

# The Land Economist

Fall 2000, Vol. 30, No.2

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Speakers at this June's joint CUI-OLE Seminar identified opportunities and challenges in ICI and residential markets around the Golden Horseshoe.

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PHOTO: COURTESY OF TORONTO WATERFRONT REVITALIZATION TASK FORCE

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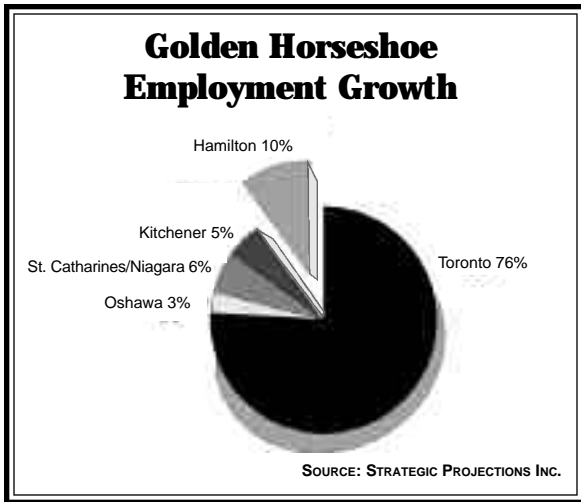
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## Agreement pumps \$1.5 billion into Waterfront

On October 20, Jean Chretien, Mike Harris, and Mel Lastman jointly announced \$1.5 billion to kickstart the Toronto Waterfront revitalization. Funds are primarily for infrastructure, soil remediation and green spaces. The federal government also announced \$680 million over six years into Ontario infrastructure projects, through Ontario's existing SuperBuild program.

That should include seed funding for the Union Station/Pearson Airport rail link. The agreements are expected to boost Toronto's bid for the 2008 Olympics/ Paralympics. However, it's still just a small part of what's to be done. See page 5.



by Rowena Moyes

The five metropolitan areas in the Golden Horseshoe were hit hard by the recession in the early 1990s, and the Toronto Census Metropolitan Area was hit hardest of all, says Tom McCormack, president of Strategic Projections Ltd. But since 1995, they have rebounded.

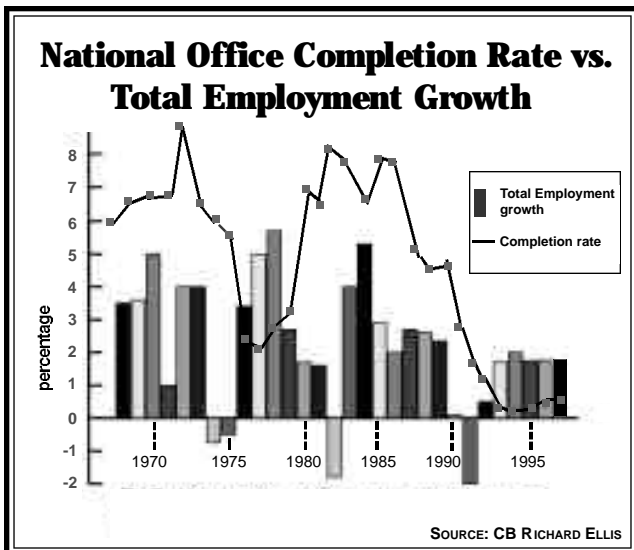
In fact, if you include the full developed region into Buffalo and Rochester in the United States, the region is growing by 104,000 people a year – the second highest rate in North America. “Only Los Angeles is growing faster.”

That growth sets up pressures and opportunities throughout the region – the main focus for the joint Canadian Urban Institute/Association of Land

#### Opportunities in Brownfields

Ontario’s Minister of Municipal Affairs and Housing, Hon. Tony Clement, pointed to redevelopment of contaminated older industrial/rail sites as a major opportunity. “In Toronto and Hamilton, it is estimated that approximately 10 to 15% of the land available for development is brownfields.”

Municipal loans or grants, tax increment financing plans and other programs to waive, defer, refund fees or exempt projects from development charges are being tried. Limiting agreements and remediation insurance take steps toward getting potential liabilities under control. Liability, financing and approvals problems need legislative changes, and “we’re working on them,” Clement said.



