Study Prepared For:

Strategic Urban Partnership (SUP) Taxation Working Group
c/o Halifax Regional Municipality
P.O. Box 1749
5251 Duke Street, Third Floor

Prepared By:

Phase II

Study of Commercial Taxes as a Driver for Business Location Decisions

Effective July 1, 2012

February 15, 2013 Project No. 100007

Strategic Urban Partnership (SUP) Taxation Working Group
c/o Halifax Regional Municipality
5251 Duke Street, Third Floor
P.O. Box 1749
Halifax, Nova Scotia
B3J 3A5

Attention: Andre MacNeil, P.Eng., MBA, CMA
Senior Financial Consultant, Finance and IT

Dear Sir:

Re: Study of Commercial Taxes as a Driver for Business Location Decisions
Phase II

As detailed in the Terms of Reference received by email on May 1, 2012 and in our proposal dated May 3, 2012, the background to this study is:

"It appears that commercial tenants are leaving the downtowns of Halifax-Dartmouth and the regional center, and new ones are not arriving in sufficient numbers. Are commercial taxes, as a component of business costs, discouraging retail or office tenants from locating in the Regional Center? Are there changes to the current system of commercial taxation (Municipal and/or Provincial) that could contribute to the revitalization of Downtown Halifax, Downtown Dartmouth and the Regional Centre? This project has developed through initiatives of both the Strategic Urban Partnership and HRM's Central Plan Project".

Phase I of the study was addressed in a separate document, also dated February 15, 2013. The purpose of Phase I was to identify the factors influencing the location decisions of business owners and managers in HRM, particularly in the office and retail sectors and identify the recent movement growth and/or decline in businesses in:

- Downtown Halifax
- Downtown Dartmouth
- Other parts of the Regional Centre

In addition to discussions with office and retail users we discussed development and location decisions with owners, leasing agents property managers and developers. The generally consistent consensus was that taxes are not the primary factor for location decisions or development motivation within HRM. This is not to say that the overall level of taxation is not a factor in business decision making; but rather, does not play a significant role in choosing a suburban versus downtown location within HRM. Factors which were considered more relevant for downtown tenants were preferences of the employer, image/profile and perception, and proximity to clients and customers. Factors most important to suburban tenants were parking

Research, Valuation & Advisory | Cost Consulting | Realty Tax Consulting | Geomatics
Purdy's Wharf Tower II, 1969 Upper Water Street, Suite 1701, Halifax, NS B3J 3R7 Canada **T** 902.420.8880 **F** 902.422.6698
www.altusgroup.com

availability, parking cost, commute time and availability of appropriate space. Developers indicated that they do not create, but rather follow demand, which is currently in favour of the suburbs. Most indicated that more persons living in or near downtown areas would create demand for downtown office and retail space.

Phase II of the project extrapolates on the findings of Phase I and includes an overview of:

- Relevant initiatives to address the important factors identified in Phase I and recommendations for further study.
- Recommendations on possible changes to commercial taxation that could lead to increased economic activity and vibrancy within the Regional Center, for further discussion by the SUP and used by the RP+5 Project.

This consulting report provides a summary of our research, investigation, findings and conclusions and must be read as a whole as sections taken out of context could be misleading. The report is subject to the Assumptions and Limiting Conditions outlined in the report and is effective as as of the July 1, 2012.

If you have any questions, please do not hesitate to contact either Robert Santilli or Charles Hardy.

Thank you for the opportunity to be of service.

Respectfully submitted,

Altus Group Limited

Table of Contents

EXECUTIVE SUMMARY

In Phase I of this Study we spoke with many tenants within the Downtown areas of Halifax and Dartmouth and the surrounding suburban areas. We also spoke with tenants and developers who have chosen to locate in suburban areas or business parks. Unfortunately there has been an exodus of tenants from the Downtown areas to Suburban parks caused primarily because of the proximity to where the employees live, ease of commute and free parking. Unfortunately whilst writing Phase II of the report another major insurance office is leaving the Downtown area. Intact Insurance, one of the major tenants in Park Lane and Park Lane Terraces has given notice that it will be leaving at the end of its lease to move to Dartmouth Crossing where we are told that they will occupy approximately 55,000 square feet. Intact is a larger company that requires ample parking for staff. We understand that none of the locations short listed were in Downtown locations.

Employers today have great concern in keeping employees happy and suburban locations fit the bill. Even if the land price in the suburban business parks owned by HRM was increased significantly, the trend to the suburban areas would not change.

Rental rates currently downtown are similar to suburban areas for the most part with the exception of one or two Class A buildings which are marginally higher. Taxes and operating costs are not significantly different. The main difference with the existing stock of office inventory is that buildings in the downtown are older and buildings in the business park are, for the most part, much newer.

In order to construct a new building in the downtown construction costs are higher because of proximity to other buildings, planning rules are more stringent, and design and approval time can take significantly longer. Therefore a new building downtown costs significantly more than in the suburban areas and the economic rent to construct a downtown building will be significantly greater than any rents seen in the Class A buildings. A market face rate will probably be in the $24 to $25 per square foot with operating costs and taxes taking the gross rent over $40 per square foot. At this point, taxes may play a part in the decision making because taxes will be higher on a new building because the rents will be higher. Under the current assessment system, taxes are based on market value. Therefore, if net rents are higher to substantiate the construction, then the market value will be higher, the property tax assessment will be higher and consequently the taxes are higher. With the poor demand for downtown buildings and a relatively free reign and strong demand in suburban areas, it is unlikely that the trend will alter without something changing.

