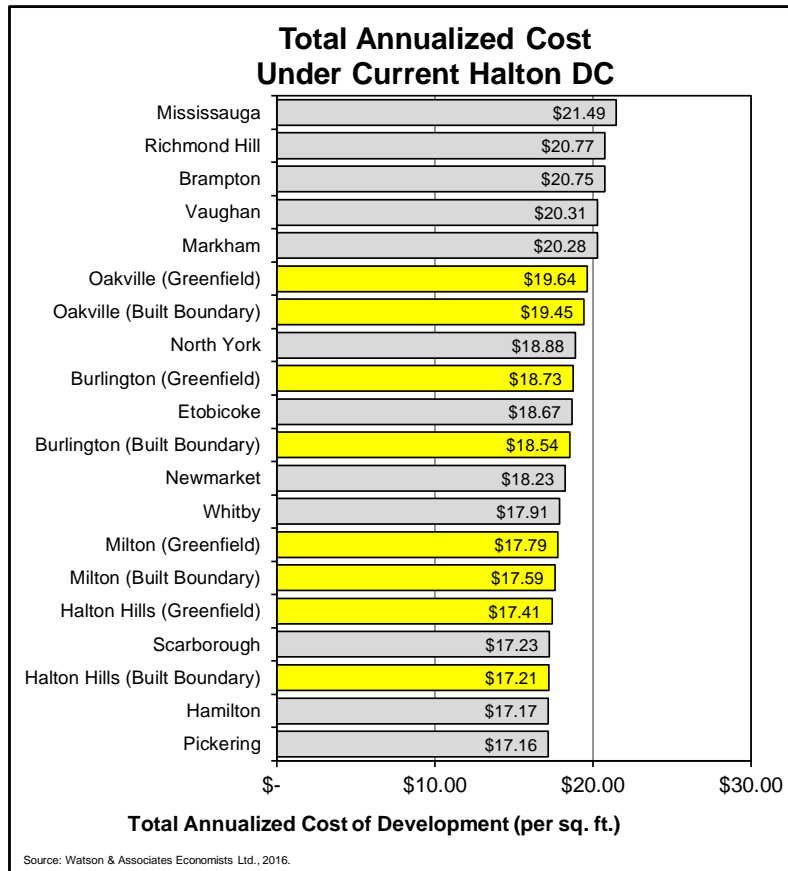
## 150,000 sq. ft. Office Building

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- ❑ Ranges between \$17.16 and \$21.49 per sq. ft. (average of \$18.76 per sq. ft)
- ❑ Annualized costs in Burlington are close to the survey average
- ❑ Oakville higher than the survey average while Halton Hills and Milton are below
- ❑ Proposed Regional non-residential DC rates would reduce total annualized cost

