



The Regional Municipality of Durham Report

To: Regional Council
From: Commissioner of Finance, Commissioner of Community Growth and
Economic Development and Commissioner of Works
Report: #2025-COW-9
Date: February 26, 2025

Subject:

Request for Regional Financial Assistance under the Regional Revitalization Program by Heathrow Group (hereinafter referred to as “Heathrow”) for the Redevelopment at 40 King Street West in the City of Oshawa

Recommendation:

That it be recommended to Regional Council:

A) That the application submitted by the City of Oshawa, on behalf of Heathrow Group. (Heathrow), under the Regional Revitalization Program (RRP), requesting Regional financial assistance for the redevelopment of a vacant office building to a mixed-use commercial/residential rental apartment building located at 40 King Street West in the City of Oshawa be approved, subject to the following conditions:

- i) The Region to provide up to \$1,350,000 for the redevelopment, with funding provided from the Regional Revitalization Reserve Fund and transferred to the City of Oshawa for distribution to Heathrow, in accordance with the timing and flow of funds under the RRP:

Full building permit issued to Heathrow	50 per cent
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Framing inspection (or equivalent structural completion), passed by the area municipal building inspection authority	40 per cent
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Occupancy permit received from the area municipal building authority or passed preoccupancy inspection of those municipalities which do not issue an occupancy permit;	10 per cent
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- ii) The City of Oshawa executes the necessary agreements with Heathrow for the provision of financial assistance by the City;

- iii) Heathrow must pay all applicable Regional Development Charges in accordance with the Regional Development Charge By-laws;
 - iv) All costs associated with works for the development of the lands will be borne by the developer, Heathrow, in keeping with Regional policies;
 - v) Satisfaction of any performance criteria outlined in agreements between the City of Oshawa and Heathrow regarding incentives (financial or other) provided under the City's Urban Growth Centre Community Improvement Plan and applicable City By-laws;
 - vi) The City of Oshawa enter into an agreement with the Region that outlines the terms and conditions for Regional financial assistance to ensure accountability for Regional funding; and,
 - vii) The City of Oshawa agrees to conduct annual post-project reviews and audits for five years after substantial occupancy of the development of lands, in conjunction with the Region, to ensure accountability and the effective utilization of Regional resources; and,
- B) That as per the RRP, the increased property tax revenue generated from the increased current value assessment of the redevelopment project in the City of Oshawa be used to replenish the Regional Revitalization Reserve Fund.
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Report:

1. Purpose

- 1.1 The purpose of this report is to consider a request for Regional financial assistance under the Regional Revitalization Program (RRP) for the redevelopment of a vacant office building located at 40 King Street West in the City of Oshawa by Heathrow Development Corporation.
- 1.2 On January 14, 2025, Regional staff received an application from the City of Oshawa, on behalf of Heathrow Development Corporation, under the RRP.

2. Key Elements of the Regional Revitalization Program

- 2.1 Regional Council established the RRP on October 8, 2008 (Report #2008-J-37) for a term of five years. The RRP was renewed indefinitely by Regional Council on March 5, 2014 (Report #2014-J-10). Key elements and application requirements of the RRP are contained in the Guideline for the Regional Revitalization Program – Region of Durham.
- 2.2 The RRP is a partnership between the Region of Durham and participating area municipalities and aims to strategically target Regional investment towards key areas that advance the goals of the former Regional Official Plan¹ and achieve positive economic and community objectives and support development that would not otherwise proceed without municipal financial assistance.
- 2.3 The RRP contains the following key elements:
- The RRP targets new projects within Community Improvement Plan (CIP) Areas as recommended by area municipalities;
 - The RRP focuses on initiatives that advance goals of the former Regional Official Plan (ROP) as a basis for achieving positive economic and community objectives;
 - The RRP encourages both residential and employment growth in the Region's key urban locations, including Regional Centres and Regional Corridors, and brownfield sites throughout the Region, which are given preference;
 - The project must entail significant and substantial revitalization and/or development. Construction cannot already be underway. Examples of eligible project types are:
 - New construction
 - Additions to existing buildings
 - Redevelopment
 - Brownfield Redevelopment
 - Projects involving façade improvements are not eligible under the RRP;
 - Program eligibility is determined through the submission of an application, including a business case by the supporting area municipality, which demonstrates the benefits of the project and the need for Regional financial assistance. Area municipalities must submit an application, including a business case, to the Region's Commissioner of Finance;
 - Applications are reviewed and evaluated by the Commissioners of Community Growth and Economic Development, Works and Finance to ensure that program eligibility and business case requirements are