Based on the results of Phase I we conclude that property tax changes for office and retail uses are not the most appropriate tool to stimulate commercial demand in the downtown areas relative to other areas of the municipality. This is not to say that the overall level of taxation is not a factor in business decision making; but rather, does not play a significant role in choosing a suburban versus downtown location within HRM. It is necessary to consider other initiatives which could be more effective and efficient at stimulating demand for office and retail space within downtown areas.

The solution which was considered the most important by the vast majority of people interviewed was that the downtown and surrounding Regional Centre has to grow with residential development. Not just the odd building but many buildings, bringing people to the downtown area and to the waterfront. Much of the waterfront area at the moment is undeveloped. There is a huge demand for downtown and surrounding area residences, and with many residential buildings constructed either in the downtown area or the peninsula of Halifax or Downtown Dartmouth, the whole of the downtown will become vibrant. HRM will have to do its part by beautifying streetscapes and vacant land. The convention centre will bring people to the downtown area and is considered to be, if successful, a great asset to the downtown area and will generate more people on the streets if only by the employees. We have made enquiries of other cities which have similar problems. Calgary has recently lost a major oil company from the downtown area which is relocating in the suburbs; Edmonton, Ottawa and London have similar problems. Most of the cities have taken on major capital projects to bring people to the downtown area. Edmonton has moved the arena to the downtown periphery and is consolidating all of the city offices into one complex in the downtown area. Edmonton also extended the rail transit south of the river and to the university area hoping to bring more people into the center. Unfortunately this project ended up mainly being used to bring students into the city centre at no cost.

London, Ontario has made major capital improvements including the Covent Garden Market, Millennium Centre, upgrades to the museum and a new library together with incentives for private building owners to upgrade. Most of the capital upgrades are recent innovations and the effect of the projects is unknown. The City of St. John's has always had a parking problem and they are now granting developers to build parking spaces under new developments for public parking. This is a new project for the City and the results are unknown.

Halifax is building the new library on Spring Garden Road and significant capital is being put into the proposed convention centre which should help bring people into the streets. Any developments which will entice people to come to Downtown Halifax and stay, preferably to live downtown, will generate foot traffic which will generate much more economical retail and people will want to work downtown rather than commute to the suburbs. Until this happens the economic viability of new office or retail development in downtown areas will be limited. Any new office buildings will fill-up from other downtown offices creating large vacant areas.

Residential development should be allowed with higher densities within the Regional Centre with a swift regular transit system to bring people to the downtown area as quickly as climbing into a car, driving through traffic, finding a place to park and getting into their place of work.

Once this happens we will have the downtown area where people want to live, work and play.

INTRODUCTION

Purpose

The purpose of this study is to build upon the findings of Phase I which considered an investigation of the impact of commercial taxation and other "drivers" of business location decisions and determine the reasons why commercial office and retail tenants choose to locate in suburban areas rather than the downtown areas of Halifax and Dartmouth.

This Phase II report seeks to provide an overview of relevant tools to address the important factors identified in Phase I and to provide recommendations on possible changes to commercial taxation which could lead to increased economic activity and vibrancy within the downtown areas. These points are for further discussion by the SUP.

Function of the Report

The report is required in connection with strategic planning initiatives by The Strategic Urban Partnership and HRM.

Effective Date

July 1, 2012.

Methodology and Scope

Phase I

During Phase I we conducted interviews with the following parties:

- Property owners
- Property managers
- Office and retail tenants
- Tenants that have located within downtown locations
- Tenants that have located outside of the downtown
- Tenants that have renewed in both areas
- Developers
- Leasing agents
- Local business persons

The persons interviewed were the decision maker or other individual with knowledge of the decision making process.

Tenant, leasing agent and property owner/manager interviews included discussions of factors contributing to location decisions.

Developer/builder interviews included discussion of land development factors in downtown and suburban areas.

In this Phase II report we have:

- Incorporated the comments and discussion points identified in Phase I
- Incorporated relevant points from a presentation by City of London, ON planners given to the HRM staff and the SUP Taxation Committee.
- Conducted discussions with Altus Group professionals in other Canadian markets to determine how these centres have dealt with, or are dealing with competition between the downtown and suburbs.
- Identify relevant initiatives to address factors identified in Phase I and provide recommendations for further study.
- Provide recommendations on possible changes to commercial taxation which could lead to increased economic activity and vibrancy within the Regional Center. These points are for further discussion by the SUP.

Confidentiality

The interviews conducted as part of Phase II of this assignment have been completed on a confidential basis. A discussion of our overall findings has been included within this report. Individual interview responses will not be made available.

Summary Phase I

During Phase I we interviewed over 100 office and retail tenants in downtown and suburban areas of HRM. The standardized interviews were designed to determine what factors contributed to the businesses' decision to locate either in a suburban area or within the downtown. Participants were asked to score a list of common considerations for the level of significance their organization placed on each factor.

