Clause 6 in Report No. 5 of Committee of the Whole was adopted, without amendment, by the Council of The Regional Municipality of York at its meeting held on March 24, 2016.

6
Hotel Development Charges in York Region

Committee of the Whole recommends referral to staff of the report dated February 26, 2016 from the Commissioner of Finance for a report back to Committee as soon as possible with an assessment of alternative policy approaches to hotel Development Charge rates.

Report dated February 26, 2016 from the Commissioner of Finance now follows:

1. Recommendation

It is recommended that:

1. The Regional Clerk circulate this report to the local municipalities.

2. Purpose

This report explains the current treatment of Regional hotel development charges and identifies possible options that could be explored as part of the 2017 Development Charge ("DC") Bylaw update.

3. Background

Hotel development charges in York Region are based on a combined rate under the 2012 Development Charge Bylaw

Hotel developments currently fall under the retail definition in the 2012 DC Bylaw. The Region implements a blended charge for hotels: 25 per cent of the gross floor area at the retail rate and the rooms at 100 per cent of the small apartment rate.

Developers can defer payment for retail development by providing a Letter of Credit for the full amount due, to be drawn down over a three year period.

Aurora has authorized a long term deferral of a portion of their Development Charges for hotels and has requested that the Region of York adopt a similar policy

In August 2015, the Town of Aurora considered a report entitled, “Hotel Development Charges”, which considered whether the level of hotel DCs was affecting the amount of hotel development. Their analysis showed that there have been very few hotels built within the Region under the current development charge policy.

On September 15, 2015, the Town of Aurora authorized staff to enter into development charge deferral agreements for hotel or motel developments that would defer the amount that the hotel would be required to pay over and above the amount that an office building of similar size would pay, until the use of the building changes.

If applied to the hotel proposal discussed in Aurora’s report (87 units with a gross floor area of 46,000 square feet), the policy would mean that the Town of Aurora would be deferring approximately $565,000 until such time, if ever, that the property was zoned for other uses.

The Town of Aurora has requested that York Region consider adopting a similar deferral policy.

The Town has also directed their staff to return to a rate calculation based upon the non-residential rate for the gross square footage in calculating the Development Charges for hotels and motels in the next update of their Development Charge Bylaw (and has asked the Region to consider doing the same in its next Bylaw update).

Since 2000, 23 new hotels have opened in York Region

From 2000 to 2015, 23 new hotels opened in York Region (see Table 1 below). The average gross floor area of these hotels was approximately 93,500 square feet. The average unit count is 124 suites. Vaughan had the most development, with ten new hotels, followed by Markham with nine new hotels, Richmond Hill with two, and Newmarket and King with one each.

Table 1
New Hotels in York Region between 2000 - 2015

Municipality	Hotel	Year Opened
Vaughan	Courtyard by Marriott Concord	2002
	Hilton Garden Inn	2006
	Monte Carlo Inn Vaughan Suites	2006
	Residence Inn by Marriott	2007
	Holiday Inn Express and Suites Vaughan - Southwest	2008
	Homewood Suites by Hilton Vaughan	2011
	Novotel Hotels	2011
	Springhill Suites by Marriott	2011
	Aloft Vaughan Mills	2012
	Element Vaughan Southwest	2013
Markham	Staybridge Suites Toronto-Markham	2000
	Monte Carlo Inn Markham	2001
	Hilton Garden Inn	2002
	Courtyard by Marriott Markham	2002
	Residence Inn by Marriott	2002
	Homewood Suites by Hilton Markham	2008
	Monte Carlo Inn & Suites Downtown Markham	2011
	Liberty Suites	2014
	Towneplace Suites by Marriott Toronto Northeast Markham	2015
Richmond Hill	Travelodge	2005
	Holiday Inn Express & Suites	2008
Newmarket	Holiday Inn Express & Suites	2009
King	The Kingbridge Centre	2001

Source: Long Range Planning, York Region 2015 Employment Survey.

4. Analysis and Options

Hotel development helps support local tourism and businesses

York Region continues to grow as a hub for both tourism and major office development with centers in Markham, Richmond Hill/Highway 7 and Vaughan.

With over 60 museums and galleries and 125 performing arts festivals, the Region is also growing in cultural significance. Examples of tourist attractions include Canada's Wonderland, Vaughan Mills, and the McMichael Art Gallery. Currently there are over 2,200 people employed in the hotel industry in York Region.