¹ Pursuant to Bill 23, as of January 1, 2025, the Regional Official Plan (Consolidation December 13, 2024) has now become part of the Area Municipal Official Plans of Durham's eight municipalities. Each area municipality may repeal or amend it, meaning that each area municipality will have responsibility for the former Regional Official Plan as it pertains to their municipality.

addressed;

- Recommendations regarding project selection are then presented to the Finance & Administration Committee or the Committee of the Whole and Regional Council;
- Regional financial assistance under the RRP is not to be greater than the area municipality's financial assistance;
- Funds for approved community improvement projects will be transferred to the applicable area municipality at the following stages:
 - Building permit issued by area municipality: 50%
 - Framing inspection, or equivalent structural completion, Passed by the area municipal building inspection authority: 40%
 - Occupancy permit received from area municipal building authority or passed preoccupancy inspection of those municipalities which do not issue an occupancy permit: 10%
- The participating area municipalities are required to provide relevant project information for all qualified community improvement projects approved through the RRP on an annual basis for the five years after substantial occupancy of each project;
- Funding is provided through the Regional Revitalization Reserve Fund, which is replenished through the dedication of the increased Regional property tax revenue of the RRP projects, resulting from increased current value assessment; and
- Regional financial assistance operates like a grant; it is not an exemption from Regional Development Charges, a reduction in property taxes, or a contribution towards Regional infrastructure.

3. Request for Regional Assistance

- 3.1 On January 14, 2025, Regional staff received an RRP application from the City of Oshawa, on behalf of Heathrow for their redevelopment project in the downtown. The City has requested that the Region of Durham support the proposal by providing a grant through the Regional Revitalization Program.
- 3.2 On October 17, 2024, Heathrow Group (hereinafter referred to as "Heathrow") submitted correspondence to the City of Oshawa requesting certain development incentives for 40 King Street West. Heathrow also requested "that the City work with the Region of Durham to initiate the Regional Revitalization Program process"

4. Heathrow's Proposal

- 4.1 Heathrow is proposing to convert a largely vacant and underutilized office building at 40 King Street West into a mixed residential/commercial building. The building is located in the City of Oshawa's Urban Growth Centre Community Improvement Plan. The current proposal contains 119 apartment rental units, comprising 105 two-bedroom units and 14 one-bedroom units.

- 4.2 As identified in the proposal, the ground floor will feature over 10,000 square feet of upscale retail, restaurant, or office space, while the basement will offer storage lockers for residents. The project is committed to sustainability, accessibility, and affordability. According to the application, energy efficiency improvements will deliver greenhouse gas reductions of 15 per cent to 50 per cent, and over 15 per cent of the suites will be accessible. In addition, the proposal states that at least 20 per cent of the suites will meet CMHC's affordability criteria, with rents capped at 30 per cent of median household income for a minimum of 10 years. There are no plans for future condominium conversion and it is estimated that the project will provide housing for over 440 residents upon completion.
- 4.3 The target market for the building includes a diverse range of residents, including students, young professionals, seniors and empty nesters, couples and singles and families.
- 4.4 According to the application, the total construction budget for this project is approximately \$53.4 million.