The results were generally consistent in that suburban office and retail users considered parking availability and cost to be the main contributing factors whereas downtown office and retail considered image/profile and perception, proximity to customers and clients, and preferences of the employer to be the main considerations. Responses from all groups regarding property taxes indicated the factor was not one of the most important considerations.

In addition to tenant interviews, Phase I consisted of discussions with leading commercial real estate leasing agents, property owners, managers, and developers. These participants were generally in agreement that in order to strengthen the office and retail base in downtown areas there needs to be more people living in and around these areas and any program designed to revitalize downtown areas must be targeted at residential growth. A number of initiatives were proposed and are discussed in more detail within this Phase II report. We have grouped the initiatives into three general categories: financial, planning and service and amenity initiatives. Some of the initiatives could overlap between categories. These initiatives include:

Planning Incentives

- incentives for downtown and Regional Centre residential development
- more density in areas surrounding the Regional Centre
- fewer hurdles, wait time, fees for downtown and Regional Centre development (easier to build)
- moratoriums and greenbelts on suburban development and sprawl
- more efficient planning policies
- removal of low intensity industrial land uses from Halifax Peninsula

Financial Incentives

- tax holidays for downtown and Regional Centre residential developments
- disincentives for suburban residential / office development
- incentives for residential condominium and townhouse buyers in the Regional Centre

Service and Amenity Incentives

- better transportation networks (need to change car oriented culture, use water to our advantage, rail lines, active transport)
- more abundant and affordable downtown parking.

PHASE II

Other Cities – Similar Experiences

As part of Phase II we have interviewed Altus Group professionals in other Canadian cities and have received a presentation from City of London, ON planners. The focus of the discussion was to determine what programs or initiatives have been tried or are being tried in other cities across Canada. A list of these initiatives is presented in the following chart. The surveyed cities are experiencing similar problems as Halifax with respect to suburban and downtown commercial uses. The list of initiatives is by no means comprehensive and represents programs which are currently being implemented and or the results of which cannot be easily identified. Not all of the listed proposals were identified as being successful.

We note that St. John's, London and Edmonton have reportedly benefited from government investment projects. Similar initiatives could benefit HRM and we note that recent government improvement projects in HRM have already proved successful in revitalizing, or a least creating interest in targeted downtown areas. These projects which have created optimism for the surrounding areas include the Nova Centre and the new Central Library on Spring Garden Road.

As discussed in Phase I, the consolidation of government offices within downtown areas would likely generate demand for and could act as a catalyst for additional commercial development. All levels of government currently own a number of vacant sites in the downtown and Regional Centre, the development of which could improve the downtown.

City	Initiatives / Support
St. John's, NL	1. Financial incentives for increased parking stalls in new downtown office developments.
	2. Downtown development commission gives $3,000 to $5,000 for façade upgrades.
	3. New outdoor seating areas to beautify downtown.
	4. Snow cleared quickly in downtown areas to promote pedestrian traffic.
	5. City offers to lease space in refurbished buildings.
	6. Planners looking to encourage 3rd and 4th storey residential in older downtown buildings.
	7. Grand Concourse - 125 kilometres of pedestrian and cyclist paths - sponsored by government and community groups.
Ottawa, ON	1. Suspended residential develpoment charges to spurr residential development.
	2. Removed building height restrictions related to Peace Tower at Parliament Hill.

City	Initiatives / Support
Edmonton, AB	1. Mayor is a champion of downtown development.
	2. West End Mall and largest retail power centre are located downtown.
	3. Moving arena downtown.
	4. 15 acres of land earmarked for new residential condominiums.
	5. Downtown residential units are a smaller size built for younger demographics.
	6. Light rail expanded with additional service to downtown.
	7. Jasper Avenue changed to one-way to facilitate traffic flow.
	8. Lower downtown parking rates.
London, ON	1. Public improvements:
	- John Labatt Centre - $52 million
	- Central Library - $25.9 million
	- Covent Garden Market - $17 million
	- Victoria Park - $3.5 million
	- Forks of the Thames Redevelopment (park) - $4.6 million
	- Jet d'eau (park) - $0.8 million
	- Labatt Park - $3.35 million
	- Considering new City Hall, performing arts centre, stronger city-wide entertainment policy
	2. Fanshawe Collage Campus expanded to downtown.
	3. Financial incentives ($8 million in loans over 27 years):
	- Façade improvement loan (some forgivable)
	- Non-street front façade loan
	- Building code upgrade loan (some forgivable)
	- Rehabilitation and redevelopment grant
	- Heritage building assessment grant and heritage building improvement grant
	- Awning, signage and lighting grants
	- Property tax grant (rebate) program for rehabilitation and/or redevelopment
	4. Fees, charges and parking requirements waived for downtown residential developments.
	5. Pre-zoned residential to 350 units/hectare and 90 meter height.
	6. Created affordable housing.
	7. Limit temporary surface parking lots. Free Saturday parking.

Commercial Property Taxes in HRM

Phase I of this study indicated that property taxes are not the main consideration for businesses when choosing where to locate within HRM. As discussed in the Summary of Phase I, businesses cited a number of other factors which influenced their location decision more than property taxes. Developers, owners and brokers/agents generally agreed that other factors play a more important role in business location decisions.

