

The Land Economist

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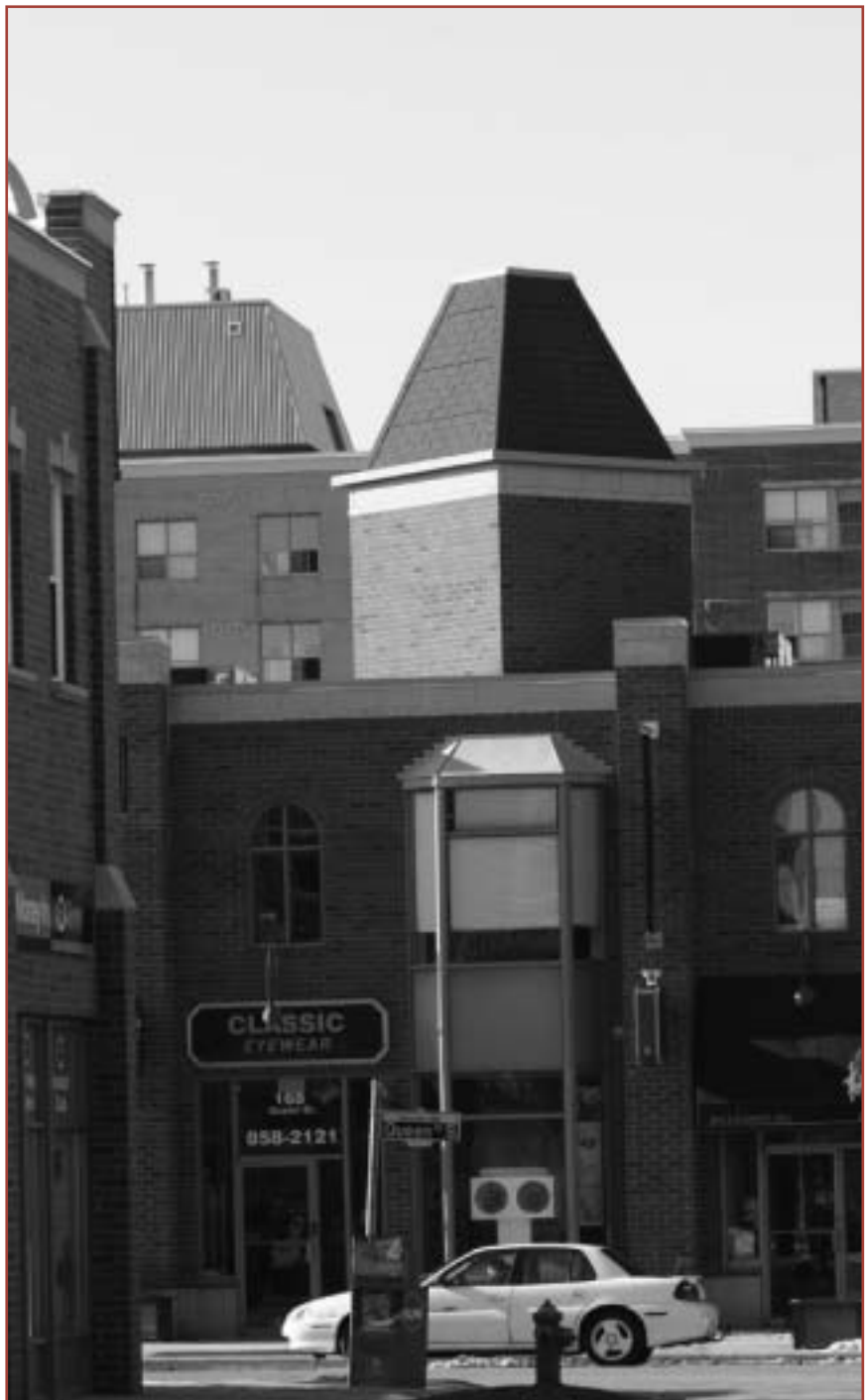


PHOTO COURTESY CMHC

Canada Mortgage and Housing Corporation predicts that high home prices and rising interest rates will continue to push demand for multiple family units. See pages 2-3 for a forecast covering five of Ontario's larger CMAs.