#### Different Cycles

There is not just one big boom cycle for property. Blake Hutcherson, president of CB Richard Ellis, pointed out that different types of property follow different cycle patterns. And while industrial and retail completions track their employment cycles fairly closely, office markets don’t.

“It sometimes

# What’s Hot? What’s Not?

## CUI-OLE Seminar Report

Economists conference this June: “What’s Hot, What’s Not? Real Estate Investment Opportunities in Southern Ontario.”

takes five to six years to bring (office) product on,” Hutcherson said. “Everybody looks and says ‘Oh, there’s room for one or two more buildings’, and then four of them come on at the same time.”

Toronto’s office market today is “a trader’s game – not a developers’ game. There are opportunities for funds and entrepreneurs, but developers are having trouble playing.”



#### New Industrial Buildings

One of the hottest markets for developers is in new industrial buildings, particularly design-build product in Mississauga-Meadowvale, Brampton and Vaughan, said Mike Hanna, vice president and CFO of First Gulf Development Corp.

“Must have” specs include a 30 x 30 floor plate, 28 to 32 feet clear height to the underside of the joists, 130 foot trucking apron and 7-inch reinforced steel floor, even if the tenant only requires 6 inches.

It’s hard for private companies to build and hold, Hanna said. Pension funds and REITS have tax advantages which improve their yields. Instead, private companies are looking at land lease arrangements, with a chattel mortgage on the buildings.

### Consistently high returns

Rich Grimaldi, managing director with GE Capital, explained that GE is very interested in industrial properties, largely because they show average returns of 9.6%, compared to 8.8% for retail, 8.5% for office and 7.9% for multi-family. Cash flow can be 13 to 14%. While GE Capital had just over 20% of its volume outside the US in 1999, "we want to increase that number of 40 to 50% over the next few years," he said.

Leo de Bever, senior vice president, research and economics with the Ontario Teachers' Pension Plan Board, says his group leans towards retail and class A office space. But "there is very little product out there in our size – most retail is already owned by pension plans." The plan is looking into infrastructure financing, and would consider schools, he said.

### Pressures on retail

Regional shopping centres are continuing to come under intense pressure to expand or remercandize themselves, said Douglas R. Annand, partner with PricewaterhouseCoopers. Potential for super regional shopping malls appears to be limited to only four or five across Canada. And although on line shopping isn't too successful yet, it could mean that stores in future "become an advertising vehicle" — with lower sales and rent potential and a smaller back room. If so, "centres may have to rely on income and advertising fees instead of rent."

### Housing is booming

Two key buzzwords in the housing market are "infill" and "master-planned communities".

Successful townhouse projects should be no more than 40 to 50 units, said John Blackburn, head of CRU Communications Inc. Infill singles should be probably 10 to 15 units, and mid rise projects in the 60 to 70-unit range, on eight to ten floors.

Seniors' assisted living is a huge opportunity in rural areas. "In virtually all of small town Ontario, the number (of people older than 65) exceeds 20%" he said. "They want to move into their local town, they will buy or rent, they

would prefer the Assisted Living model and for the most part, they can afford to pay."

Another definite "hot spot" is the downtown condominium market. Both Blackburn and Eric Wegler, president of the Greater Toronto Home Builders' Association, singled it out for special comment.

### High risks

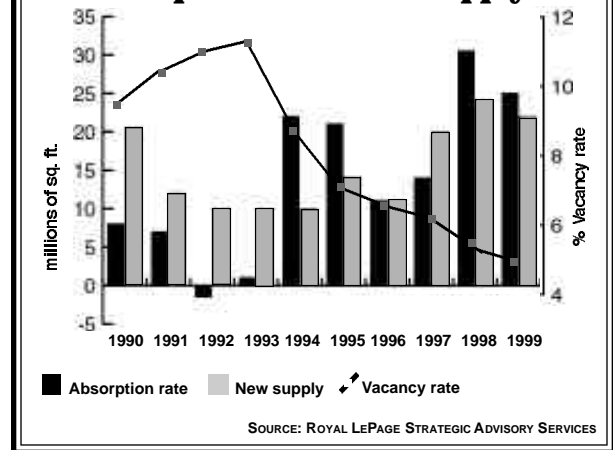
However, condominium developers are facing very high risks. Presales often take place well over a year before construction.