Challenges and Extraordinary Costs

- 4.5 According to the proposal, the redevelopment faces extraordinary costs associated with the adaptive reuse and the building's location in the Downtown area, where operational and logistical complexities are inherently greater. Given the high traffic area of the Downtown, there are multiple access points at the site that create vulnerabilities that require measures to secure tools, materials and workers during the construction phase. To address these challenges, temporary fencing, security cameras and onsite patrols are necessary to deter theft and vandalism.

5. Project Support by the City of Oshawa

- 5.1 The Proposal is supported by Oshawa City Council. On October 17, 2024, Heathrow submitted correspondence to the City of Oshawa requesting certain development incentives for 40 King Street West (the "Subject Site"), including that the City work with the Region of Durham to initiate the Regional Revitalization Program process.
- 5.2 The City is providing to the redevelopment project an Increased Assessment Grant of 50 per cent per year for 15 years totaling \$2,078,670. In addition, the City is providing the following incentives under the Urban Growth Centre Community Improvement Plan, totaling \$90,000:
- Conversion to Residential Grant (\$30,000)
 - Façade and Accessibility Improvement Grant (\$30,000)
 - Upgrade to Building and Fire Codes Grant (\$30,000)
- 5.3 The City also recognizes that the redevelopment project contributes to the revitalization of downtown Oshawa and supports a number of Provincial and Regional planning policies and initiatives, including:

- Supporting and increasing rental housing options for Durham residents;
- Making better use of existing municipal infrastructure/services;
- Implementing the current Provincial Planning Statement and former Region Official Plan policies;
- Supporting a pedestrian-oriented urban environment; and,
- Contributing to the Province's housing targets for Oshawa.

6. Evaluation under the RRP

6.1 Challenges highlighted by Market Analysis

- The Greater Toronto Area (GTA) is experiencing surging demand for rental apartment buildings. In recent years, the demand for rental housing has reached unprecedented levels due to a rapidly growing population. Rental market conditions are characterized by low vacancy rates and remarkable rent growth.
- Purpose-built rentals are the most common form of rental housing in the GTA, but purpose-built rentals contributed the least amount of new supply over the past ten years.
- According to the Ontario Ministry of Finance medium-growth scenario, the GTA population is expected to grow by 1.27 million by 2031, an extra 445,920 above growth recorded during the previous 10-year period.
- Home ownership rates are dropping as affordability continues to decline. The surge in housing prices in recent years, combined with quickly rising interest rates, has increased the percentage of household income required to service the average mortgage.
- Despite strong demand-side fundamentals, developers have been facing several supply-side challenges that impede the provision of rental housing in the Toronto GTA, including:
 - Limited and costly residential vacant land.
 - CMHC and Statistics Canada's Municipal Land Use and Regulation Survey found approval timelines for new developments in the GTA to be the longest in the country. Long timelines end up adding costs to development (for interest on loans, equipment rentals and labour, for example), as do government fees levied on new construction.
 - The rapid rise in construction costs and interest rates in recent years has lowered expected returns and increased the amount of equity developers need to bring to a project. Bringing equity to a project is especially challenging for rental developments, which don't benefit from equity accumulated through pre-construction sales, like condominiums.
 - Rising operating expenses (for insurance and utilities, for example) are a significant risk to the expected return of projects.