# Annualized Cost Comparative Analysis

## 150,000 sq. ft. Office Building



# Annualized Cost Comparative Analysis

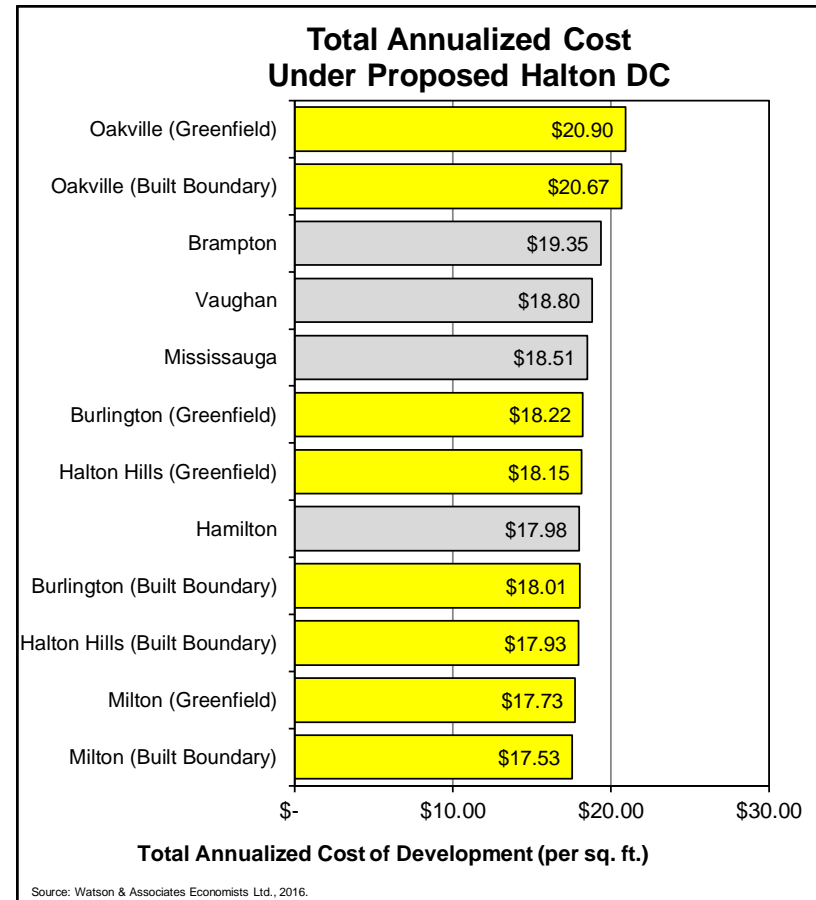
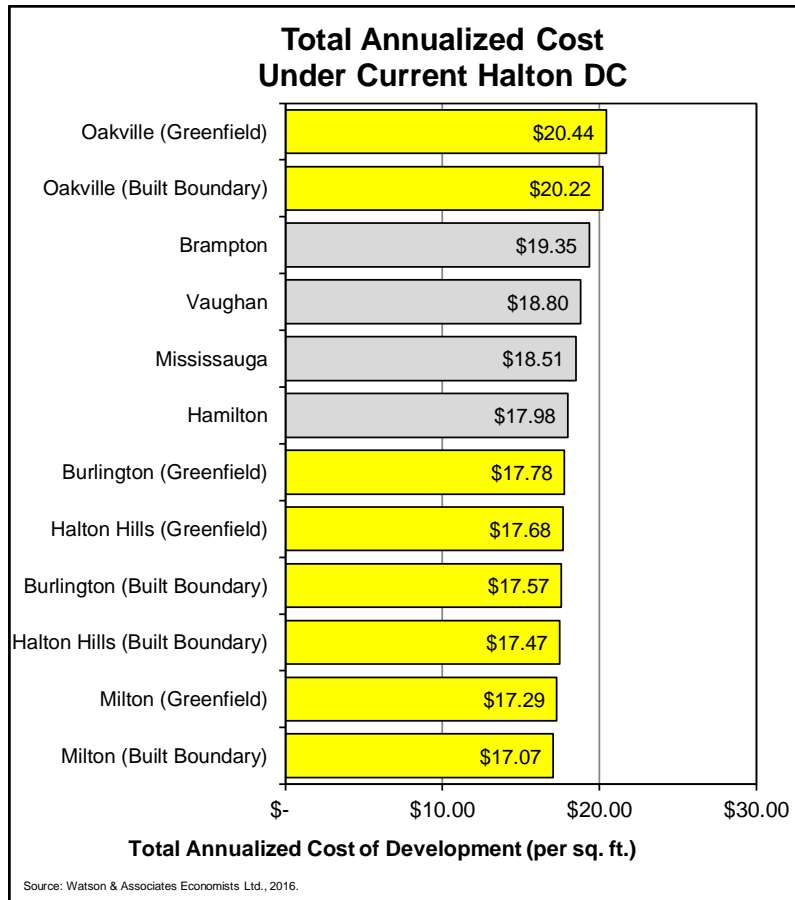
## 400,000 sq. ft. Retail Development

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- Ranges between \$17.07 and \$20.44 per sq. ft. (average of \$18.35 per sq. ft)
- Annualized costs in Burlington, Halton Hills, Milton are all below the survey average
- Oakville is higher than the survey average
- Proposed Regional non-residential DC rates would increase total annualized cost

# Annualized Cost Comparative Analysis

## 400,000 sq. ft. Retail Development





# Key Observations from Cost of Development Analysis

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- Development costs have increased across comparator municipalities since 2011—due largely to increases in land costs and development charge rates
- Halton’s relative cost competitiveness has remained generally unchanged
- Burlington, Halton Hills and Milton are cost competitive with other GTHA municipalities with respect to industrial, office and retail development
- Oakville is at the upper end of the cost scale

# Key Observations from Cost of Development Analysis

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- The proposed Regional non-residential DCs reduce annualized cost and assist with Halton's relative competitiveness for industrial and office development
- The proposed rates would however, reduce the Region's cost competitiveness for retail development

# Residual Land Value Analysis

## Rental Revenue Stream Scenario

- Residual Land Value Analysis - Assesses financial feasibility of project from a revenue and cost perspective. Example (with rental revenue) :