One of the more interesting results from Phase I was that there are two types of tenants, those which need to locate in the downtown for business reasons and those which do not need to be downtown and may choose to locate in the suburbs. The former group includes regional law firms, accounting firms, and banks and large financial institutions, as well as the businesses which service them. For the latter group occupancy costs may play a role in location decision. Property taxes are one component of occupancy costs, which also include face rent (typically a 'net' rent in the Halifax market) and operating costs, which may include utilities, management, cleaning and common building area costs. When faced with price pressure some of the businesses which do not need to be downtown will locate where occupancy costs are cheaper. However, based on the results of Phase I, most tenants, and many of the professionals interviewed, indicated that total occupancy cost is not one of the most influential factors.

As outlined in Phase I of the report property taxes for Class A downtown buildings are typically higher than the same class of suburban space by approximately $1.00 to $2.00 per square foot. Unsurprisingly the premier downtown buildings are attributed higher assessments, and therein higher property taxes per square foot than the similarly categorized Class A suburban space. The downtown Class A buildings also tend to have higher operating costs associated with a higher level of maintenance and services. These downtown Class A buildings are typically occupied by tenants that need or want to be located downtown and are therefore less price sensitive.

Conversely, property taxes per square foot for suburban and downtown Class B and C office buildings are similar, and in many instances suburban property taxes are higher. With operating costs also generally similar between Class B and C buildings in the suburbs and downtown (depending on building services) there is not a large difference in total occupancy costs, particularly when it is considered that the suburban / downtown premium in centers such as Toronto is in the order of 30% plus. These findings indicate that downtown Class B/C office occupancy costs are typically only marginally more than suburban office occupancy costs. This makes sense in light of the Phase I results which indicate that total occupancy costs are not one of the main considerations of businesses when determining whether to locate in the suburbs or downtown areas of HRM.

With occupancy costs similar, the main discernible difference between downtown and suburban Class B/C buildings is that suburban buildings are generally newer. Although there has been a large amount of new office space constructed in suburban areas of HRM, there has been no major investment office completion in downtown areas in 20 years (Nova Scotia Power building is owner-occupied). Based on discussions with developers we have determined that there is limited demand for downtown office space. Although three major projects are proposed or under construction in downtown Halifax each has other motivating factors. The lead tenant of the RBC Waterside Center is a bank (a typical downtown tenant) that is relocating and downsizing from another downtown location (George Street). The TD Bank Building expansion has been on the books since construction of the original tower and the expansion is coinciding with a much needed and expensive recladding. Additionally the owner is hoping to retain TD as a tenant. Nova Centre, which is proposed to include an office component, will be built in conjunction with the convention centre which is supported by all levels of government providing a lead tenancy.

Based on discussions with developers and market participants as well as our own professional experience, it is determined that the economics to support new development in the downtown do not exist. Higher downtown development costs require higher face or 'net' rent to the developer in the order of $24.00 / $25.00 per square foot. At this point taxes could play a role in decision making because taxes will be higher because rents are higher. Under the current assessment system higher rents result in higher assessments which result in higher taxes. Property taxes on a new office development could be on the order of $8.00 per square foot, up from approximately $6.00 per square foot. Based on the economics of new development in the downtown, gross rent would be over $40.00 per square foot compared with gross rents of $25.00 to $30.00 per square foot in suburban areas. Conventional market rent for office space of over $40.00 per square foot does not currently exist in HRM and there is considered to be very little demand at this price level.

As an extreme example we note that if property taxes were eliminated on new downtown office buildings gross rents would still be higher than suburban office buildings and would not likely stimulate real demand for downtown office accommodations. The chart on the following page illustrates the computation of gross rent assuming 100% reduction in property taxes for new downtown office buildings. Eliminating property taxes on downtown development is not a realistic option and would be politically impossible.

	Downtown New Build	Suburban
Ecnomic Gross Rent	$40.00	$25.00 - $30.00
Property Taxes (100% rebate)	$8.00	-
Gross Rent after rebate	**$32.00**	**$25.00 - $30.00**

Based on the above discussions and the results of Phase I we conclude that property tax changes for office and retail uses are not the most appropriate tool to stimulate commercial demand in the downtown areas relative to other areas of the municipality. This is not to say that the overall level of taxation is not a factor in business decision making; but rather, does not play a significant role in choosing a suburban versus downtown location within HRM. It is necessary to consider other initiatives which could be more effective and efficient at stimulating demand for office and retail space within downtown areas. The following section of this Phase II report discusses in more detail the other initiatives which were established in Phase I.

DISCUSSION OF OTHER INITIATIVES

The following initiatives are based on the findings of Phase I and represent the reoccurring comments received during discussions and interviews with tenants, property managers, owners, real estate brokers, leasing agents and property developers as well as an interpretation of the survey results.

We have grouped the other initiatives into three general categories: financial, planning and service and amenity initiatives. We have included discussion of experiences from other cities where relevant. Some of the initiatives could overlap between categories and we have included only those which we consider could be done economically. The initiatives presented are considered to be a starting point and require additional, perhaps individual study.