Forecast for Ontario's resilient

by Alex Medow MA Econ, PLE

Strong housing demand in Ontario has been supported by low mortgage rates, respectable job growth and mod-

erately high in-migration levels. Immigration will continue to grow the province's population, and it will be partly offset by those lured away by western Canada's booming energy based economy.

Mortgage rates will edge up in 2006. Moderate inflation and a strong Canadian dollar will restrain the speed of that increase. One-, three- and five-year posted mortgage rates are predicted to remain in the 5.75-6.75, 6.00-6.75 and 6.25-7.25 per cent ranges respectively in 2006.

Home prices are high and still growing at several times the general rate of inflation.

Ontario's home starts will remain above their historical average, but will edge lower to 75,000 in 2006 and 68,500 in 2007. Reasons for their pull-back include rising mortgage rates and home prices, increasing choice in resale home markets and land constraints. Rising home ownership costs will shift home starts to denser multiple family home types.

A rising cost gap between owning and renting will nudge Ontario's vacancy rates down. Moderately high rates in most centres will keep rent increases

close to or below the general rate of inflation.

Housing market outlook highlights from Ontario's five larger centres follow.

HAMILTON

Housing starts will edge down to 3,080 units in 2006, in line with their preceding ten-year average and below their 16-year record set in 2004. New detached home prices in Hamilton are high and will average \$436,500.

Existing home sales in 2006, at 13,450, will be the second highest level on record, down by just one per cent from their 2005 all time record. The average resale home price will grow more than seven per cent to reach \$246,000 in 2006.

KITCHENER

Very strong job growth and tight resale home markets will keep home starts slightly below their 17 year high in 2002. Expect 3,600 home starts in 2006. Increased construction costs and a shrinking supply of serviced lots will result in detached home price increases well above the general rate of inflation. Home buyers will increasingly turn to the more affordable multiple family home types, which will capture 45 per cent of all new home construction.

The resale home market in Kitchener-Waterloo has been especially tight and home price growth has been strong. Existing home sales will reach a new all-time high of 6,250. Even though resale home listings will rise, nudging the market towards a balanced state, a high sales-to-new-listings ratio suggests that Kitchener's home market will remain in sellers' market territory. The average resale home price will grow close to three times the general rate of inflation.

CMHC's Housing Outlook Conferences

Don't miss CMHC's fall Housing Market Outlook Conferences. Local business leaders and CMHC's market analysts and economists will offer timely analysis of housing market trends for larger centers, to help you make informed decisions.

Registration begins on Mon., July 10, 2006. Register by phone at 1-800-668-2642 or online at www.cmhc.ca (type "Housing Outlook Conferences" in the search window).

Hamilton: November 7
Toronto: November 9
London: November 14
Kitchener: November 16
Ottawa: November 21

Details for Ontario's Largest Markets

CMA	Year	Total starts	Single starts	NHPI %	MLS sales	MLS price	Vac. rate: 3+ units
Hamilton	2005	3,145	1,502	6.0	13,565	\$229,753	4.3
	2006F	3,080	1,380	5.8	13,450	\$246,000	4.2
Kitchener	2005	3,763	2,082	5.0	6,147	\$220,511	3.3
	2006F	3,600	2,000	3.8	6,250	\$235,000	3.1
London	2005	3,067	2,063	4.8	9,133	\$178,910	4.2
	2006F	3,005	1,900	4.3	8,950	\$187,500	4.0
Ottawa	2005	4,982	2,350	5.5	13,300	\$248,358	3.3
	2006F	4,850	2,250	4.5	13,100	\$257,500	3.0
Toronto	2005	41,596	15,797	4.5	85,672	\$336,176	3.5
	2006F	39,900	13,000	4.5	84,000	\$356,000	3.5

SOURCE FOR CHARTS AND GRAPH: CMHC, STATISTICS CANADA AND CREA. FORECASTS BY CMHC

housing markets

LONDON

London's Housing Market will remain healthy in 2006. Existing home sales and housing starts will both see a moderate two per cent drop from last year's levels. Resale home transactions will reach 8,700 units. There will be 3,000 new home starts. Construction of multiple family homes will continue to rise. The average resale and new home prices will grow at paces above inflation rate. Vacancy rates will level off after going up for several years.