Competition from industrial/commercial construction and the U.S. housing market is causing high cost-push inflation in both materials and labour prices.

This market is "not for the faint at heart," Blackburn said, "nor in my view worth it if the builder/developer is earning less than 10% profit — which many are."

He predicted that over the next six months, "several high profile pre-sold high-rise condominium projects, especially in downtown Toronto, will either

## National Industrial Absorption and New Supply



be cancelled or dramatically relaunched, as anticipated costs exceed anticipated income."

Tight profit margins and high competition are also having a devastating effect on the mid-sized retail builder, Blackburn added. Small builders can survive in special niches, but mid-sized builders simply can't compete against the economies of scale in vertically integrated builder/developers.

Already, although there are more than 300 builders in the GTA, the top 10 build well over one third of the homes.

## Welcome New Members!

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# Science battles Myth on Oak Ridges

by Lloyd Cherniak, PLE

In order to understand the valuation of land in the Oak Ridges Moraine, the professional land economist must be aware of the 1991 provincial guidelines, current municipal policies, and the science of water and ecology in relation to the site.

The professional must also understand the political and public mythology that has developed on this issue without any scientific basis. The effect on the land economics scene will continue to be felt for some time.

## **Solveable problems**

The Oak Ridges Moraine is undoubtedly an important geographic feature in the GTA. However, it has been elevated to something approaching mythical status through political and environmental mysticism, to the chagrin of most professionals who have been working on solutions for some time.

The moraine came to attention during the 1980s due to pollution in Lake Wilcox, sewage problems in King City, and water problems in Whitchurch-Stouffville.

New infrastructure proposals will eliminate most of these problems for existing and future development. But the public interest has focused on these past concerns, influencing current policy formation.

## **Provincial interest**

The moraine became an issue of provincial interest in 1990 when the greenlands strategy was released by the Liberal government. That document recommended a moratorium on development on the moraine and a two-year study.

In June of 1991 the NDP government "expressed" a provincial interest in the Oak Ridges Moraine, established interim guidelines, and initiated a study. The study was completed in 1994 after 16 technical reports, numerous meetings, a large budget, a public meeting process, and input from stakeholders as varied as provincial agencies, municipalities, STORM, UDI, FON and others. This report was not released by Howard Hampton (then minister of natural resources), and today the 1991 interim guidelines still form the basis for municipal planning under the Mike Harris Conservatives. Development was not

stopped by any of these governments, and a freeze would be bad policy now that the answers are known.

## **Municipal policies**

In 1991, then Environment Minister Ruth Grier advised Mayor Bell that Richmond Hill could proceed to a hearing at the OMB on its Official Plan; however the town should re-evaluate its work in terms of the natural features and their linkages.

After a lengthy hearing in 1995, the OMB decision said; "the Board concludes that the Official Plan...satisfies the tests of proper planning, conformance with matters of provincial interest including Mrs. Grier's letter, and is in the public interest. As a matter of principle the environment first philosophy is appropriate and in the circumstances justified. The translation of environment first into policy is based on the best available environmental and impact and resource management science. ..."

## **Guidelines established strict tests for development**

In conclusion, the Board said, "the guidelines do not prohibit development. They limit development and establish strict tests for it in the area of the Moraine."

York Region in 1994 adopted its new Official Plan which states; "the natural functions and processes of the Oak Ridges Moraine be managed to provide a balance between the natural environment and growth expectations."

## **Rational policy overturned**

The interpretation then of the guidelines, the York OP and the OMB ruling would lead one to believe that a policy was formulated to allow for some urbanization on the Oak Ridges Moraine when warranted by scientific analysis.

However, the history of OP 200 in Richmond Hill is a sad example of how logical policy formulation based on science and legal precedent can be overturned by interest groups with no respect for anything other than the desire to stop development.

Richmond Hill in the above policy from work approved its new Official Plan with buildout population in the range of 220,000. That figure was derived with input from the region and province.

## **Under public pressure, Richmond Hill voted against its own decision**

Under public pressure, Richmond Hill voted against its own decision and worked seven years to fight development. They were quickly joined by the region and the province, despite all logic.

