



# City of Hamilton Bayfront Industrial Area A Strategy for Renewal

Phase 1 – Market Opportunities Study  
Final Revised Draft Report  
August 14, 2015



The City of Hamilton has embarked upon a comprehensive review and strategy for the Bayfront Industrial Area. The Bayfront is Hamilton's oldest and largest industrial area and for many years has been viewed as an asset that should be prioritized for reinvestment and redevelopment. The opportunities over the next 25 years are better than they have been for decades.

The first step in the strategy is to gain a baseline understanding of development and redevelopment options in the Bayfront from a market perspective, and to explore the implications of significant land use change in the area. The results will be used as a foundation for Phase 2, including a program of public and agency consultation, an infrastructure and financing 'gap' analysis and, ultimately, a planning and land-use review to implement the vision for the future.

Deloitte Real Estate has been retained to prepare Phase 1 of the strategy. The Phase 1 study undertakes a high-level assessment of market opportunities for the Bayfront, including market analysis and market soundings, a review of brownfield success stories and an assessment of land development capacity. Based on this work, the major opportunities and challenges for the Bayfront are identified and a set of strategic directions are recommended.

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Dear Mr. Thorne and Ms. Sergi,

Deloitte Real Estate is pleased to provide our assessment of market opportunities for the Bayfront Industrial Area. The report provides the market analysis, soundings and review of land capacity to support a set of strategic directions to assist in future decision-making. In terms of work process, the assignment included detailed information review, interviews with waterfront redevelopment agencies and industry stakeholders and an assessment of brownfield redevelopment success stories.

From this research and analysis, we conclude that there are exciting market opportunities to transform the Bayfront - over time - to a pattern of cleaner, greener and advanced economy uses. With the appropriate actions taken, the future for the Bayfront is indeed bright. It is time for a bold new vision and strategy to capitalize on this vast resource within the broader marketplace. We trust that the information provided in this report is of assistance to the City as they chart a course forward.

We welcome the opportunity to review our analysis, key findings and recommendations. If you have any questions, please feel free to contact me at [sbotting@deloitte.ca](mailto:sbotting@deloitte.ca) (416.601.4686) or Antony Lorius at [alorius@deloitte.ca](mailto:alorius@deloitte.ca) (416.775.7010).

Respectfully submitted,

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# Executive summary

# Transforming the Bayfront industrial area

# Executive summary

## Bayfront market opportunities

### Project summary

The City of Hamilton has initiated a comprehensive review and strategy for the Bayfront Industrial Area. At a total area of approximately 3,700 acres, the Bayfront is Hamilton's **largest industrial area and a major revitalization opportunity**. It is home to major steel making producers such as Arcelor Dofasco Mittal and associated industries. It is also home to Canada's largest Great Lakes Port, a significant multimodal transportation hub that provides users with direct marine, rail and road connections, as well as a major concentration of manufacturing and steel-related uses.

### Deloitte's project role

Deloitte has been retained to undertake **Phase 1 of the strategy - The Market Opportunities Study** which is a high-level assessment of market opportunities. The assessment includes economic and market analysis of commercial real estate sectors, a review of brownfield success stories and an assessment of land development capacity. One of the most important elements of the Phase 1 study is a series of market soundings with key industry participants including US Steel, Arcelor Dofasco Mittal (ADM), waterfront redevelopment agencies in Canada and the United States and Provincial economic development representatives.

Based on this research and analysis, opportunities and challenges are identified and strategic directions are recommended. The results of this market opportunities study will be used to guide **Phase 2 of the Strategy**, which includes a program of public and agency consultation, an infrastructure and financing 'gap' analysis and, ultimately, a planning and land-use review.

The Hamilton market has entered a period of growth and transformation. The next 25 years are forecast to provide tremendous economic opportunity as employers take advantage of Hamilton's unique location and infrastructure to drive business opportunity.



# Executive summary (cont'd)

## A strategy for the Bayfront industrial area

### Time for a bold new vision

**The Bayfront Industrial Area** (the “Bayfront”) has been part of Hamilton’s industrial, economic and cultural legacy for decades. In recent years, however, it has increasingly become part of the community debate over economic development and the future of the steel industry. It has also facilitated discussion about the planned intensification and revitalization of Hamilton’s West Harbour area along with planned infrastructure investments, notably the new GO Station along James Street North that will provide regular service to Toronto’s financial core.