Planning Initiatives

1. Incentives for Downtown and Regional Centre Residential Development

One of the most straightforward approaches to motivate downtown and Regional Centre development is to incentivize developers to build within these areas. 'Incentives' has a broad meaning and includes a number of possible programs and initiatives, some of which are delineated in more detail under subsequent headings below. With respect to incentives for downtown and Regional Centre development and with consideration of the findings of the Phase I report, it is primarily necessary to provide inducements for residential development. The findings of Phase I indicated the best way to revitalize downtown areas for office and retail use was to infuse the area, and surrounding areas of the Regional Centre with more people who live, and therefore work and shop in downtown areas.

Downtown and Regional Centre residential development should include a variety of housing types at a variety of price points. A variety of housing types may be limited to multi-residential buildings, but should include a mixture of unit types. Not all buildings, particularly rental apartment buildings, can be built to luxury condominium standards as housing options must remain affordable. Housing affordability needs to be addressed by creating supply.

One of the most powerful tools for spurring development in these areas would be to allow and encourage higher density land uses. In the same way, HRM could do well to follow the steps of other Canadian cities where developers have made unit sizes smaller but made use of efficient layouts and designs. We have had discussions with a residential developer based out of Vancouver who has successfully completed projects in many Canadian cities. This developer was interested in constructing a residential project in Downtown Halifax and opined that unit sizes are too large in HRM. The developer encountered a similar situation in Victoria where new units were designed to be larger and larger. This developer went against the trend and built smaller units, increased its density and developed a product that was very well received by the market.

A similar situation was reported in Edmonton where small units are being constructed and marketed toward a younger crowd. The City of London has implemented a program of increased density to allow 350 units per hectare. Comparatively the Regional Centre generally allows 125 to 250 persons per acre which roughly equates to approximately 150 to 310 units per hectare, although exceptions do exist. This conversion is calculated utilizing an average of two persons per unit. The areas of Halifax Mainland near Halifax Peninsula allow substantially less density than the Regional Centre.

By increasing density, via a combination of smaller units and municipal approvals, HRM can provide stronger support for downtown areas.

2. More Density in Areas Surrounding the Regional Centre

Areas surrounding the Regional Centre should be targeted for residential development and provide housing types that are not available in the downtown and Regional Centre, more specifically being townhouse developments with backyards which can be marketed toward families. A number of developers in Phase I indicated that density in these areas should be increased, which would have the two-pronged effect of providing more affordable housing options in multi-unit buildings, as well as retaining more usable land area for townhouse or other forms of lower density housing. Halifax Mainland should be considered for significantly higher density residential. This will create a critical mass to better support downtown areas.

3. Fewer Hurdles for Downtown and Regional Centre Development

During Phase I developers all commented that downtown and Regional Centre development takes more time, money and resources than does a similar suburban development project. Given that many real estate projects are time sensitive, and delays increase the risk profile and cost of a development, HRM needs to do more to expedite and facilitate development in these areas. This, of course, must be balanced with the need to ensure projects meet planning objectives and conform to surrounding neighborhoods. In order to level the playing field when compared with other suburban development options, HRM could waive development fees and other requirements and charges for downtown developments, with a focus on residential development.

The City of London has waived development charges and parking requirements for downtown projects in an effort to spur development. These efforts are indicated to have been successful.

4. Moratoriums and Greenbelts on Suburban Development and Sprawl

As described during a number of interviews, an initiative to limit development would be straightforward in its application: no new developments in suburban areas. This means no new office or retail development in Bayers Lake, Burnside or Dartmouth Crossing. No new residential development in Fall River, Tantallon or Bedford. New office development can only be in downtown areas and new residential would have to be located in existing serviced areas, most likely through urban infill. This could have a number of impacts, which could include new development in the downtown and Regional Centre, a reduction in or cessation of office tenants or residents leaving downtown areas and the Regional Centre for the suburbs, or a move of commercial tenants or residents to areas outside of HRM.

Based on Phase I results which indicated there is demand for suburban commercial space and a corresponding low demand for downtown commercial space, it is unlikely that a program to halt suburban development would, without accompanying incentives for downtown and Regional Centre development, be sufficient to spur development in downtown areas or the Regional Centre. Suburban development has, in large part, been fuelled by a tenant migration from the downtown. Therefore, a moratorium initiative could be successful in limiting the pull of commercial tenants currently in downtown HRM to suburban areas. Since the date of the Phase I report it has been publicly announced that Intact Insurance will be vacating its offices at Park Lane on Spring Garden Road to relocate to Dartmouth Crossing. This is yet another example of tenants that do not need to be located downtown moving to the suburbs. This tenant, who is reported to have 100+ employees at its HRM office, will be occupying circa 55,000 square feet at Dartmouth Crossing, which is just slightly larger than half the size of the new RBC Waterside Centre currently under construction.

Given the location of HRM as the largest centre in Atlantic Canada and with the next comparable population base located +/-250 kilometers away, it is unlikely that office/ retail users or residents would opt to leave HRM. The City of London has reportedly been successful in bolstering its downtown office occupancy rate by limiting suburban office development although new office development in the downtown has been limited.