OTTAWA

Housing activity will remain strong in 2006. Strong employment growth and healthy consumer confidence will keep home prices high. Existing home sales, at 13,100 transactions, will remain strong, albeit lower by 1.5 per cent from last year's. Higher mortgage carrying costs, which will curb home buying enthusiasm, will be responsible for the decrease.

The new home construction rate has outpaced our forecast so far and is expected to cool off over the rest of the year. A more balanced resale market, rising new home prices and rising unsold inventories suggest a slower starts pace. The high home prices will encourage higher density construction, particularly of town homes.

TORONTO

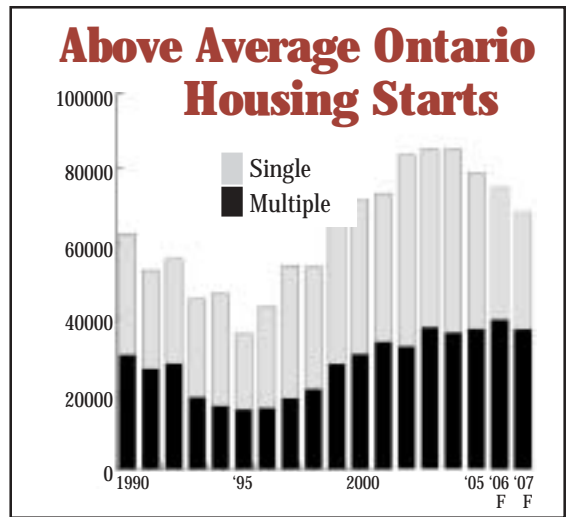
Continued strong job growth and high wages have kept housing demand strong and immigration numbers high. Toronto's expensive and rising home prices have caused a slight offsetting out-migration to better home values in adjacent Ontario centres.

Tight housing markets are moving towards a more balanced market state in 2006. Existing home sales will edge down two per cent from their 2005 record of 85,673. Home prices will rise by just under six per cent, approximately three times the general rate of inflation.

While high home prices will continue to result in strong home construction,

home starts passed their cyclical peak in 2003 and will edge down further to 30,900 this year. Starts of affordable multiple-family home types, such as condominium apartments and town homes, will increase. Condominium construction will be centred in the former city of Toronto and surrounding nodes, including Mississauga City Centre and North York. Detached home construction will take place in the Regions surrounding the City of Toronto, particularly in the York and Peel regions.

*Alex Medow is
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Key Ontario Forecasts

	2005	2006F	2007F
Housing starts			
Single	41,682	35,500	31,500
Multiple	37,113	39,500	37,000
Total	78,795	75,000	68,500
Resale Market			
MLS sales, units	197,007	192,000	184,000
Average MLS home price	\$263,042	\$279,000	\$287,000
Employment			
% growth	1.1	1.3	1.4

Welcome New Members

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Making MPAC right

by **Sandi Prendergast MIMA, PLE**

On March 27, the report of the Ombudsman's investigation into the Municipal Property Assessment Corporation was made public.

Andre Marin minced few words in his report, and the next day's newspapers gleefully quoted his description of the corporation as an elitist organization with a "superiority complex" and "questionable practices"; "Goliath" marching out to "slaughter" the taxpayers at the Assessment Review Board.

Rhetoric aside, the outcome of the report will doubtless be positive for homeowners.

MPAC has agreed to adopt 17 of the 22 recommendations, committing to change its practice to provide a great deal more information to taxpayers about how assessments are derived, how to challenge an assessment, and what information is available to the taxpayer to assist in understanding and/or challenging an assessment.

MPAC also agreed to implement controls to ensure that reductions achieved through assessment appeals would be reflected in future assessments, although it did note that this may have limited applicability under the current legislation, which mandates annual reassessments.