- Builders indicate that constraints on skilled labour capacity will resurface once development conditions improve.
- In the City of Oshawa, there has been a recent trend toward higher density forms of housing development, likely because of policy and lifestyle preferences, as well as limited land supply and rising land costs.
- Due to the planned GO Train extension and the 407 East extension, the City of Oshawa will continue to benefit from improving regional connectivity, which may further support high density development. As such, the trend towards rental apartment forms of development is likely to continue and is expected to represent a greater proportion of total housing starts in the upcoming years.
- Over the last two decades, several purpose-built rental projects have occurred in Downtown Oshawa with assistance by the City and the Region:
 - 44-50 Bond Street West (Parkwood Residences). The initial project by Heathrow involved the redevelopment of a vacant office complex into a residential condominium project. The project contains 120 residential apartment units. Financial assistance of \$250,000 was provided under the Pilot Regional Downtown Revitalization Program in 2003.
 - 100 Bond Street East (Bond and Mary Development Inc. - Phase 1). This mixed use residential/commercial development by Heathrow contains 239 apartment units and 12,572 square feet of ground floor commercial. Financial assistance of \$430,000 was provided under the RRP in 2015.
 - Genosha Hotel (TT7 Inc). This project involved the redevelopment of a mixed-use apartment/commercial building. The project contains 86 apartment units and 22,000 square feet of commercial. Financial assistance of \$564,000 was provided under the RRP in 2017.
 - 80 Bond Street East (Bond and Mary Development Inc. - Phase 2). This mixed use residential/commercial development also by Heathrow contains 370 apartment units and 4,300 square feet of ground floor commercial. Financial assistance of \$580,000 was provided under the RRP in 2018.
 - 135 Bruce Street (Medallion Developments Ltd. – Phase 1). This multi-phased mixed-use development will contain two new purpose-built apartment buildings with a total of 509 units. The site is currently a vacant brownfield occupying an area of 10.7 hectares (26.5 acres). Financial assistance of up to \$3,900,000 was committed to the proposed project under the RRP in June of 2024.

6.2 Project Satisfies Mandatory Criteria under the RRP

6.2.1 The proposed project by Heathrow satisfies several mandatory criteria for eligibility and consideration under the RRP, including:

- The project is located within a designated Centre (Downtown Oshawa Urban Growth Centre) and within the City of Oshawa's Urban Growth Centre Community Improvement Plan (formerly the Central Business District Renaissance CIP);
- The project supports policies within the former Regional Official Plan (ROP), which encourage both residential and employment growth in a Regional Centre (Urban Growth Centre), on a brownfield site;
- The project entails significant and substantial revitalization and/or development and construction cannot already be underway;
- The project has been recommended by the City of Oshawa; and,
- A financial commitment has been provided by the City of Oshawa.

6.2.2 Under Durham Region's 2025-2035 Strategic Plan: Connected communities. Connected to you, the proposed development would also satisfy pathway C2. Enable a full range of housing options, including housing that is affordable and close to transit.

6.2.3 The rationale for a prospective RRP application states that the redevelopment at 40 King Street West supports a number of broad Regional policies and initiatives, including:

- Encouraging intensification of built-up areas, identifies Oshawa's downtown as one of the two Urban Growth Centres in Durham Region;
- Providing transit supportive uses along a major transit route;
- Making better use of existing municipal infrastructure/services;
- Supporting a pedestrian-oriented urban environment; and
- Support the City's broader goals of economic development and community enhancement, further positioning downtown Oshawa as an even more desirable place to live, work, and visit.

6.2.3 In addition, there are expected immediate and long-term economic benefits associated with the development, including:

- Direct employment in construction and administration related to the development, as well as the spin-off employment from the demand for goods and services by those employees;
- Direct impact from the initial capital expenditures related to construction (i.e. hard construction costs);
- Potential synergies with new private sector residential investment, supporting ridership of local transit and providing additional benefit to downtown businesses through increased foot traffic in the Downtown core;
- According to the application, increased annual property taxes generated by the redevelopment due to increased current value assessment (local, Regional and education taxes) are estimated to be \$882,000 in its first year post-construction).