5. More Efficient Planning Policies

Although the City has worked hard to bring in a new HRM by Design policy which provides for as of right developments with known height limits and building specifications, it still appears to take a lengthy process to obtain the Development Approvals which is acceptable to the policies laid down. In order to encourage development, HRM should do everything within its power, within reason, to get good buildings developed without putting up road blocks. There is a perception that the City unnecessarily makes the development process more arduous.

6. Removal of Low Intensity Industrial Land Uses from Halifax Peninsula

Halifax Peninsula is home to a number of low intensity industrial land users which, at one point, were located in industrialized areas of the city. Several decades have passed and these areas are now surrounded by residential development and represent acreages of under-utilized and valuable land. These lands are now more valuable to the Municipality as developed to their Highest and Best Use, which could be high density residential or retail development.

From a planning perspective it should be a focus to redevelop these sites and bring office and retail uses back to the Halifax Peninsula. A number of developers interviewed would be more than happy to acquire former industrial lands on the Halifax Peninsula and have made unsuccessful attempts to acquire or consolidate lands. There are a few ways HRM could encourage development on these lands. One way to entice existing owners to relocate could be to rezone the lands to a more valuable land use, one which allows high-density multi residential or larger retail/office development and higher density residential than is currently permitted under some common Peninsula Industrial Zoning (C-3). Under current zoning density is allowable to 125 persons per acre, although a number of proposals are currently seeking up to double this density. Increasing allowable density could substantially increase the market value of the properties and may be enough to convince even the most established owner to relocate. A number of the improvements on these industrial sites are reaching the end of their economic life and substantial capital requirements could be needed suggesting relocation in the near term may be well-timed.

The Gladstone Street higher-rise multi-residential project constructed by Westwood Developments created a +/-300-unit development in two towers. This development exemplifies the potential of these surplus or underutilized industrial sites. It was also mentioned that the removal of the South End Container Terminal would have the spin-off benefit of stopping large trucks from passing through downtown areas which is disruptive and stressful on infrastructure.

Financial Initiatives

7. Tax Holidays for Residential Development in Downtown and Regional Centre

Providing tax holidays for residential development is another form of incentives as discussed above. Tax holidays would involve the temporary elimination in part or whole of property tax on a new development for a determined number of years. The City of London has implemented a tax grant program for rehabilitated and/or redevelopment of commercial and residential buildings in its downtown core. Owners are granted back a percentage of the increase in property tax for 10 years equal to 80% of the tax levy increase resulting from the new development in Year 1 and declining to 10% in Year 10. The City of London reported this program to be successful in spurring residential development in targeted areas.

8. Disincentives for Suburban Residential / Office Development

A more antagonistic approach to encourage downtown development could be to discourage or limit development in suburban areas (outside the Regional Centre). This could be accomplished through a number of possible mechanisms. To implement a strategy of disincentives, which could potentially be hugely unpopular, it would be necessary to differentiate suburban areas into targeted future land uses. Areas of the Regional Centre surrounding downtown areas should still be targeted for residential development, which is discussed in more detail at point No. 1 above. A discussion of moratoriums on development and suburban sprawl is discussed at point No. 4 above.

Possible disincentives for suburban development include a higher tax rate for commercial or residential properties located outside certain areas, or higher land costs within municipal parks (Bayers Lake, Burnside). Based on Phase I findings taxation was not a primary consideration for office or retail tenants that choose to locate in suburban areas of HRM. Several other factors generated demand for suburban accommodations. It is therefore probable that a moderately higher tax rate would do little to negate demand, as would higher land costs, and developers would therefore still build to meet demand for suburban space. Higher residential taxes could have a more desirable effect by curbing suburban sprawl. The higher cost per person of servicing suburban areas is an economic rationale for higher suburban taxes.

9. Incentives for Residential Condominium and Townhouse Buyers in the Regional Centre

By increasing the demand for higher density in the Regional Centre, it could be possible to encourage new residential supply to be constructed. A number of tools are available to incentivize owners of condominiums and townhouses.

One of the developers interviewed discussed the idea of providing incentives to individuals that purchase higher density housing options, such as condominiums and townhouses. These incentives, which could be on the order of a $5,000 rebate from HRM to the unit purchaser, could create demand for these types of housing in and around downtown areas. The developer projected that a relatively small investment by HRM, on the order of $5,000,000 (1,000 units multiplied by $5,000) could potentially create a $300,000,000 million dollar tax base (1,000 units multiplied by average $300,000 assessment). This equates to a roughly $4,000,000 annual tax levy while utilizing existing infrastructure (streets, sewers, schools etc.). This project could be successful however the effect of a $5,000 rebate on a $300,000+ purchase price is relatively nominal. The indicated rebate would likely need to be larger in order to generate new demand. Without a corresponding increase in supply this program would only serve to increase housing prices in targeted areas.

A similar effect would be created if a residential tax break were afforded to condominium and townhouse owners. This could increase the demand for these developments and at the same time increase the affordability. Currently, taxes on residential property ownership are significantly higher than taxes on a similar or identical property which is rented. Using an actual HRM example: building A and building B are adjacent and are identical. Building A is a condominium property with an average assessment of $350,000 per unit where a tax levy is on the order of $4,500 per year. Comparatively, building B is a rental property where average taxes per unit are $2,000 per year. This is real disparity that exists in HRM and is a major disincentive for condominium ownership. A lower taxation rate for condominiums would increase affordability of this housing type and could encourage condominium development.