Benefitting from a **strategic waterfront location**, proximity to the downtown, and resources of underutilized lands, the Bayfront represents one of the most significant potential City-building opportunities within the broader Hamilton metropolitan region. The **evolution of the Steel Industry**, while providing a number of community challenges, also presents the promise of a new future with a strong established base and potential land parcels becoming available in the near term. The City has also put in place a **consolidated vision for industrial development** through its new official plan, zoning by-laws and economic development strategies.

For many years, there has been an interest in **reinvestment and redevelopment in the the Bayfront**, but the economics and growth prospects were not favorable. Today, conditions are evolving. A **large and competitive business park** is coming on stream around the Airport . There is a **growing interest in advanced manufacturing industry** including the burgeoning **life science** and **agri-business and food processing clusters** in the City. Hamilton’s vision for intensification and redevelopment in the downtown along major corridors and in the waterfront is gaining traction. **Congestion and high costs in Toronto** will only make Hamilton’s value proposition stronger over time.

Within this emerging context, and given the very large scale of the Bayfront, **the time has come to chart a new course**. A new vision is required to **strategically reposition** and encourage **new investment** in the Bayfront for the next generation of residents.



*McMaster Downtown Hamilton Health Campus*



*James Street North GO Station Under Construction*

# Executive summary (cont'd)

## Economic context and growth outlook

### A bright future for Hamilton in the years ahead

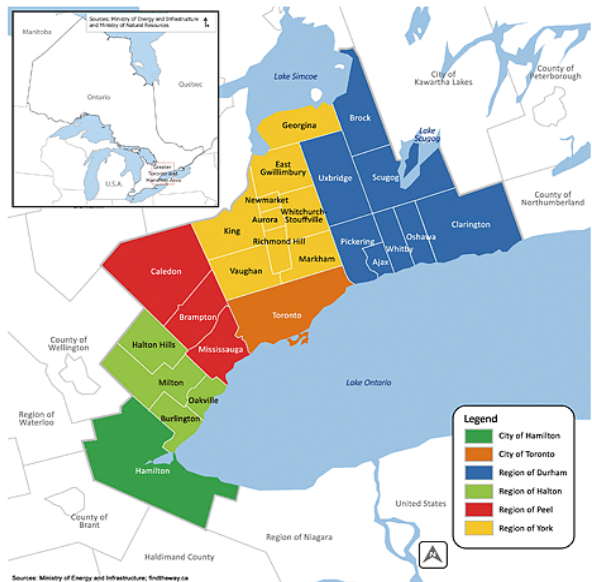
The City of Hamilton is geographically well positioned in the Southern Ontario Mega-region with good access to the rest of Canada and the US markets through highways, the port and the airport. The City is forecast to grow steadily in population and employment, which will drive the addition of significant new industrial, office and retail space.

Globally, the outlook is for the most rapid growth in the developing economies such as China, Brazil, India and Mexico, among others. The US economy continues to recover, and is forecast to maintain its economic strength over the coming decades.

Ontario's economy is expected to outperform the national economy primarily due to the low exposure to the oil and gas extraction sector, resulting in increased spending and consumption, which could benefit Hamilton. Although trade patterns will continue to evolve, the US will continue to be Ontario's largest trading partner.

Well regulated and stable financial markets with increased public and private sector capital and infrastructure investments will provide access to low-cost capital, export markets for Ontario products, and improve import and investment opportunities for Hamilton.

The Strength of the US market over the longer term is a key advantage, specifically with respect to the prospects for the advanced manufacturing industry and productivity growth. The export opportunity with emerging markets is significant. Given its strong base in the steel industry and growth outlook, **Hamilton can play a key role in advancing productivity growth** within the metropolitan area. Plans for the West Harbour, recent and pending infrastructure investments and increasing downtown renewal bode well for Hamilton in the years ahead.