7. Financial Implications

- 7.1 Under the RRP, projects are required to fully pay all applicable Regional fees and charges, including Development Charges (DCs). The estimated applicable Regional DCs (based on current rates) for the proposed redevelopment project are approximately \$5.7 million. However, based on the current building design, this project will be eligible for Regional Development Charge redevelopment credits for converting commercial office space into residential units for floors two through eight. The current estimate for the Regional redevelopment DC credit is \$3.1 million, leaving applicable Regional DCs in the amount of \$2.6 million. Actual DCs will be determined at time of building permit issuance for the proposed project and will be payable over five installments beginning at time of occupancy. The proposed development at 40 King Street West can be serviced within the existing sanitary sewer and water supply systems.
- 7.2 Like other rental projects in Downtown Oshawa, the project by Heathrow faces several unique cost challenges. Rental apartment development is subject to a particular financial risk that is not faced by condominium apartment development. Since purpose-built rental projects generate little or no revenue until the units begin to be occupied, construction financing is more challenging for purpose-built rental projects to secure than for condominium projects. The risk can be greater when there has been only limited market rental or condominium apartment development in the downtown area.
- 7.3 In addition, marketing challenges are driven by the location of the Project within Oshawa's downtown, the latter of which includes perceived challenges of safety and security issues, unsafe evening walking conditions and concerns around overnight parking. Security patrols and surveillance cameras will be installed and monitored 24/7 throughout the building including stairwells and garage access points, ensuring tenant safety.
- 7.4 Regional staff recommend a payment of up to \$1,350,000 under the Regional Revitalization Program which recognizes the aforementioned site-specific challenges associated with this proposed project under the RRP. Specifically, this contribution reflects the costs, as identified in the City's application, associated with site security and property maintenance during construction and the first year of ongoing operations.
- 7.5 This high-density redevelopment in the City's Downtown Community Improvement Plan (CIP) maximizes the utilization of existing municipal infrastructure through intensification in a Regional Centre.
- 7.6 It is recommended that the application submitted by the City of Oshawa, on behalf of Heathrow under the RRP, requesting Regional financial assistance for the development of a purpose-built rental apartment building with commercial space located at 40 King Street West in the City of Oshawa be approved, subject to the following conditions:

- The Region to provide up to \$1,350,000, or the amount of assistance provided by the City of Oshawa, whichever is the lesser amount, for the development, with funding provided from the Regional Revitalization Reserve Fund and transferred to the City of Oshawa for distribution to Heathrow, in accordance with the timing and flow of funds under the RRP:

Full building permit issued to Heathrow	50 per cent
Framing inspection (or equivalent structural completion), passed by the area municipal building inspection authority	40 per cent
Occupancy permit received from the area municipal building authority or passed preoccupancy inspection of those municipalities which do not issue an occupancy permit;	10 per cent
ii) Heathrow must pay all applicable Regional Development Charges in accordance with the Regional Development Charge Bylaws;	
iii) All costs associated with works for the development of the lands will be borne by the developer, Heathrow, in keeping with Regional policies;	
iv) Satisfying any performance criteria outlined in agreements between the City of Oshawa and Heathrow in regard to incentives (financial or other) provided under the City's Urban Growth Centre Community Improvement Plan and applicable City By-laws;	
v) The City of Oshawa enter into an agreement with the Region that outlines the terms and conditions for Regional financial assistance to ensure accountability for Regional funding; and,	
vi) The City of Oshawa agrees to annual post-project reviews and audits for five years after substantial occupancy of the development of lands, in conjunction with the Region, to provide accountability and ensure effective utilization of Regional resources;	

7.8 In addition, it is recommended that as per the RRP, the increased property tax revenue generated from the increased current value assessment of the development project in the City of Oshawa be used to replenish the Regional Revitalization Reserve Fund.

8. Conclusion

8.1 The RRP is a partnership between the Region of Durham and participating area municipalities and aims to strategically target Regional investment towards key areas of Durham Region's area municipalities that advance the goals of the former Regional Official Plan and achieve positive economic and community objectives where development would otherwise not proceed.

8.2 This report has been prepared with assistance from Development Approvals – Works, Community Growth and Economic Development, Social Services – Housing Division and Corporate Services – Legal Services Division.

Respectfully submitted,

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Recommended for Presentation to Committee

Original Signed By

Elaine C. Baxter-Trahair
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