Service and Amenity Initiatives

10. Better Transportation Networks

Water is Halifax's most distinct geographical feature and should be used to aid public transportation rather than continue to be perceived as a bottleneck. The Kings Wharf development represents a massive residential project on the Dartmouth Waterfront in Downtown Dartmouth. These units could be very well located for someone choosing to work in Downtown Halifax. Similar proposed projects in the area could provide residential supply just as well as new development in areas of Halifax Peninsula or mainland. However, the current transportation system makes this arrangement less than perfect which could result in more persons living in the Kings Wharf area and working in easier to access commercial nodes such as Burnside. At a time when HRM should be increasing the frequency and level of ferry service to Dartmouth, it has conversely been reducing the hours. Ferry service from other areas including the Bedford waterfront, could be ways to bring persons downtown and encourage people to leave vehicles at home or at Park & Rides at ferry terminals. A similar light rail transit (LRT) could be implemented on existing rail lines within HRM.

Another large strategic land area which could be used to aid the mass transit system is the Cogswell Interchange. HRM is proposing to dismantle the concrete structure which sits on several acres of land located adjacent the Halifax Downtown core and Central Business District. This land could be used as a transportation hub, including a staging area for people to park and take shuttles to other parts of Downtown Halifax and surrounding areas.

In an effort to relieve its downtown congestion and spur street-front retail, the City of Edmonton has committed a main downtown roadway, Jasper Avenue, to a one-way street and has expanded sidewalks in order to promote sidewalk cafes. This endeavor has reportedly not been successful for a number of reasons, including Edmonton's climate, which for many months of the year is too cold for an outdoor eatery.

11. More Abundant and Affordable Downtown Parking.

From Phase I the top two motivating factors for both office and retail tenants in their decision to locate in suburban areas was for parking availability and parking cost. Intuition suggests that the easiest way to enhance the appeal of the downtown is to increase the availability, and therein perhaps reduce the cost, of parking although the addition of parking to the downtown requires further study.

The City of St John's has identified that parking in its downtown is subpar, specifically because older buildings lack adequate parking. It has developed an initiative where the City will give developers $10,000 cash for every additional parking stall the developer elects to include in the project. These stalls would be exclusively for the use of the public although the developer is still able to collect charges. The city has yet to see the benefits of this project as the first two developments to be part of the project are currently being constructed by Haligonian developers Bill Hardman and John Lindsay. For these projects the developers added an additional 300 – 400 stalls which would not have otherwise been included in the building.

In Edmonton the City has taken a different approach and seeks not to encourage additional parking downtown but rather to promote the use of public transportation (via LRT). Parking is already limited in the downtown with rates at approximately $350 per month. While the city is looking to promote transit it is at the same time looking at lowering parking rates at municipal lots.

Recommendations for Further Study

Our analysis in Phase I and Phase II of this project was initially a "study of commercial taxes as a driver for business location decisions". The project on commercial business taxes and how they should be used to revitalize downtown areas of HRM soon concluded that taxes had very little to do with downtown development and office occupancy. However, a number of areas were found to be contributing factors and these areas were looked into in order to arrive at some preliminary recommendations which should be investigated further to make HRM the true center of the Atlantic Provinces.

Although there are many other factors than the ones listed below, some of which have been covered briefly in the Phase I and Phase II of the project, the areas listed below are considered to be what we find the most critical.

1. **Bring People Downtown and to the Regional Centre to Live**. Based on the results of Phase I it was determined that many of the commercial tenants that choose to locate in suburban areas of HRM do so to accommodate employees and consumers/customers. These businesses generally locate near employee and consumer population bases, which is why many businesses have moved to growing suburban areas particularly those outside the Regional Centre. These suburban areas are easier and quicker for employees and consumers to access and provide a free place to park vehicles.

If people are living downtown and in surrounding areas of the Regional Centre, people will want to stay downtown both to work and to shop. With enough people living in these areas and attracted to events downtown, office development and retail development will fix themselves. A city is only vibrant because of people. People on the streets during the day and in the evening makes a city exciting. People will only be on the streets at night if there is a reason to be there and they can get home easily.

2. **Residential Tax Incentives**. Based on the Phase I results and Phase II discussion tax incentives should not go to retail or office development. We conclude that property tax changes for office and retail uses are not the most appropriate tool to stimulate commercial demand in the downtown areas relative to other areas of the municipality. This is not to say that the overall level of taxation is not a factor in business decision making; but rather, does not play a significant role in choosing a suburban versus downtown location within HRM. If tax incentives are used they should go to residential developers to attract them to develop downtown and in the Regional Centre and help overcome the additional costs of building. Other incentives could go to home ownership in these areas including condominium ownership.

3. Improve Transportation. Phase I indicated that parking and commute time were considered important factors by commercial tenants choosing to locate in the suburbs. In order for the downtown areas to remain competitive, transportation needs to be improved Transportation should go beyond bus routes but include the harbor which is significantly under-utilized when compared to other cities; and to light rail transportation. Within the Downtown Halifax area, a circular tram route would also improve interest and ambiance and be an efficient way of moving through the Halifax Downtown without the use of a car.