# Executive summary (cont'd)

## Economic context and growth outlook

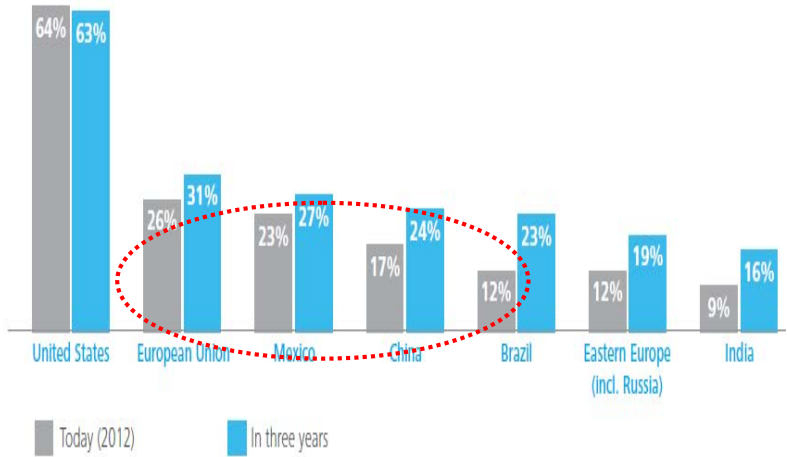
### Shifting growth patterns bode well for exports

The global economic picture is one of moderate growth overall, with the most rapid expansions occurring in emerging economies such as Mexico, China, Brazil and India, driven mainly by the evolution of manufacturing and the global supply chain . Recent Deloitte research shows that, as of 2012, Canadian companies expected that over the next three years **a growing share of their future customers would come from emerging markets.**

The **outlook for the Canadian Economy** is positive, particularly for the Province of Ontario, and the Greater Golden Horseshoe, which is forecast to accommodate almost all of the forecast growth in population, employment and new business investment. The remainder of the Province is forecast to grow by only moderate amounts, or, in the case of the north, to continue to decline.

Within the Greater Toronto and Hamilton area (GTHA), economic growth continues to be **focused in the north and west**, particularly in locations that can provide a competitive supply of industrial business parks and accessible office locations in proximity to US transportation corridors. The forecast is for this pattern to continue over the period to 2041, and the City of Hamilton is **extremely well positioned** to take advantage of future opportunities.

Principal amongst the key long-term issues to be addressed to ensure long-term economic competitiveness is the need to **improve productivity** and shifts towards more advanced industry activities. The Ontario population continues to age and the pace of growth in the core working-age group is slowing. As the growth of the labor force slows, stronger productivity gains will be increasingly important to ensure future prosperity. **Manufacturing will play a major role** in advancing productivity, innovation and exports: all high on the Provincial economic development agenda.



Source: Canadian Manufacturers and Exporters





# Executive summary (cont'd)

## Economic context and growth outlook

### Office market dominated by downtown Toronto and established suburbs

The GTAH office market will continue to be **dominated by the City of Toronto** and **established suburban nodes** in Mississauga, Markham/Richmond Hill and the QEW corridor. A growing opportunity is evolving within the Kitchener-Waterloo Region largely due to the presence of universities and innovative research. A more limited role is anticipated for Hamilton in the broader metropolitan context based on provincial forecasts.

Approximately **3.5 million sf of new office** are forecast for the **Hamilton market**, which nearly doubles the current inventory. It has yet to be determined exactly where this new office growth will occur and provides an opportunity for the City of Hamilton to develop a strategy to attract offices. It is estimated that between **90,000 to 190,000 sf** of new office supply could potentially locate in the Bayfront area, comprised mainly of **brick and beam** space catering to the Information and Communications Technology (ICT) and digital media sectors and potentially **owner-occupied buildings**. To date, Downtown Hamilton has attracted largely public sector users with many buildings reporting significant vacancies. Outside of the City of Toronto, most new office space users at this point prefer **low cost greenfield suburban locations** with abundant **surface parking** and **highway accessibility**.