Any land economist advising clients who have land on the Oak Ridges Moraine should make an effort to review the provincial and regional positions in these ongoing hearings; there may be relevant information already filed by the Ministry of Natural Resources on environmental sensitivities of the property in question.

## **Where will the growth go?**

The growth pressures in the GTA continue to make it one of the strongest markets in North America.

Ray Simpson of Hemson Consulting in evidence in the OMB hearing notes that the last five years the GTA has grown by 440,000 to 5.2 million. It is second in growth only to Dallas Fort-Worth, and will continue to grow to 7.4 million by 2031.

The growth pressure means the GTA will surpass Detroit in 10 years and Boston in 20 years. The population of York Region is expected to increase to 1.3 million.

It is interesting to note that many environmentalists think that the growth can be accommodated in Toronto by high densities. In fact, Simpson notes that the number of housing units in Toronto has almost doubled to 303,600 units in the last 50 years and the population has declined from 699,000 to 671,000.

Do you still think we should abandon 0.02% of the 200,000 ha of the Oak Ridges Moraine that are being debated in Richmond Hill – lands that will be developed with the existing York-Durham sewer, city water and Yonge street bus

**Please see Oak Ridges Moraine**

# Oak Ridges Moraine

## Well studied and understood

If you are still unsure, then consider Ken Howard, PhD, University of Toronto professor, director of groundwater research and chair of an international association of hydrogeologists' Commission on groundwater in urban areas. After 20 years of research on the OA and ORM he concludes: "the Oak Ridges Moraine is one of the most studied and best understood aquifers in Canada. However it is not the rain barrel of Ontario".

As research in the GTA goes a long way towards a scientific approach to development and its relationship to the ground and surface water systems. Our urban standards of development in modern subdivisions are safer than agricultural areas. The situation in Markham and other areas should confirm this in most minds, yet this scientific fact is still disputed.

Consider Long Island in New York, where two moraines underlay a population of millions of people. With agriculture discouraged on the moraines, artificial recharge has allowed people to continue drinking well water for the past 70 years.

## Linkages go North-South

The issue of wildlife corridors has also been called up to bolster the significance of the Oak Ridges Moraine. This argument portrays the Moraine as a huge east-west greenbelt to the north of existing development – something easily accomplished graphically, simply by coloring the entire Oak Ridges Moraine planning area in green.

However, graphics are not reality.

If you show the existing urban, agricultural and treed areas on the moraine in the same colors as those in the surrounding lands, it becomes apparent that the natural features in the GTA follow a north-south direction on the moraine – just as they do off the moraine. Derek Gleaman, PhD, of ESG International, points out that the major rivers start off

## OLE Annual Meeting September 20



PHOTO: COURTESY OF TORONTO WATERFRONT REVITALIZATION TASK FORCE

## Secure Governance Vital for Waterfront

*Exactly one month before the big \$1.5 billion infrastructure announcement, Gord Thompson, co-chair of the Toronto Waterfront Revitalization Task Force, told OLE members of the huge project's opportunities — and challenges. With infrastructure estimated to cost \$5.2 billion over a 15-year period, and political commitment subject to ebbs and flows, secure governance is an absolute necessity, he said.*

*There is "an urgent need" to develop a new joint enterprise, in which each government will hold 1/3 interest. Then, that body could implement plans and float public bonds — binding commercial contracts, repayable by the governments from future revenue streams. (Government representatives will be working on details of a waterfront development corporation over the next two months.) The goal is to have the structure in place for the January 17 deadline for submitting plans to the International Olympic Committee.*

*Although the governments have said the revitalization must go ahead whether Toronto is chosen for the 2008 Olympics or not, that has certainly helped to drive the project so far. See [www.city.toronto.on.ca/waterfront/news.htm](http://www.city.toronto.on.ca/waterfront/news.htm)*

the moraine, riparian linkages occur off the moraine, and in fact an east-west linkage along the moraine does not exist.

The Oak Ridges Moraine has taken on near-mythological status with the public and politicians, with no scientific or rational basis. The onus for justification of proposals will continue to be on the applicant, and all parties should be aware of the significant cost and risk of proceeding with development applications.