4. Improve Parking. The existence of surface parking on undeveloped lots in the downtown should be phased out. The lots should be developed, again primarily with residential buildings until demand comes back for office and retail. Underground parking should be encouraged in downtown areas with potential tax incentives and there should be park and ride stations located on the periphery of the Regional Centre.

5. Government Investment. A review of initiatives used or attempted by other Canadian Cities indicated that government investment and public improvement projects have been well received and reportedly effective at generating interest in targeted areas. We note that public improvements have been utilized by the Cities of London, Edmonton, and St John's and are reported to have been successful. Ottawa, which was also surveyed, benefits from the presence of Federal Government offices. Downtown areas of HRM could benefit from similar government support. We note that HRM is currently constructing a new Central Library along Spring Garden Road, the response to which has been overwhelmingly positive. Sentiment and interest has improved as evidenced by the increased number of proposed developments in the immediate neighbourhood. Additionally the Nova Centre, a partnership with all three levels of government, is creating optimism around Downtown Halifax. Continued investment by all levels of government in downtown areas and the Regional Centre will provide a much needed confidence boost to businesses, investors and developers. The municipal government should take a lead and become a catalyst for change in the downtown. Public improvement projects will help attract and create demand for residential in the downtown and Regional Centre. Bringing residential to these areas is a necessary step in restoring office and retail uses in the downtown.

As described in Phase I and II, we believe that the following government investments would be positive for the downtown areas of HRM and recommend further study.

i. **Consolidation of Government Offices in Downtown Areas.** This includes municipal, provincial and federal levels of government. In the context of the municipal government this could either be done using existing buildings or, preferably by the construction of one well designed downtown City Hall.

ii. **Redevelopment of the Cogswell Interchange.** The Cogswell Interchange is a wonderful opportunity to take an ugly obsolete overpass and create space for imaginative development as an entrance to the downtown. Investment by the city and other levels of government could be very effective at revitalizing Downtown Halifax and the Central Business District.

CONTINGENT AND LIMITING CONDITIONS

1. This report is prepared at the request of the SUP Taxation Working Group, c/o Halifax Regional Municipality for a study of commercial taxes as a driver for business location decisions and is to be used by the SUP Taxation Working Group to assist in strategic planning. It is not reasonable for any other person or corporation other than the SUP Taxation Working Group to rely upon this appraisal without first obtaining written authorization from Altus Group Limited. There may be qualifications, assumptions or limiting conditions in addition to those set out below, relevant to that person's identity or their intended use.

   This report is prepared on the assumption that no other person will rely on it for any other purpose and that all liability to all such persons is denied.

2. While expert in appraisal matters, the author is not qualified and does not purport to give legal advice.

3. Neither possession of this report nor a copy of it carries with it the right of publication. All copyright is reserved to the author and is considered confidential by the author and his client. It shall not be disclosed, quoted from or referred to, in whole or in part, or published in any manner, without the express written consent of the appraiser.

   This is subject only to confidential review by the APPRAISAL INSTITUTE OF CANADA and the NOVA SCOTIA REAL ESTATE APPRAISERS ASSOCIATION.

4. Market data has been obtained from documents at the Land Registry Office, or as reported by the Real Estate Board. Interviewee responses have been collected in a confidential manner and will not be released.

5. The compensation for services rendered in this report does not include a fee for court preparation or court appearance, which must be negotiated separately. However, neither this nor any other of these limiting conditions is an attempt to limit the use that might be made of this report should it properly become evidence in a judicial proceeding. In such case, it is acknowledged that it is the judicial body which will decide the use of the report which best serves the administration of justice.

6. Other assumptions, limiting conditions or clarifications are listed throughout the report as needed.

CERTIFICATION

Study of Commercial Taxes as a Driver for Business Location Decisions - Phase II

We certify that, to the best of our knowledge and belief:

- The statements of fact contained in this report are true and correct.
- The reported analyses, opinions, and conclusions are limited only by the reported Extraordinary Assumptions and Assumptions and Limiting Conditions, and are our personal, unbiased professional analyses, opinions and conclusions.
- We have no present or prospective interest in the issue that is the subject of this report, and we have no personal interest or bias with respect to the parties involved.
- Our compensation is not contingent on an action or event resulting from the analyses, opinions, or conclusions in, or the use of, this report.
- To the best of our knowledge and belief, the reported analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the Canadian Uniform Standards.
- We have not knowingly withheld any comments or observations which might affect the opinions of value stated in this report.
- We have the knowledge and experience to complete the assignment competently.
- No one has provided significant professional assistance in the preparation of the report.
- This report is subject to review only if required by the Appraisal Institute of Canada and the Nova Scotia Real Estate Appraisers Association.
- We have met the mandatory professional liability insurance requirements of the Appraisal Institute of Canada.
- We are certified under the continuing education program of the Appraisal Institute of Canada.
- We are members in good standing of the Appraisal Institute of Canada.

[redacted]

Charles J. L. Hardy, B.Sc., FRICS, AACI
NSREAA REGISTRATION NO. 024020

[redacted]

Robert Santilli, B.Comm, AACI
NSREAA REGISTRATION NO. 905305