Negative for business

Some of the recommendations accepted by MPAC may actually have negative implications for business property owners.

For example, the Ombudsman suggests that MPAC should be obliged to consider a sale of the subject property, unless there is concrete evidence to suggest why this would be inappropriate (recommendation 13).

However, a stronger distinction should have been made between residential and business properties.

The Assessment Act defines current value as the value of the fee simple, as if unencumbered. Sales of residential properties are usually sales of the unencumbered fee simple interest (i.e., vacant possession on closing). As such, these sales can and should be considered the most reliable evidence of current value for assessment purposes.

Sales of commercial, retail or industrial properties however, frequently include intangible elements, such as the value of the business, or the "going concern", which can add a substantial premium to the value of the real estate.

Based on the Ombudsman's recommendation, MPAC can continue to justify disregarding deflated sales based on "concrete evidence" that leases in place are an encumbrance and do not reflect the fee simple, but may now be more inclined to consider prices that may be inflated by more subjective, intangible aspects, such as the business value.

If MPAC is bound to consider sales, taxpayers may see more attempts by MPAC and municipalities to seek increased assessments reflecting purchase prices.

Negotiated settlements

Mr. Marin also suggested that MPAC should be compelled to provide written reasons for any negotiated settlement (recommendation 16).

MPAC has already expressed the concern that a settlement reflects a business decision, affected by factors such as potential tax consequences and the costs of proceeding to a hearing. This would be echoed by tax consultants and experts. A negotiated settlement does not constitute an agreement on every aspect of how that value was derived.

MPAC suggested the parties should be entitled to request that reasons not be recorded, to ensure that neither party is "estopped" from raising similar issues in future appeals. The Ombudsman's report was a reminder to MPAC of its responsibility to the taxpayers of Ontario, to "get it right", show that it is right, or make it right. If MPAC is mindful of this responsibility in the future, the outcome will benefit all taxpayers.

To allow taxpayers additional time to examine their assessments in light of the report, the province has extended the appeal deadline to June 30, 2006.

Sandi Prendergast is a senior tax consultant with Altus Derbyshire, the nationwide realty tax division of the Altus Group.



New powers

With its City of Toronto Act passed and a new Municipal Act introduced June 15, Ontario is launching a new era in municipal government in this province.

During discussions on the new legislation for Toronto, Municipal Affairs Minister John Gerretsen said: "Have we used this act to sort of do our current review of the Municipal Act? To a large extent, yes; not to every extent, but to a large extent."

Under Bill 53, Toronto gets broad powers to pass bylaws on public safety, the city's economic, social, and environmental well-being, financial management, and the accountability and transparency of its operations. It can also delegate more powers to its committees, boards and senior staff.

The Bill also gives Toronto authority to impose new taxes (except in areas specifically prohibited such as income tax, wealth tax or the gas tax), impose user fees (including where benefits come in the future), and license and regulate businesses.

New planning tools include zoning 'with conditions', financial incentives for



PHOTO COURTESY CITY OF TORONTO

Rental legislation

By Vince Brescia

On May 3, 2006 the Honourable John Gerretsen, Minister of Municipal Affairs and Housing, introduced Bill 109, the Residential Tenancies Act. The Act is designed to replace the Tenant Protection Act which was introduced in 1998.

The decision to repeal the legislation now entrenches an ongoing fact of Ontario politics that every time a new government is elected, it changes the province's landlord-tenant legislation. That fact provides onlookers with most of what they need to know about legislative changes in this area — they are politically driven more than policy driven.

Among the high profile changes the government is making are the following:

1. "Default orders" have been eliminated. That means that all non-payment applications must go to a hearing, even if the tenant does not dispute the application. This will double the number of hearings that take place in the province.
2. Tenants can now raise any matter in a non-payment application, rather than be required to make a separate application. This will dramatically increase the length of non-payment hearings, and result in a major increase in the percentage of non-paying tenants in the province.
3. The new annual rent guideline will be the CPI.
4. There is a reduction in the percentage increase allowed for capital investments for above-guideline rent increases (AGI) to 3 per cent from 4 per cent, and

increases are limited to three years. The capital that qualifies for such increases has also been reduced.

