

**CITY OF KITCHENER
2014 BUDGET ISSUE PAPER**



ISSUE: Economic Development Investment Fund Update
FUND: N/A
DEPARTMENT: Department of the CAO, Economic Development
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BUDGET IMPACT: N/A

BACKGROUND:

This issue paper was requested by Council to provide a brief update to the EDIF Impact Analysis prepared for Council in May, 2013. A more thorough analysis is scheduled to be undertaken by a third party consultancy in mid-2014.

RATIONALE / ANALYSIS:

The success of EDIF is now best reflected through significant private sector activity, especially related to the Communitech Hub. This demonstrates that EDIF investments provided the necessary catalyst to stimulate wealth-generating private investment. Between 2010 and 2012, there were 863 startups associated with the Hub, and another 60 companies established through the University of Waterloo's Velocity program. The Hub has helped attract \$350 million in equity investments, and Velocity startups have raised over \$100 million in funding.

Since 2012, startups graduating from the Hub have created demand for nearby office space. The resulting redevelopment activity created construction jobs, and is driving assessment growth through reuse of underutilized space. Other spinoffs include increased demand for downtown restaurants, retail and services. The residential market became more attractive, resulting in the launch of two major projects: City Centre and One Victoria Condominiums.

Objective 1: Stimulate assessment growth

Properties that benefited directly from EDIF investment, or were in close proximity to these investments, demonstrate an increase in the growth rate of their assessed values, which grew by about \$9.5 million per year prior to the implementation of EDIF. After EDIF was launched, the total assessed value of these properties rose by an average of \$14.2 million per year. These properties were worth \$167.8 million in 2004 and are now collectively worth \$296.3 million. This does not reflect the market value adjustments still to come, especially in residential development. The market value of the first phase of City Centre Condominiums is expected to be approximately \$57 million, and One Victoria Condominiums is expected to be worth \$61 million. These two projects will combine to generate approximately \$450,000 in annual City of Kitchener tax revenue – a 33 fold increase.

Objective 2: Stimulate employment

Noteworthy office developments include the conversion of upper-storey space in the Simpson Block on King Street to accommodate Vidyard. Thalmic Labs will occupy 24 Charles Street, which underwent a \$400,000 interior renovation to house one of North America's hottest startups.

Downtown office space attracted high-profile tenants in 2013, with Motorola and Square (Twitter cofounder Jack Dorsey's newest startup) setting up offices in the Breithaupt Block. Perimeter Development also acquired 305 King St W, intending to modernize the building. The proximity of

this office tower to the Tannery has made it an attractive location for graduating Hub startups, include TribeHR (acquired by Netsuite in 2013). There are approximately 530 employees in small tech companies occupying over 60,000 sq.ft. of space in downtown holdings outside the Tannery. The Tannery itself now houses approximately 1500 employees.

The demand for downtown space has pushed the average asking lease rate for office space up to \$14.53/sq.ft. in 2013 from \$11.81/sq.ft. in 2012. This also reflects the increase in Class A office space. The vacancy rate rose both downtown (12.6%) and city-wide (10.2%) in 2013, reflecting the increase in available space in the core, as new office inventory was created at the Briethaupt Block, and the time lag to occupancy.

The Downtown restaurant and retail cluster also continued its expansion in 2013 with new businesses including GoGo Mart, Zoup, Cheeses Murphy, and more. A group of specialty shops has sprung up on Ontario Street including 2013 additions Stylfrugal, and Flourish Florals, as well as nearby 'More Than Half' clothing and Artisan Zone on King Street.

Objective 3: Stimulate development of residential units in the Downtown

Construction has begun on two major condominium projects, City Centre and One Victoria. The first phase of City Centre is a 17-storey tower with 203 units of residential, a number of commercial units on the ground floor and two levels of underground parking. One Victoria features a 19-storey tower with 205 residential units, commercial units at grade, plus two below-grade levels and six above grade levels of parking. Upon completion these projects can accommodate about 735 residents, which would result in a 35% core population increase.

While the construction value of residential permits in downtown neighbourhoods fell from \$28.3 million in 2012 to \$14.6 million in 2013, this reflects the timing of permit issuance. City Centre Condominiums and One Victoria only had shoring permits issued in 2013 (valued at \$860,000 combined); as such, residential permits will rise considerably when these projects have construction permits issued. Each of these projects has a greater value than the total construction value of combined residential permits in any of the past 13 years.

Conclusion

The impact of EDIF stimulated investment extends beyond employment and assessment growth. It has also resulted in a transformation of the urban brand of the City. In 2013, regional, national and international press reported the new identity, with a New York Times headline reading: "A Snowier Silicon Valley in Blackberry's Backyard". Momentum continues to build with new projects in the planning stage. Strong growth in residential, office and retail is expected to continue through 2014 to the commencement of the ION LRT service in 2017 and beyond.

FINANCIAL IMPLICATIONS:

N/A

RECOMMENDATION:

N/A