### Residual Land Value - Milton (Greenfield), 300,000 sq. ft. Industrial Building

Annual Rent (per sq. ft.)	(A)	\$7.03
<b>Present Value of Future Cash Flow</b>	(B)	<b>\$117.10</b> (A) / 6%
<b>Less Profit</b>	(C)	<b>\$5.86</b> (B) x 5%
Development Charges (per sq. ft.)	(D)	\$17.55
Construction cost (per sq. ft.)	(E)	\$75.64
Residual Land Value (per sq. ft.)	(F)	\$18.05 (B) - (C+D+E)
<b>Residual Land Value (per acre)</b>	(G)	<b>\$299,000</b> (F) x 300,000 / 18.12
Employment Land Market Price	(H)	\$666,000
<b>Residual Land Value to Employment Land Price Ratio</b>	(I)	<b>0.4</b> (G) / (H)

# Residual Land Value Analysis

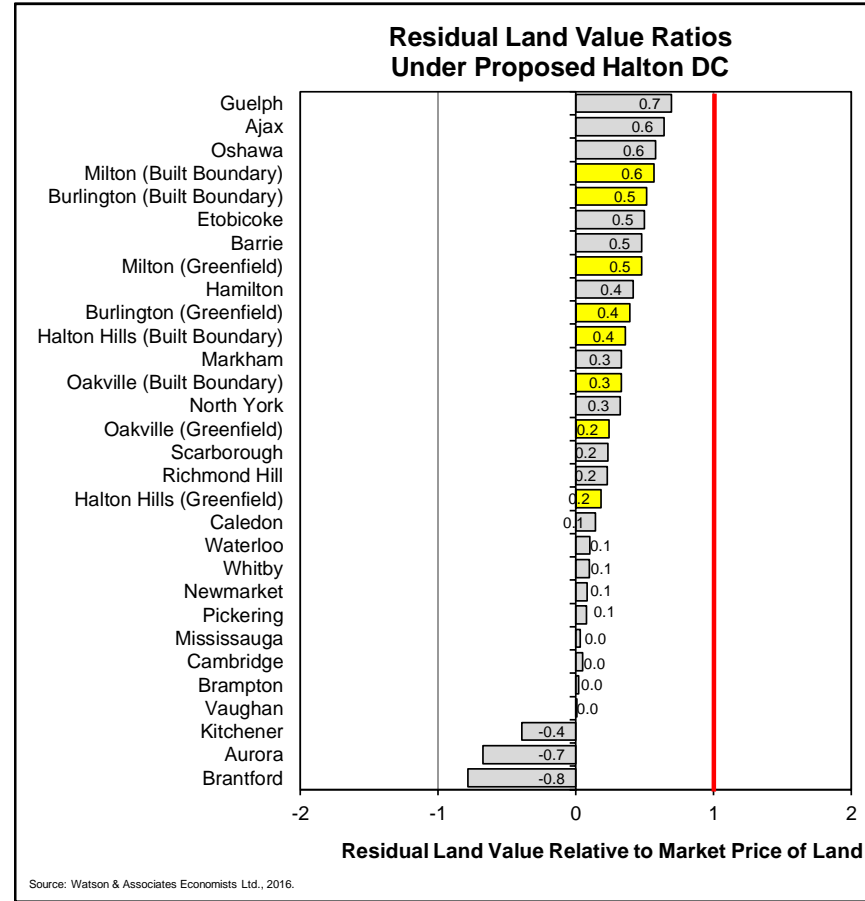
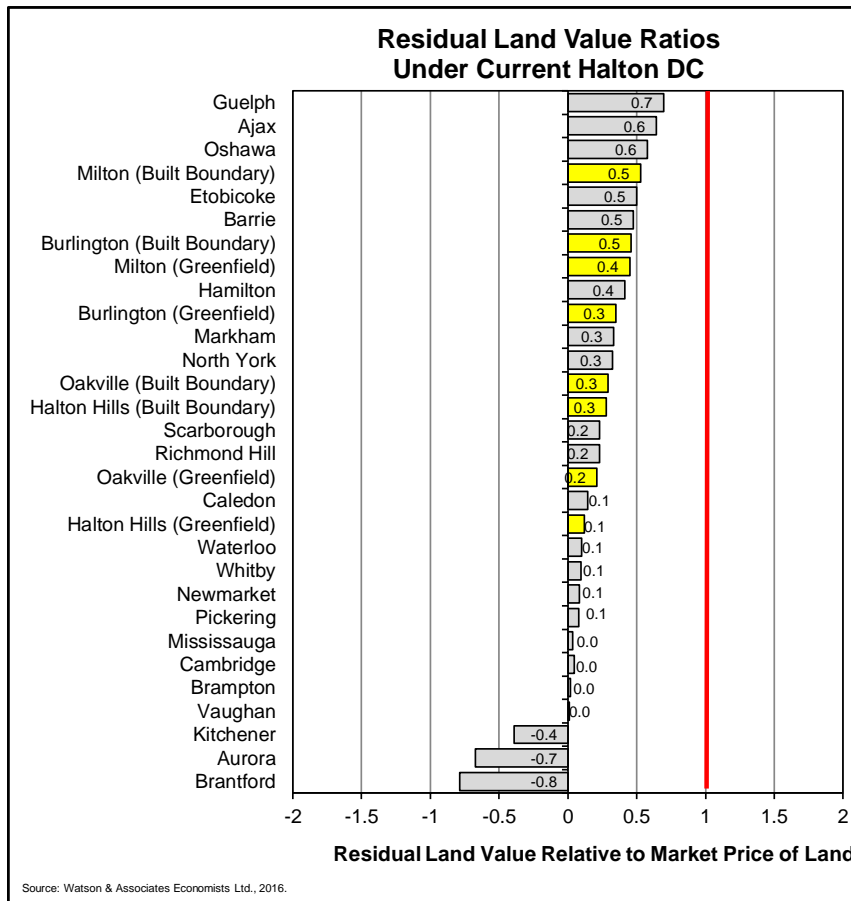
## Project Feasibility Criteria