This article is a brief update on some current information and of course can not detail all of the substantial issues involved and evolving, so stay tuned.

*Lloyd Cherniak is vice president of Lebovic Enterprises Inc., a Toronto development company with significant holdings on the Oak Ridges Moraine. He served on the provincial Oak Ridges Moraine Technical Working Committee that produced the 1994 report.*

# A New Look At Rental Housing

by Andy Manahan, PLE

Despite a number of changes that the Ontario Government has made to improve the climate for new rental housing construction, there has been little investment in this area. (About 1,300 units were built in 1999.) Therefore, Municipal Affairs and Housing Minister Tony Clement has announced a joint government-industry Housing Supply Working Group to seek solutions to the lack of private sector rental supply.

Participants include: Metropolitan Toronto Apartment Builders' Association, Fair Rental Policy Organization, Urban Development Institute, Ontario Home Builders' Association, Board of Trade, and Universal Workers' Union, Local 183. Representatives from municipalities, the banking and investment industries and other Ministries will also participate.

At the group's first meeting in early September, consultant Frank Clayton stated that rental construction might have to offer a return of at least 10 per cent to attract investors away from other less risky investment vehicles. That leaves two choices: either reduce costs or increase rents.

Clayton also argued that the provision of surplus government lands would not sufficiently increase supply – this is simply “tinkering.” He called for federal tax changes to:

- permit investors to defer capital cost allowances recapture and capital gains on proceeds from the sale of rental property when proceeds are reinvested within a reasonable time frame
- bring back pooling of assets for depreciation purposes
- permit all investors in rental housing to deduct CCA losses against other income and to qualify for the “active business income” Small Business Deduction

- expand allowable soft costs that can be deducted in the first year of operation for new rental properties

On the provincial side, Clayton recommended expanding Ontario's Sales Tax Grant Program and removing the size limits for affordable units, as well as ensuring that municipalities apply the same property tax rate to new rental housing as to new ownership housing.

Last year, in a report for MMAH, economist Greg Lampert stated that “municipal charges represent a significant barrier to new rental development – increases in these charges would make the situation much worse.”

Unfortunately, in the old City of Toronto, where the vacancy rate is particularly tight, new development charges were imposed shortly after that report was issued. By September 2001, when the development charges are fully phased in across the

amalgamated City, the costs will be \$2,644 for a 2 BR and \$1,692 for a 1 BR or bachelor unit.

The latest push by some municipalities to have developers provide additional benefits in return for increases in density under section 37 of the Planning Act will only serve to further dissuade rental construction.

Finally, although rent control laws have been amended, there is no certainty that another government would not rescind the current statute. Investors seeking stability have called for a commercial contract, so future legislatures would be bound by the laws that were in place when the rental building was built.

*Andy Manahan is development promotion representative, Universal Workers Union, Local 183.*

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## President's Message

# Growth, networks & networking

Two years ago, Michael Cane set as his presidential goal to rebuild this organization to a vital presence in the real estate community. Dave Gibson continued with this goal to build and strengthen the membership. As I take the reins, the membership has grown consistently over the last two years and our net financial position has also grown over the last year.

We are still facing the greying of our organization, but that is in line with the aging of the Baby Boomer population. There is already a new contingent of younger members, who will work for many years in the real estate profession. I expect to see many more over the coming year. I believe the membership decline has been reversed.

With the support of the current knowledgeable and dynamic council, we can continue to build and establish extra significance for this organization in the real estate industry. I am looking forward to many progressive changes, including making our Web page more interactive.

With Konrad Koenig's help, we have an informative Web page that is increasingly being accessed on a daily basis and is attracting new interest to our organization. We hope to expand its functions, to enable members to post questions and obtain information from other members online — and benefit from our collective talents and knowledge.

This interactive Web page will enhance the current research system



and help keep our membership in contact between meetings and Journal issues.

I also hope to create an umbrella under which members interested in teaching courses in the real estate industry can do so. This provides an opportunity to generate interest and additional funds for the organization.

The OLE provides excellent opportunities for networking. Today, many government contracts go to large firms that can provide a broad range of services, as this reduces the government's project management administrative activity. I believe that smaller firms should consider creating strategic alliances with other members to provide a broad range of real estate services. This would allow them to compete with some of the larger service providers while maintaining their individuality.