Market demand for hotel accommodation in York Region is segmented according to the following drivers:

Table 2
Market Demand for Accommodation

Market Segment	Portion of demand for hotel accommodation (%)
Corporate/Commercial	35
Meeting/Conference	14
Tourism/Leisure	10
Government/Other Discounted Business	41

Source: PKF Consulting, Inc, Transient Hotel Development Opportunities in York Region, p. 5.

In 2015, growth in demand for accommodation in corporate/commercial, meeting/conference and tourism/leisure in York Region was expected to be approximately twice as high as in the rest of Ontario.

York Region could see up to 21 new hotels by 2031

Based on a 2009 study by PKF Consulting Inc., there is the potential for up to 21 new hotels in the Region by 2031, representing 2,750 new rooms. Eight of these hotels were expected to be needed in the northern six municipalities, with 800 rooms, and 13 were expected to be needed in the southern three municipalities, with 1,950 rooms.

Development Charges are not the main driver when determining a location to build a hotel

The decision to build a hotel is based on several factors. Typically, the pro-formas for a proposed hotel will place the greatest emphasis on anticipated revenues (based on occupancy rates and other revenues) and ongoing operating expenses. High occupancy rates are usually tied to a hotel's proximity to transportation hubs, airports, highways, tourist attractions, and concentrations of commerce and hospitals.

A 2013 study by the Municipal Finance Officers of Ontario Association showed DCs in York Region represented approximately six per cent of the total cost per square foot for apartments and two per cent of the total cost per square foot for office space. Similar information for hotels is not available.

The decision to build a hotel in York Region is more likely driven by market demand and locational advantages than by DC rates.

Development Charge treatment for hotels varies among municipalities

Table 3 identifies how hotel DCs are charged at the local municipal level in York Region.

Table 3
Hotel Treatment in Local Municipalities within York Region

Municipality	Retail Rate Charged	Small Apartment Rate Charged
Aurora	Yes – 50 %	Yes
East Gwillimbury	Yes – 100 %	No
Georgina	Yes – 100 %	No
Markham	Yes – 100 %	No
Newmarket	Yes – 100 %	No
Richmond Hill	Yes – 25 %	Yes
Vaughan	Yes – 100 %	No
Whitchurch – Stouffville	Yes – 100 %	No

Table 4 illustrates practices in selected other municipalities. York Region is the only one that uses a blended rate.

Table 4
Hotel Treatment in neighboring municipalities

Municipality/ Region	Percentage of retail rates to be paid	Small apartment rate charged	Separate retail rate (Municipality/ Region)		Development Charge Cost per sq ft ***
Ajax* - Durham	100% of municipal and regional rates	No	Yes	Yes	$18.04
Richmond Hill - York	25% municipal, 25% regional	Yes	Yes	Yes	$42.53
Mississauga - Peel	100% of municipal and regional rates	No	No	Yes	$27.79
Newmarket - York	100% of municipal, 25% of regional	No	Yes	Yes	$38.16
Toronto	100% of City rates	No	No		$18.87
Milton – Halton	100% of municipal and regional rates	No	Yes	Yes	$25.00
Aurora - York	50% of municipal 25% of regional	Yes	Yes	Yes	$45.03
Brampton - Peel**	100% of municipal and regional rates	No	Yes	Yes	$27.19

*Note: The Town of Ajax offers an incentive to hotel developers wishing to build within defined Community Improvement Project areas. Under this policy, a full development charge exemption applies to hotels of at least six storeys.

**Note: Brampton levies a special “full service hotel” rate.

*** Calculated based on a typical hotel with 124 rooms and 93,500 square feet in size. This reflects the average of hotels built in York Region since 2000.

Development Charges fund the infrastructure investments needed to support growth

The 2012 Development Charge Background Study estimated that the cost of regional infrastructure to accommodate growth to 2031 will be $14.4 billion. Due to restrictions in the *Development Charges Act*, only about 50 per cent of that can be recovered through development charge rates, although additional amounts may be recovered in future bylaws as the planning period becomes longer.

When calculating the retail rate for the 2012 DC bylaw review, hotel developments are considered to be part of the retail class, and they are included in the retail rate calculation. The *Act* prevents the Region from recovering any collection shortfall from discounts or deferrals through higher development charges for other types of development. However, any revenue shortfall resulting from a deferral for hotels may be collected from other retail developments as part of a future DC bylaw.