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- Residual land Value to Employment Land Price Ratio:
  - Ratio of 1 or greater – project is likely feasible
  - Ratio of less than 1 – project is less likely feasible

# Residual Land Value Analysis Findings Industrial Rental Revenue Stream

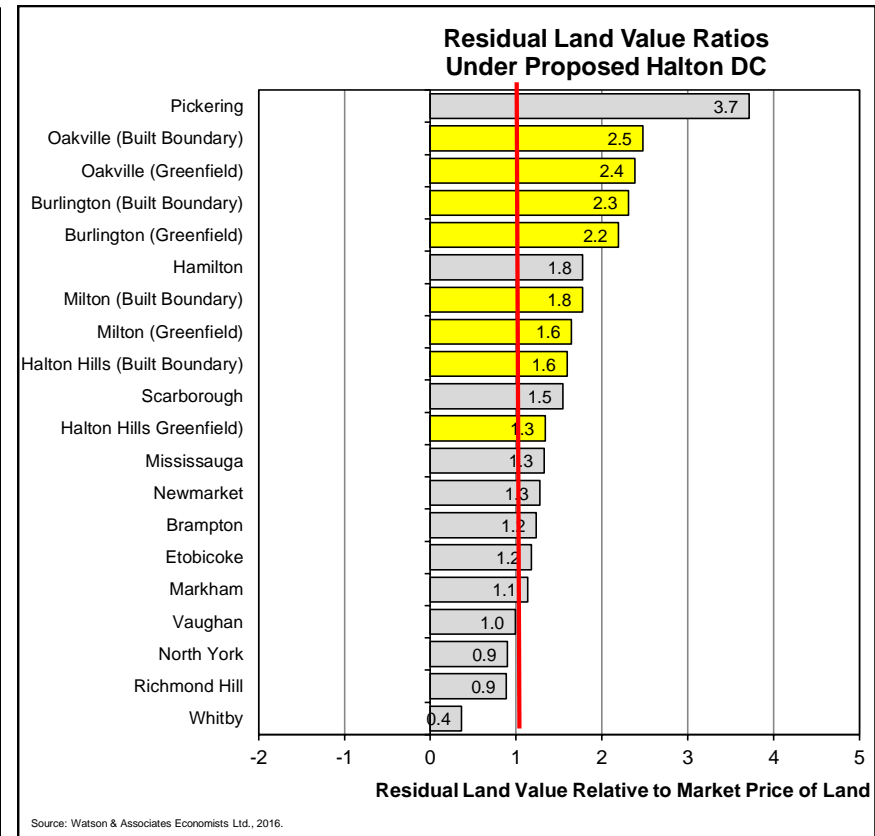
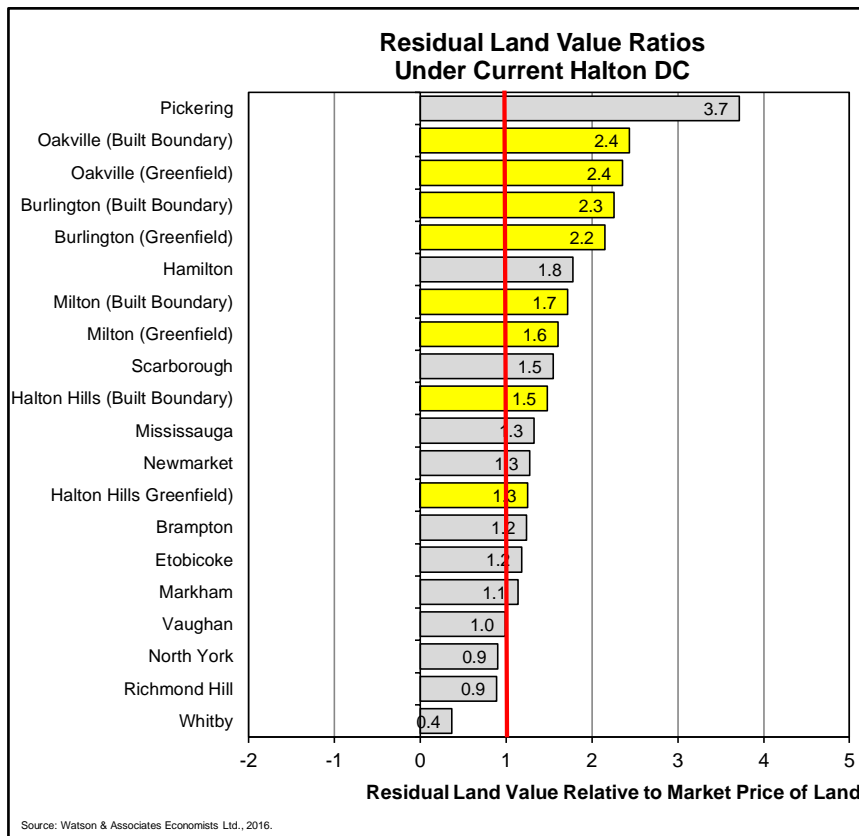
Example - 300,000 sq. ft. industrial building:



# Residual Land Value Analysis Findings

## Office Rental Revenue Stream

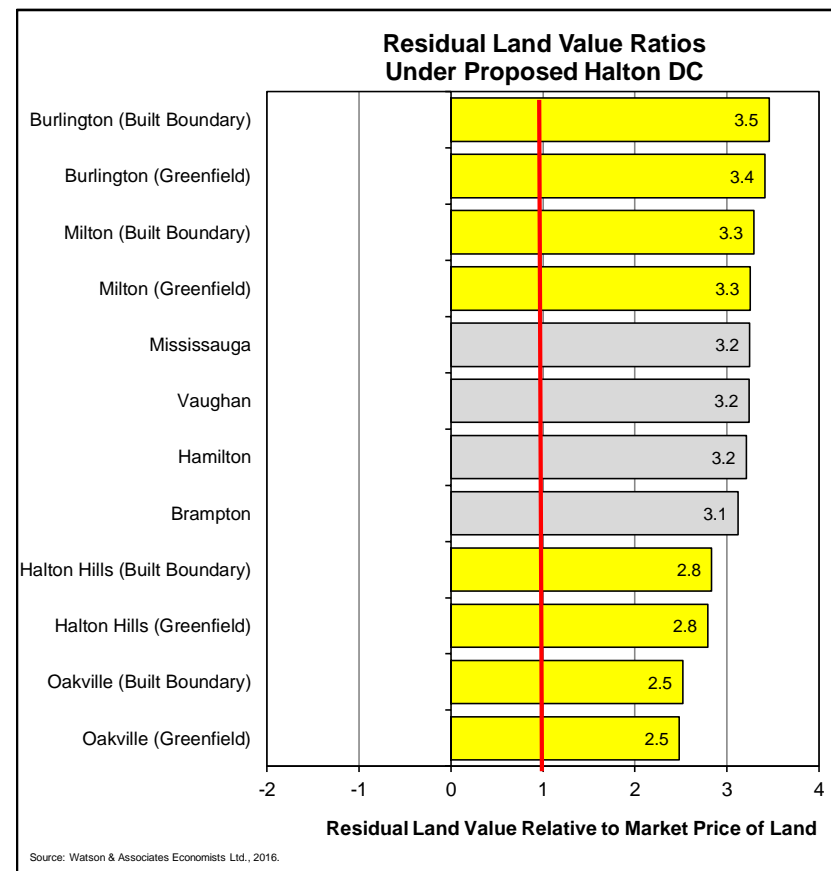
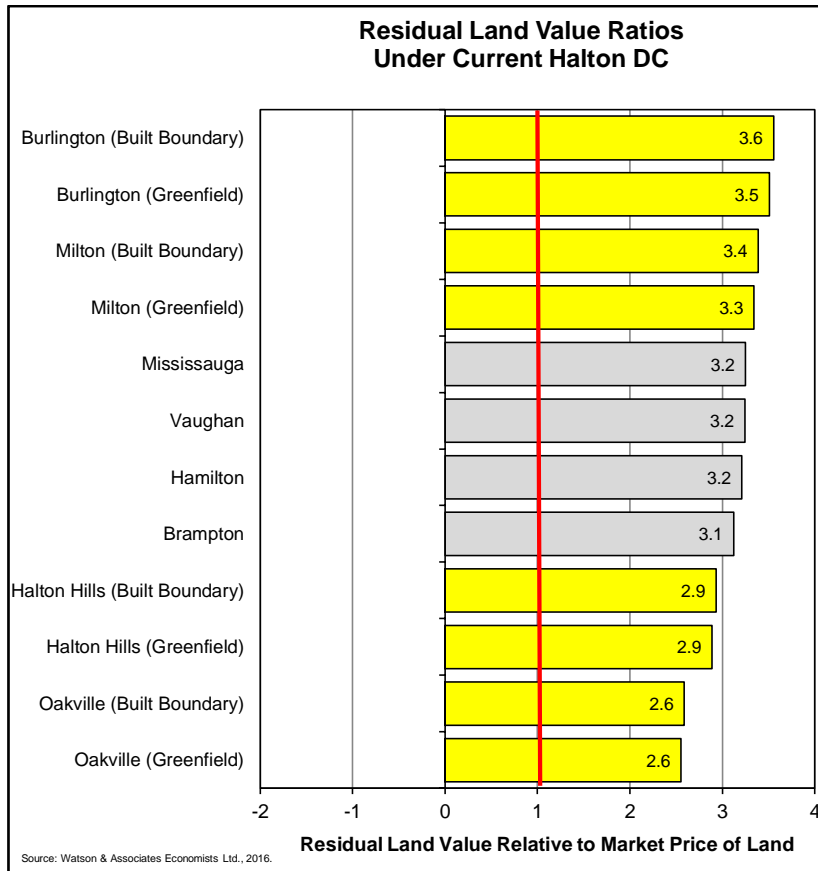
Example - 150,000 sq. ft. office building:



# Residual Land Value Analysis Findings

## Retail Rental Revenue Stream

### Example - 400,000 sq. ft. Retail Development:



# Residual Land Value Analysis

## Sales Scenario

- Residual Land Value analysis under a sales scenario. Example:

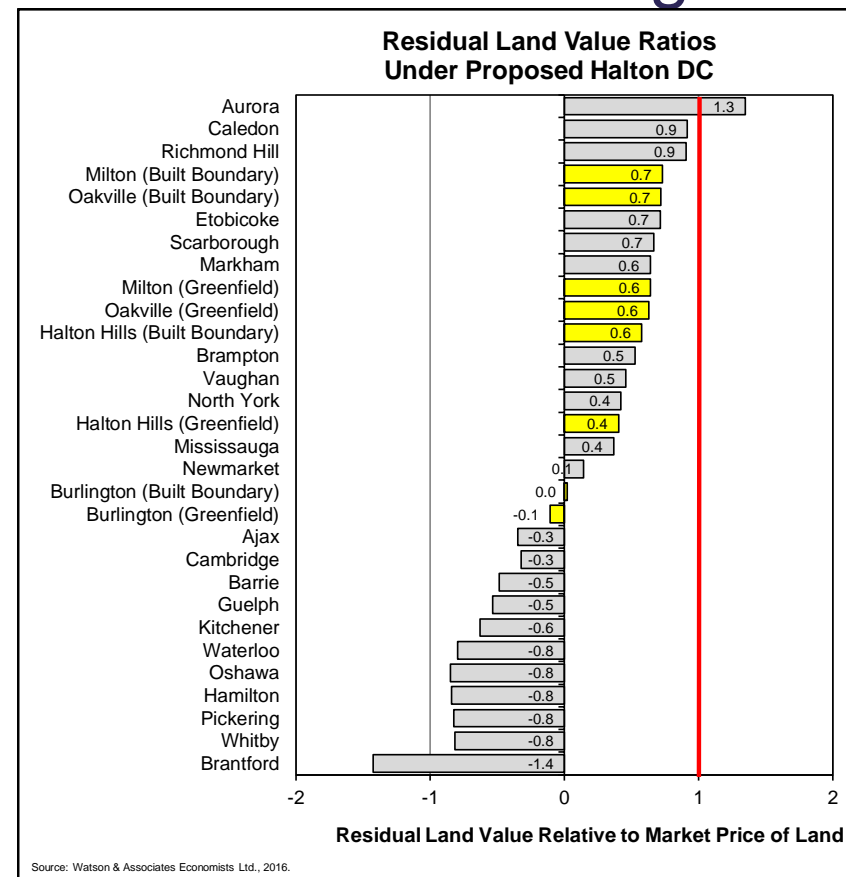
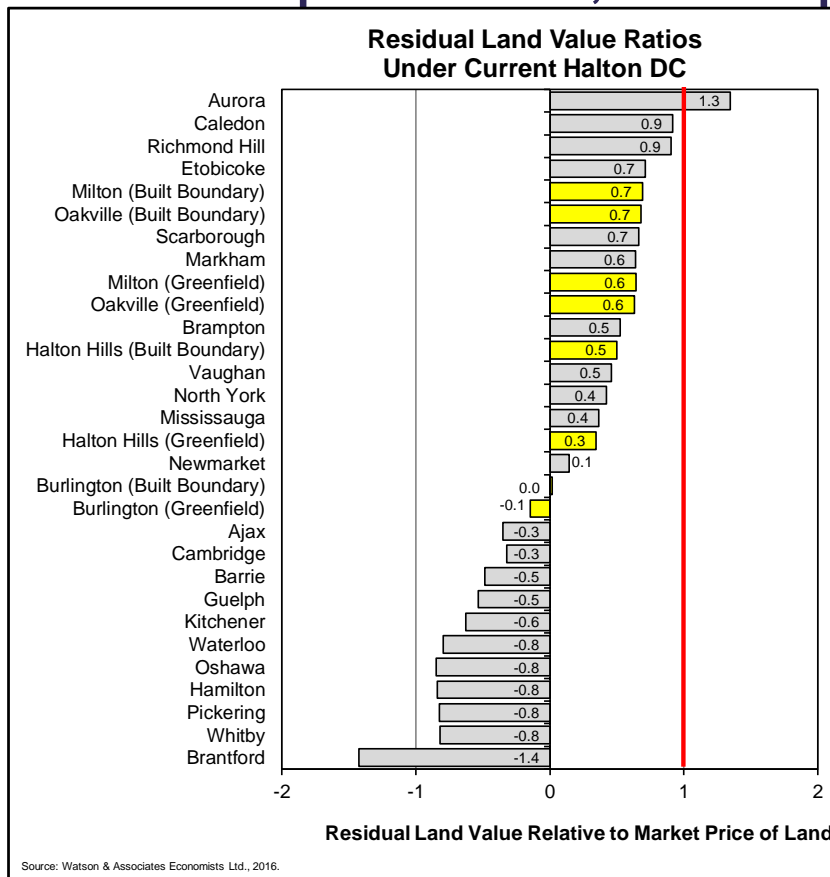
### Residual Land Value - Milton (Greenfield), 300,000 sq. ft. Industrial Building