5. The NDP concept of "costs no longer borne" has been resurrected, which requires a landlord to give a rent reduction for a capital item paid for through an AGI once the capital item reaches the end of its estimated useful life or for utilities if the cost of the utility goes back down.
6. The NDP concept of "orders prohibiting rent increases" has also been resurrected and expanded. It allows the new Landlord and Tenant Board to freeze the rents in a unit if the landlord is in serious breach of her obligations under the legislation.

Some aspects of the previous legislation have been retained. The most prominent is a landlord's ability to charge a market-based rent on turnover of a rental unit. Loss of this right would have caused major damage to the investment climate for rental in Ontario.

Altogether the legislation is by-and-large quite negative for investors, owners, and managers of rental housing. It reduces the returns on investment, increases the cost of doing business significantly, and the basic ability to collect rents may be jeopardized.

The new legislation is expected to pass legislative hurdles before the summer, but may not be proclaimed (put into effect) until sometime in the fall or later, as time is needed for regulatory development.

Vince Brescia is President & CEO of the Federation of Rental-housing Providers of Ontario, a provincial industry association for residential owners and managers.

structure is in place before the new powers are handed over

- a prohibition on municipal licensing of any business or activity that is already licensed under another Act (home builders, realtors, etc.)
- a prohibition against a municipal land transfer tax, and removal of liquor taxes from the City's arsenal of tools

Toronto's new regime will come into effect after the municipal elections.

Several commentators have held out hopes that tax increment financing will allow important new developments. But there are concerns that new fees, taxes and authority could harm parts of the City's economy.

Given similar new powers, Chicago now apparently wants to impose a minimum wage for new big box stores as part of site approval negotiations. Stay tuned.

RM

for Toronto

community improvement plans (e.g., tax increment financing), new powers during site plan approval, local appeal bodies for minor variances, and the like.

Some rights the NDP and the City asked for which are not included in the Bill are:

- more control over the property tax system
- authority to exempt manufacturing industries from levies, charges or fees (bonusing)
- a local board for all planning appeals
- rights to demand a bond from absentee landlords
- ability to exceed Ontario Building Code for extra energy efficiency standards in new buildings, and fire sprinklers in new homes (the Bill does permit the City to set standards for green roofs, though)

Several groups had asked for other changes, which also were not included in the final legislation:

- a "hold" on passage of the bill until the City has passed its new governance structure – many industry groups called for this, to make sure a workable

OMB Reform: Be Careful What You Wish For

by Glenn Miller FCIP, RPP, PLE

The Ontario Municipal Board is the institution that we love to hate. But even its harshest critics start are having second thoughts now that the province has come forward with proposed changes to the way the Board operates.

The long road to OMB reform has taken twists and turns since the Liberal government came to power but Bill 51, now going through the legislative review process, proposes significant changes:

“Have regard to”

A change already made through the new Provincial Policy Statement (PPS) — adopted through Bill 26 in 2004 — is that municipal official plans must “be consistent with” the PPS. This is a tougher test than the previous “have regard to.” However, Bill 51 proposes that when the OMB (aka the province) or other approval authorities make decisions about planning matters, they only need to “have regard to” municipal plans. Municipalities such as Toronto argue that this is a double standard.

Industrial lands

Bill 51 would make it harder to redesignate employment lands. This pleases economic development departments trying to hold on to industrial and other employment lands but is a concern for developers who have become used to pocketing the profits from lucrative redesignations for condominium development.

No new information

Hearings would only be able to consider information available to the municipal council at the time the matter was before council, or to send the new information back to council for reconsideration. This is a compromise to address

concerns by the Association of Municipalities of Ontario.