### Industrial market continues GTAH westward drift

**Strong industrial employment growth is forecast**, focused in the GTA west and north. Hamilton is anticipated to accommodate **significant new industrial space**, mostly for large warehouse and distribution on greenfield sites on the mountain and around the airport. **Manufacturing will continue to play a role**, particularly for advanced manufacturing in life science, materials, agri-business and food processing. The ability of the Bayfront Area to compete for these uses will depend heavily on the **future of the US Steel site**. Depending on the outcome of the current creditor protection proceedings, there is a **potential to accommodate up to 10.5 million square feet** of new industrial space on the site. Due to the value of the equipment and production capacity on the US Steel site and health of the surrounding cluster, it is anticipated that steel production will continue for some time.

### Retail growth driven by population and City Planning vision

Growth in retail and other population-serving activities is expected to be driven by population growth and is more evenly distributed than employment growth throughout the region. The outlook for retail is **driven primarily by the provincial policy direction** to encourage new retail to locate along the key nodes and corridors, as opposed to designated employment areas. In the Bayfront, **future retail is likely to be limited** to accessory or quasi-industrial development as opposed to traditional strip, shopping mall or 'large format' retail developments.

# Executive summary (cont'd)

## Market soundings

### Maintain strength in key legacy sectors while growing new industry

The focus of the market soundings were on identifying the key success factors and lessons learned from successful urban waterfront renewal initiatives, as well as on other industry and community stakeholders such as the Port of Hamilton and the local Steel Industry. Soundings were undertaken with:

1. The City of Pittsburgh
2. Waterfront Toronto
3. The Ministry of Economic Development Trade and employment/Research and Innovation (MEDTE/MRI)
4. US Steel
5. ArcelorMittal Dofasco
6. City of Hamilton Planning and Economic Development Staff
7. Partners and internal subject matter experts from Deloitte
8. Dennis Desrosiers (auto industry outlook)
9. Real estate brokers including Colliers International and Cushman & Wakefield.

A consistent theme arising out of the soundings was the need for a two-pronged approach: 1. **maintain and leverage strength in the core manufacturing and steel sectors, and 2. grow new cleaner, greener and advanced economy uses** in the area. The need for a broad vision coupled with an aggressive and targeted approach was consistently identified as a key factor to future success.

<p style="text-align: center;"><b>Strengths</b></p> <ul style="list-style-type: none"> <li>Size and strategic location</li> <li>Access to major highways and trace corridors to the US</li> <li>Marine and Rail access for multimodal freight</li> <li>Significant concentration of advanced and traditional steel industry uses</li> <li>Potential for expanded airport operations over time</li> <li>High standard and excess water supply capacity</li> </ul>	<p style="text-align: center;"><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>Positive economic outlook</li> <li>Areas of underutilized land</li> <li>Evolution in the steel industry towards higher value goods</li> <li>Strong manufacturing base</li> <li>Potential long-term availability of very large US Steel lands</li> <li>Automotive or advanced industry cluster in conjunction with McMaster and Mohawk</li> <li>Provincial or Federal assistance to kick start development</li> </ul>
<p style="text-align: center;"><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>Poor quality of road infrastructure and congestion</li> <li>Gaps between market demand and economic visions</li> <li>Level of contamination and regulatory requirement</li> <li>Older building stock not suited to the needs of modern businesses</li> <li>Cost of brownfield redevelopment and/or building demolition</li> </ul>	<p style="text-align: center;"><b>Threats</b></p> <ul style="list-style-type: none"> <li>Strong demand for greenfield business park sites</li> <li>Global competition within steel and manufacturing</li> <li>Perception of contamination and decline in lower City</li> <li>Potential conflict with existing residential uses</li> <li>High industrial tax rates relative to competing communities</li> <li>Uncertainty over the level and amount of contamination</li> </ul>

# Executive summary (cont'd)

## Uncertainty over the future of US Steel

### US Steel current situation, potential outcomes and implications for Bayfront

The US Steel Site comprises 800 acres, 200 acres of which are actively used for Coke and finishing operations. The remaining 600 acres are occupied by a small amount of current operations staff with the surplus comprising a range of underutilized lands and buildings.