<b>Average Asking Price</b>	(A)	\$124.00
Less Profit	(B)	\$6.20 (A) x 5%
Development Charges (per sq. ft.)	(C)	\$17.55
Construction cost (per sq. ft.)	(D)	\$75.64
Residual Land Value (per sq. ft.)	(E)	\$24.61 (A) - (B+C+D)
<b>Residual Land Value (per acre)</b>	(F)	<b>\$407,000</b> E x 300,000/18.12
Employment Land Market Price	(G)	\$666,000
<b>Residual Land Value to Employment Land Price Ratio</b>	(H)	<b>0.6</b> (F) / (G)



# Residual Land Value Analysis Findings Industrial Sale Revenue Stream

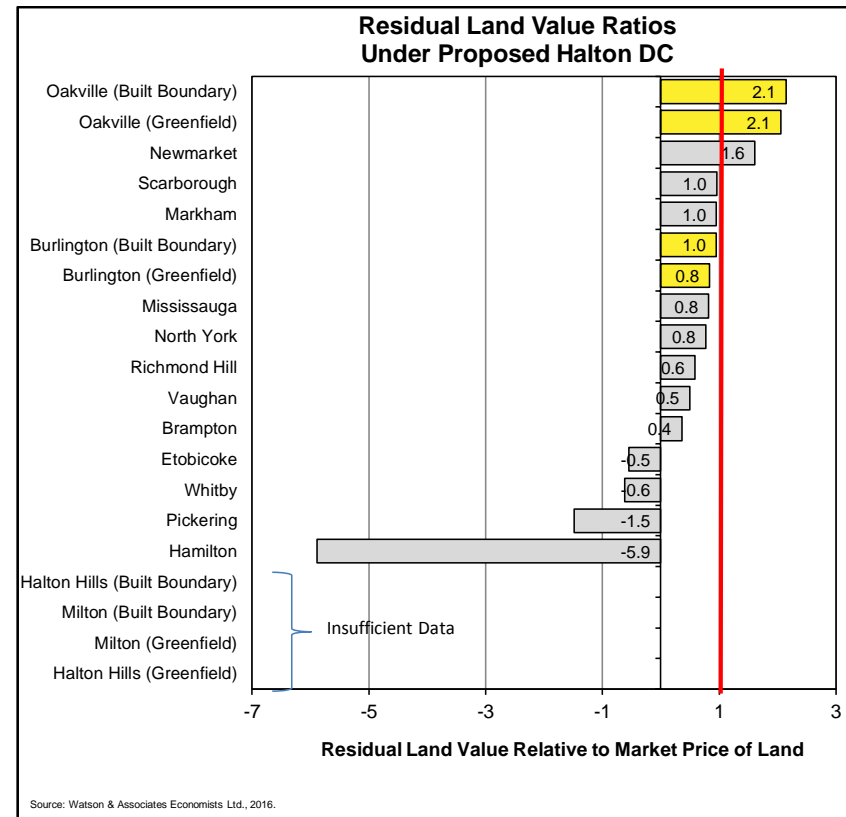
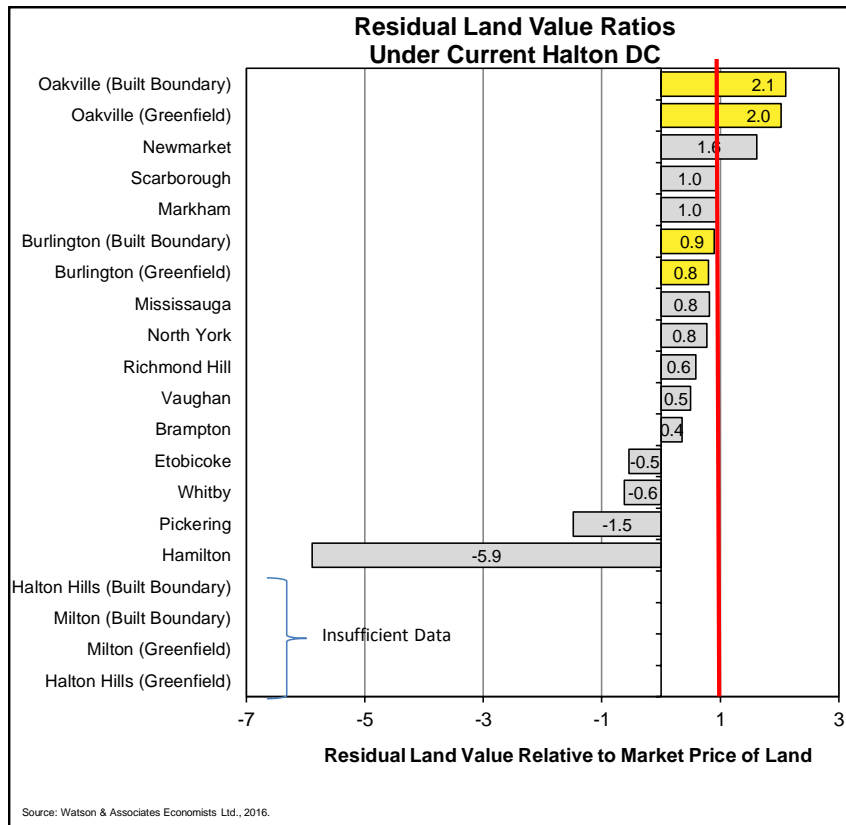
Example - 300,000 sq. ft. industrial building:



# Residual Land Value Analysis Findings

## Office Sale Revenue Stream

### Example - 150,000 sq. ft. office building:



# Residual Land Value Analysis

## Observations

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- Notable improvement in industrial and office market since 2011 – higher market rents
- Despite higher development costs, feasibility of industrial and office projected more favourable in 2016 than in 2011

# Residual Land Value Analysis Observations

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## Industrial

- ❑ Sensitivity analysis shows development of smaller industrial buildings (i.e. less than 150,000 sq. ft.) generally not viable throughout GTAH/GGH
- ❑ Larger industrial developments in Halton are generally feasible and competitive within GGH
- ❑ The proposed Regional DCs have a favourable impact on project feasibility and assist with relative competitiveness of Halton with respect to industrial development

# Residual Land Value Analysis

## Observations

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### Office

- ❑ Office development in Halton is competitive within the GTHA
- ❑ Office development is in relative terms more viable than industrial development in Halton
- ❑ The viability of office development in North Halton is generally less favourable than in South Halton due to lower net market rents for office space.
- ❑ The proposed Regional non-residential DCs reduce annualized cost and assist with Halton's relative competitiveness with respect to office development

# Residual Land Value Analysis Observations

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## Retail

- ❑ Retail development is feasible in Halton Region and comparable to that in neighbouring municipalities in the GTHA
- ❑ While the proposed Regional non-residential DCs increase annualized cost for retail development in Halton, the overall negative impact on feasibility is marginal

# Questions/Comments

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Thank you

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