It sounds straightforward but in practice may cause some headaches. Currently, the OMB can hear evidence never presented to council, arguably putting community groups without the resources to conduct research of their own at a disadvantage. By changing the practice — ostensibly to make the OMB function more as a genuine appeal board — the province is on a slippery slope. The proposal leads to questions about who may present new information; what kind of information can be presented; and when. This aspect of the proposed reforms may not make it to the final bill.

No new participants

Another proposed change would only allow individuals or groups who have participated in the formal approvals process to participate in a hearing. This is popular with developers, who have long complained about being “sandbagged” by the late arrival of people or organizations who only make their concerns known if they don’t approve of the council decision. The proposal is causing community groups to call “foul” because, they argue, they don’t have the resources to participate in the process all the way through.

This proposal is more likely to stay intact, however, in part because the government has tried to improve the effectiveness of the planning approvals process at the front end in an effort to reduce the need for hearings. Showing up at a public meeting to log a concern — and thus preserve future rights to participate in an appeal — doesn’t seem to be that much to ask.

Public notice

Bill 51 sets out new, more onerous standards for public notice. This is causing larger municipalities some unhappiness, because they claim — with justification — that they already exceed the existing standards as a matter of course. Smaller municipalities are upset because notification and related meetings will be costly. This proposal may well undergo modification because at

present it is a rather blunt instrument, removing the municipality’s discretion to decide which applications need more public discussion.

Plans updating

Along the same lines, Bill 51 would also require municipalities to keep their plans more up to date, again causing some pain to over stressed administrators who ask — rhetorically, since no one appears to take this seriously — where the financial resources to undertake reviews and process updates more often are going to come from. Planning consultants haven’t complained about this provision.

Reasonable response

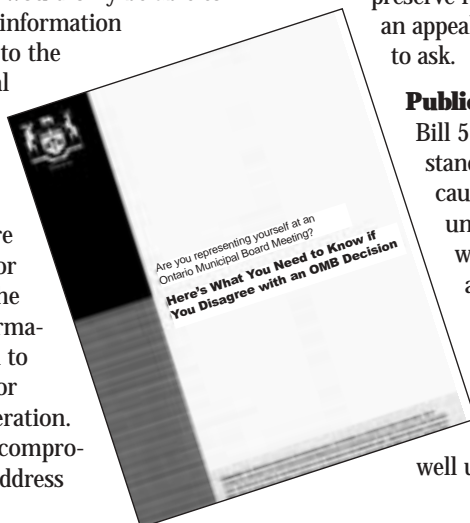
The general thrust of the reforms is a reasonable response to the extensive, and often diametrically opposed comments received by the province during the review period. The government wisely rejected calls for the abolition of the OMB.

Although people love to complain about the OMB, when push comes to shove many local councillors would find life without the OMB very difficult. The argument that no other province has the equivalent of an OMB is also spurious; why should that be considered a plus?

Perhaps the only wrong note struck by Bill 51 is the proposal that municipalities would be allowed to create their own appeal bodies. This begs the question, who and why would any municipality want to do that? Look for this to be passed to keep Toronto happy, but don’t expect the provision to ever be taken seriously.

If you want to delve into the proposed reforms in more detail, I suggest using Google. The MAH webmaster has so much new material to deal with that many of the excellent plain language background materials on the subject have already been tucked away in obscure parts of the site. Google not only provides you with a quick way through the back door but gives you easy access to some of the municipal and community responses to the proposed changes.

Glenn R. Miller is Director of Education and Research with the Canadian Urban Institute in Toronto and the editor of the Ontario Planning Journal.



Who are the development communists?

There's an old saying that you can't put a frog into boiling water, because it will jump out. But you can put a frog into cold water and keep raising the heat bit by bit until it's cooked.

"Developers in Canada are being progressively cooked," Michael LeGresley, President and CEO of Giffels Design-Build Inc. and Giffels Management Ltd. told delegates to AOLE's June dinner meeting. "Most of us don't even know it, because we spend all our time in our own fish-bowl."

LeGresley is one developer who swims in a number of fishbowls – including Russia. And when he compares development in that country to Canada, Canada looks a lot more communistic.