Over the last 20 years, **employment at the US Steel site has gradually declined**. The decline has been due to a number of factors including industry changes, the evolving competitive environment for the steel industry, automation of many aspects of production and closure of the plate and tin making facilities. Citing these and other losses, US Steel Canada (USSC), under the Companies' Creditors Arrangement Act (CCAA) bankruptcy protection proceedings, **entered into creditor protection in September 2014**. On May 7<sup>th</sup> 2015, USSC extended this stay period.

The outcome of these proceedings will **not be known for some time**. With the range of issues and interests at play, there are many possibilities. Based on the market soundings, the coke and finishing operations remain valuable, with the result that these **operations could be sold** in whole or in part. Likewise, all or part of the **underutilized land and building supply** could be sold in whole or in part, either along with current operations or alone. With the series of recent stay extensions in the credit protection process, there is the possibility that the **status quo will be maintained** and no significant change will occur on the site in the immediate future. There is also uncertainty over how the **Nanticoke** facility will be factored in to any potential sale or other solution to the current process.

At this point, due to the **high value of some of the existing operations** (notably the Coke and finishing line) it is not unreasonable to anticipate that steel production will continue at this location for the foreseeable future. We understand that a foreign purchaser has moved forward to acquire the business for steel production and therefore it confirms the assumption that this property will remain in heavy industrial uses for the foreseeable future. Nevertheless, the site would still present significant opportunities for intensification and redevelopment over the years to come.



# Executive summary (cont'd)

## Large scale urban renewal and redevelopment

### Case studies indicate a common set of success factors

Case studies were undertaken of brownfield redevelopment and specifically waterfront redevelopment in such communities as Pittsburgh, Chicago, Toronto and others. The focus was on identifying a set of key success factors in the redevelopment and revitalization of major waterfronts. Based on our review and market sounding process, the following key success factors emerged relevant to the Bayfront:

- Major waterfront redevelopment **plans take time** if not decades to properly plan and implement. Both the City of Toronto and Pittsburgh initiated their plans nearly 30 years ago.
- **Municipal ownership is very effective.** Public control of key or strategic sites was central to the success of many waterfront redevelopment successes.
- **Significant financial incentives are required** to transform legacy properties and address brownfield issues. Government engagement in the transformation process is crucial to attract private sector developers to accept risk associated with significant property investment.
- **Public participation and community engagement** are important to develop and communicate the vision and ensure that local residents understand the current conditions and embrace potential outcomes.
- Taking a **wider perspective to focus on off-site benefits** can have tremendous impacts, such as linking specific developments to the downtown or local neighbourhoods. Some links already exist, for example with West Harbour.
- **Partnerships with the development community** combined with financial incentives can be very effective. Often structured financial arrangements bringing together public and private sector can have positive outcomes with transformational development opportunities.



# Executive summary (cont'd)

## Opportunities, constraints and future directions

### Context for the strategic directions

The Hamilton real estate market has the potential to enter into a period of tremendous growth and transformation. The consensus view is for a rapidly growing residential, cultural and economic role for the City in the broader metropolitan region. With a strong growth outlook and diminishing potential for high-quality industrial sites in the GTA West, Hamilton is well positioned to compete for new investment. Economic opportunities for the City and the Bayfront area are better now than they have been for decades. That being said, it will be important for local government together with the business and development community to fully plan, embrace and take advantage of the market opportunities.

### Opportunities

1	<b>The broad growth outlook</b>	The outlook for Ontario and GTAH is positive in the short and the long term. Hamilton is positioned very well to compete from an industry and rapid urbanization perspective. The City is steadily becoming more attractive for investment across all asset classes.
2	<b>Demand for real estate</b>	Growth will drive steady demand for real estate to accommodate residential, industrial, retail and to a more limited extent office development over time. Growth has already begun to create an overall 'energy' and momentum that bodes well for the Bayfront over time.
3	<b>Location and pattern of development</b>	Bayfront's strategic location, direct 400 series highway access, rail, airport and port infrastructure and presence of underutilized lands and buildings creates an opportunity for intensification. The most significant opportunity by far relates to the underutilized land and building supply potential on the US Steel site.
4	<b>Hamilton Port</b>	The Hamilton Port plays a major economic role in the Hamilton and broader GTAH market. The Port supports a range of important economic sectors including Steel, food processing, the building and construction industry, municipal maintenance and others.
5	<b>Steel and advanced manufacturing</b>	The Steel sector in Hamilton is performing well and supports the Province's priorities to advance productivity, innovation and exports. Surplus infrastructure capacity, especially for water and energy, could appeal to a range of new users such as life sciences and clean technology.