Development Charge discounts were not found to spur a material level of hotel development in the City of Brampton

In 2012, the City of Brampton began a policy of development charge discounts for full-service hotels. Initially, the discount was approximately 34.5 per cent and was pegged to match the City of Mississauga's non-industrial rate. Since that time, the discount has been reduced markedly; now hotels pay a 'full service' hotel rate of $91.63 per square meter (City of Brampton rate), close to the non-industrial, non-office rate of $98.71 per square meter.

Staff enquired whether the discount was curtailed because the City of Mississauga raised their non-industrial rate, or whether it was because there had not been much uptake on the discount. Ultimately, the discount policy simply did not attract the hotel development that Brampton had hoped for.

The Development Charge rate for hotels will be reviewed as part of the 2017 Development Charge Bylaw update

Staff will assess alternative policy approaches to hotel DC rates as part of the preparation for the 2017 Background Study.

Some of the options that could be considered are:

1. Continue applying a blended retail/non-retail rate as is currently in place

   The Region could continue to levy DCs on hotels based on its current treatment − a blend of the retail charge and the small apartment charge. This approach reflects the fact that infrastructure requirements of a hotel establishment have both retail and residential characteristics.

2. Maintain a blended DC rate but reduce both the retail and residential components

   The Region's current approach is to apply the retail charge to 25 percent of the gross floor area, which represents an estimate of the portion of the floor space normally used for retail purposes. Since 2005, the average new hotel in York Region has been 6 storeys, with the retail component on the first floor (based upon a study conducted by Regional staff). This would suggest that 15 per cent of the retail rate might better align with the actual retail share of gross floor area.

   Furthermore, the DC rate for the hotel rooms could be levied at 60 per cent of the overall apartment rate, commensurate with historical occupancy rates of 60 per cent. This reduction would recognize that not all units are occupied 100 per cent of the time.

3. Levy DCs on hotels at the retail rate

   The Region could levy the retail DC based on the gross floor area of the hotel (with no reduction in rate). This is how many municipalities in Ontario currently treat hotels, including several of the Region's local municipalities. It is also how the Region treated hotels prior to 2010. This approach would provide some savings for most hotels, while at the same time recognizing the retail nature of the hotel.

4. Developer's choice of blended rate or full retail

   The Region could allow the developer to choose either the blended rate, as it is currently levied, or the full retail rate. The most advantageous option for the developer would depend on the composition of the development.

5. Adopt a deferral policy similar to the Town of Aurora

   Currently retail developers, including hotels, can defer payment for the full amount due, to be drawn down over a three year period.

   If the Region were to adopt the Town's position, it would levy development charges based on its current office rate of $19.97 per square foot of office space. In the case of the hotel example cited by the Town, the Region would defer $1.06 million in development charges.

The duration of the deferral would be indefinite, until the use of the building changed. This could be a permanent deferral as hotels in the Region typically do not change use (i.e., become condominiums). The Region may want to charge interest on the deferral, reflecting the long-term cost of funding (permitted by way of agreement, under subsection 27(3) of the *Development Charges Act*).

The core principle underlying the *Development Charges Act* is that development charges are a primary tool in ensuring “growth pays for growth”, to the extent permitted by the legislation. The Region uses development charges to fund as much as much of its growth-related infrastructure as possible.

The Region needs to carefully balance the concerns of new developments with the position of existing taxpayers. Any permanent development charges deferral would need to be recovered through higher development charges for other retail development or higher property taxes.

Link to key Council-approved plans

Insofar as it might affect hotel development in the Region, considering a change to the treatment of development charges for hotels is consistent with the 2015 to 2019 Strategic Plan’s priority areas of “Strengthening the Region’s Economy and “Providing Responsive and Efficient Public Service”.

It would also supports a number of Regional Official Plan policy areas, including, “Economic Vitality” and “Growth Management”.

5. Financial Implications

Hotel developments have generated approximately $17 million in Development Charges since 2000

Between 2000 and 2015, 23 hotels opened in York Region and 18 hotel developments paid development charges, totaling approximately $17.0 million. Five hotels did not pay DCs due to the fact that they were redevelopments of retail spaces and, prior to 2010, hotels were treated as retail for the purpose of levying DCs.

6. Local Municipal Impact

This report does not directly affect local municipalities. The local municipalities will be consulted in the preparation of the 2017 DC Background Study, including hotel DC policy.

7. Conclusion

Staff are proposing to review the approach to the hotel DC rate as part of the 2017 Background Study. The bylaw and the rates proposed will be informed by consultation with the local municipalities and the development community.

For more information on this report, please contact Edward Hankins, Director, Treasury Office, at ext. 71644.

The Senior Management Group has reviewed this report.

February 26, 2016

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