I look forward to an exciting year for our association and hope to hear from many of you with ideas on how we as an organization can grow and remain fresh.

Feel free to contact me in person, by phone at 416 327-2072, or via e-mail: [sanna@idirect.com](mailto:sanna@idirect.com).

Remember, an association is only valuable if the members associate. By meeting and exchanging ideas we are all enhanced – if you participate we all benefit.

*David Sanna*

## **2000-2001 Council** From Page 6

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# The Legislative Beat

## Advisory Panel on Brownfields

A 14-member advisory panel has been established by the Ministers of Municipal Affairs and Housing, the Environment, and Economic Development and Trade, to provide expert advice on the environmental clean-up and rejuvenation of old industrial sites known as brownfields.

Chaired by Blake Hutcheson, president of CB Richard Ellis, the panel is to make recommendations on how to expedite redevelopment of such sites through financial incentives and streamlining the planning process. Liability issues have always been a concern, and the panel is also charged with investigating this topic. It is hoped that pilot projects will be launched by early next year.

## New Rental Construction

Municipal Affairs and Housing Minister Tony Clement has appointed a joint government-industry Housing Supply Working Group to seek solutions to the lack of private sector rental supply. See article on page 6.

## Building Regulatory Reform

After an intensive three-month period of discussions and consultation, the Building Regulatory Reform Advisory Group (BRRAG) Chairs submitted their report at the beginning of August. It is hoped that Cabinet will review the document, titled "Knowledge, Accountability, Streamlining: Cornerstones for a new building regulatory system in Ontario", later in the year.

If adopted, the recommendations would lead to:

- Centralized certification and licensing of various parties in the design, construction, renovation, and enforcement process
- Clarification of roles and responsibilities
- A 10-year cap on liability, and mandatory insurance or warranties



by Andy Manahan PLE

- Alternative service delivery including accredited private sector plans examination and enforcement, standardized permit process/fees, province-wide level of service standards, and code review and appeal mechanisms

The proposed system is intended to provide faster permit approvals with reduced cost/greater certainty, improved building quality, increased technical proficiency, and a fair and effective means of allocating responsibility. Overall, the BRRAG exercise might be seen as a step in the right direction. However, it leaves out some key elements of the Australian model that has been espoused by many building practitioners.

## 2008 Olympics/Waterfront

On October 20, the municipal, provincial and federal governments announced \$1.5 billion in funding for the first stage of waterfront reclamation in Toronto. This is significant for staging the 2008 Olympics in this city. The bid committee should be congratulated for ensuring that Toronto recently made the short list.

Robert Fung, who heads the Waterfront Revitalization Task Force, has said the bid is the "spark plug" needed to drive the whole waterfront plan. Estimated project costs of \$12

billion include more than \$1 billion for environmental clean-up. See pages 1 and 5.

## Environmental Criticism

The Tories have been criticized on a number of environmental fronts in the past few months. The tragedy stemming from E-coli in Walkerton's water was blamed on provincial cost-cutting and downloading – the inquiry will provide more detail. The process to expand a dumpsite in the Lindsay area was viewed as inappropriate and the Environment Minister admitted that the local

residents had been misled. Some segments of the public who are concerned about the Oak Ridges Moraine are calling for a Niagara Escarpment-type Commission.

## Smart Growth

Smith Lyons senior partner Bob Onyschuk recently presented a paper to the Association of Municipalities of Ontario entitled "Planning with Vision: can 'Smart Growth' work in Ontario?"

In the United States, Onyschuk says, there is political recognition of the link between development and quality of life. He recommends Canada follow the U.S. lead by providing creative financing and tax incentives, such as: empowerment zones to encourage investment in older areas, municipal bond funds to purchase green space, and "Location Efficient Mortgages" that provide a \$3,000 credit to employees who buy houses near their employers (great for those self-employed setting up a home office). This could fit well with some existing positive visions (e.g., Toronto's Plan Directions Report, Shaping Our Future, envisions designating areas for reinvestment).

*Andy Manahan has recently moved from his position at the Council of Ontario Construction Associations to become Development Promotion Representative, Universal Workers Union, Local 183.*