Here, he says, a grueling process of collective planning and almost unlimited stakeholders means "everybody's vision becomes nobody's solution." In Russia, unilateral planning with a totally different approach means developers "go very big or go home."



Michael LeGresley

In fact, LeGresley suggested the current situation in Russia looks something like the development capitalism in North America at the end of the 1880s. The opportunities are enormous:

- industrial land at one third the Ontario prices,
- a Russian development cap rate of approximately 14 per cent compared to eight per cent here,
- exit cap of 11 per cent (seven per cent here) and
- development internal rates of return of 50 per cent (20 per cent here).

The biggest companies literally own hundreds of thousands of acres. But there are still opportunities for well financed foreigners with very smart people.

Canada has growth management plans and a continuous supply of new or evolving legislation at all levels of

government, LeGresley said. Russia has few rules, they're a municipal responsibility, and there's a form of "quid pro quo" for infrastructure.

However, there's also a carry-over "can't do" attitude in Russia. "If you say to somebody 'why don't you just pick up the phone and call the mayor', they say 'oh, you can't talk to officials'," LeGresley said. "But you can, and you actually get clarity there."

With standardized British law, Canada's liability environment is clear, although environmental requirements are "blurry and often illogical." In Russia development is very expensive legally, and environmental liabilities are still caveat emptor.

Finally, staff in Canada is not empowered and there is a constantly changing political scene whereas bureaucrats "follow the precise direction of political will" in Russia.

So on a toss-up between Ontario and Russia, who really are the 'reds'? Hmmm ..

RM

The Legislative Beat continued from page 8

Tenant Protection Reform

Municipal Affairs and Housing Minister John Gerretsen introduced Bill 109, the Residential Tenancies Act on May 3. After three days of public hearings and clause-by-clause consideration by the Standing Committee on General Government, the Bill went back to the House for approval in June.

Wisely, the government decided to maintain the existing vacancy decontrol provisions.

The bill reflects the findings of the Ombudsman that it is "unreasonable and improperly discriminatory" that tenants are unable to receive rent reductions when utility costs decrease, although landlords can receive rent increases when utility costs rise. Landlords are opposed to the "costs no longer borne" provisions because this

will deter capital investment in maintenance. For more details, see the article by Vince Brescia on page 5.

Places to Grow

Minister of Public Infrastructure David Caplan updated stakeholders on progress in mid June. The Growth Plan for the Greater Golden Horseshoe was released on June 16.

Environmental Assessment Streamlining

The Province is looking at ways to speed up the system in the short term without opening up the legislation. Sectoral strategies for energy, waste management, transit and highway projects are being investigated.

Land Transfer Tax

A March 2006 information bulletin clarifies that the true "value of the consideration" for land transfer tax on a new

home must include the price of all extras and upgrades. Along with upgraded flooring, counters, finished basements, lot premiums, and landscaping, this would include development charges and similar fees. GST is not included, unless the GST new home rebate is to be paid to the vendor.

See www.trd.fin.gov.on.ca and search 'Transfer of New Homes'.

Andy Manahan is Development Promotion Representative, Universal Workers Union, Local 183, and Immediate Past President of the Association of Ontario Land Economists.



Cabinet Shuffle/budget

Premier Dalton McGuinty made a mini-Cabinet shuffle on May 23rd in order to return Greg Sorbara as Finance Minister, after a seven month period as a backbencher. Dwight Duncan returned to the Energy portfolio in time for the peak demand summer period while Donna Cansfield moved to Transportation. A new ministry of small business and entrepreneurship has been created for Harinder Takhar.

Parentetically, Duncan delivered a solid budget on March 23rd as finance minister, with a heavy emphasis on transportation infrastructure (\$1.2 billion under the 'Move Ontario' program that included the Spadina subway extension to York

Region). Many observers anticipate that Sorbara will announce a balanced budget next year in time for the October 2007 provincial election.

Fiscal Imbalance

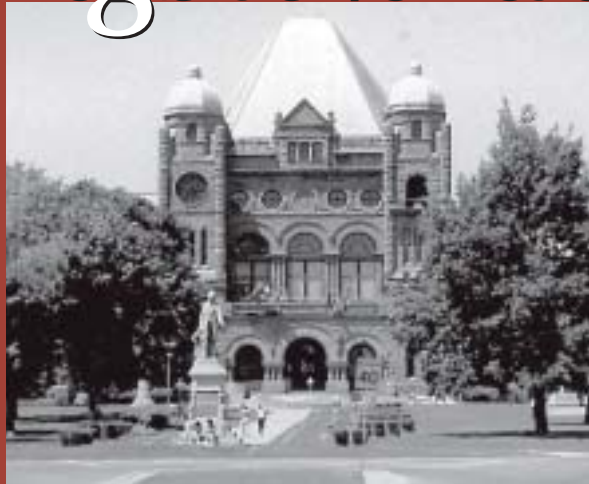
The Premier has been travelling across Canada to speak to other provincial representatives about addressing the fiscal imbalance which the strongontario.ca web site describes as follows: "the federal government has more money than it needs to pay for things like immigration and foreign affairs. But the provinces and territories don't have enough money to fund things like hospitals and universities."

Unlike previous Liberal Prime Minister Paul Martin, who did not acknowledge that a fiscal gap existed, Conservative Prime Minister Stephen Harper has stated that fixing the fiscal imbalance is a priority for him.

Solutions to the problem include: increasing per capita federal transfers to the provinces and territories and doing so on an equal basis; allowing provinces to keep a greater share of the taxes collected in their own province, and reforming equalization (such as no side deals with provinces).

The strongontario web page notes that since 2001-2002 the relative per capita fiscal capacity of seven out of eight

The Legislative Beat



by Andy Manahan PLE

equalization-receiving provinces has increased while Ontario's has fallen. Yet, Ontario's contribution to equalization has grown during the period. A steady succession of federal budget surpluses, while most provinces cannot meet their core commitments, is indicative of the misalignment of resources that hopefully will precipitate movement on this file.

McGuinty hosted an all-day summit June 21 at the Metro Toronto Convention Centre.

Clean Water Act – Bill 43

Bill 43 received second reading on May 18 and the Social Policy Committee will hold hearings in late August/early September. Since the Bill was introduced last December, there has been mounting concern that this legislation will have a major impact on future growth in the province.

Greater powers for Conservation Authorities, both in the preparation of source protection plans and in subsequent enforcement, will have a direct impact on the processing of development applications. As Source Protection Plans (SPPs) will vary from region to region, it is possible that there will also be inconsistent enforcement of the plans across Ontario.

Planning/OMB Reform – Bill 51

Bill 51, the Planning and Conservation Land Statute Law Amendment Act, received second reading on April 26. Hearings will be held in the August/early September period by the General Government Committee. In the last few months, industry has provided input on the definition of complete application and expressed reservations with green roof/sustainable design criteria for new projects.

Once Bill 51 comes into effect, it will be difficult to convert employment land, except through the Official Plan process, according to Brian Bridgeman, planning director for Durham Region. In addition and in relation to the Places to

Grow legislation, the industry has pointed out the difficulty in achieving employment land targets of 50 jobs per hectare.

City of Toronto Act – Bill 53

The Stronger City of Toronto for a Stronger Ontario Act, 2006 was passed on June 12. Municipal Affairs and Housing Minister John Gerretsen said that Toronto's capital city now has new broad powers to pass by-laws regarding matters that range from public safety to the city's economic, social and environmental well-being. Over time, the city is expected to roll out new fiscal tools for delivering municipal services. See the related article on page 4.

Central Pickering Development plan

The province finally enacted the Central Pickering Development Plan in May 2006. Certain landowners who wished to develop properties on the Oak Ridges Moraine in Richmond Hill and Uxbridge entered into negotiations with the province in Nov. 2001 in order to exchange their lands with provincially-owned land in the Seaton area of Pickering.

The plan that was arrived at is sensitive to the Greenbelt Plan and adheres to principles from the Places to Grow legislation.

See Legislative Beat page 7