# Executive summary (cont'd)

## Opportunities, constraints and future directions

### Constraints

1	<b>Market demand</b>	Most new industrial and office development is anticipated to be met on Greenfield sites in Red Hill South (RHS) and the Airport Employment Growth District AEGD). The potential for retail is limited by Provincial and City planning policy direction to focus development along the nodes and corridors. Within this context, the Bayfront will be competing for smaller parts of the market.
2	<b>Existing pattern of use</b>	The Bayfront lands currently function as a specialized area for heavy industry, which makes repurposing many existing facilities difficult. According to the market soundings, existing and established landowners are typically not interested in a sale or redevelopment of their properties for economic and historic reasons. The presence of heavy industry acts as a barrier to new investments.
3	<b>Perception</b>	The perception of the Bayfront as an old, heavy industrial area acts as a disincentive to mainstream industrial development, especially cleaner more innovative industries. Relatively high tax rates can lead to a perception of high costs of doing business. There are also misperceptions about the nature of the economic base, the state of industry and the role of the Port in the Bayfront, compounding an already cautious investor sentiment.
4	<b>Environmental contamination</b>	The increased cost of redevelopment for 'brownfield' sites and uncertainty over the level of contamination in the Bayfront is a constraint to new investment and redevelopment. It is also an impediment for private investors from a financial, risk management and therefore development feasibility perspective.
5	<b>Appearance</b>	The current appearance of the Bayfront encourages the perception of the area as home to a base of declining older 'rustbelt' industry. The heavy industrial appearance also acts as a significant disincentive to users seeking a clean new greenfield location. The lack of a Gateway feature signals insecurity over the role and function of the area.

**Challenge:** Certain industries just need to be on greenfield sites and if not available will go to other communities not brownfields

**Challenge:** Uncertainty and cost of remediation has a strong negative impact on development feasibility

**Challenge:** Market Demand: Bayfront competes for a smaller part of the market. Steps need to be taken to increase maker appeal

# Executive summary (cont'd)

## Opportunities, constraints and future directions

### Strategic directions

The Bayfront will remain an employment area for at least the short to medium and very likely beyond. Significant land use change is a very long-term proposition. The overarching goal therefore should be to maintain a strong position in legacy sectors while growing and expanding into new sectors. The following are strategic directions to achieve this objective.

<b>1</b>	<b>Establish a vision for the Bayfront</b>
<b>2</b>	<b>Ensure AEGD and other greenfield supply comes to market soon</b>
<b>3</b>	<b>Encourage more efficient use of existing land and building supply</b>
<b>4</b>	<b>Consider targeted site acquisition to acquire an element of control</b>
<b>5</b>	<b>Establish a program to bring sites to market</b>
<b>6</b>	<b>Explore program management options</b>



# Executive summary (cont'd)

## Opportunities, constraints and future directions

### Strategic directions

1	<b>Establish a vision for the Bayfront area</b>	It is clear from our analysis, the market soundings and case studies that the first step is to establish the vision. The vision must be one that <b>shifts the dominant misperception</b> of the Bayfront as a declining industrial area and establishes the location as a significant economic development opportunity. The vision is also required to correct current misperceptions about the nature of the economic base, the state of industry, the role of the Hamilton Port and the constraints that need to be overcome to encourage reinvestment and redevelopment.
2	<b>Ensure AEGD and other Greenfield supply comes to market soon</b>	The <b>AEGD and Red Hill lands</b> are potentially the City's most important asset to compete in the GTA industrial market. These lands must be moved through the process from unserved lands to serviced development sites as soon as possible. Accelerating these lands will ensure continued economic vitality, increase the overall level of investment activity help increase demand for the Bayfront.
3	<b>Encourage more efficient use of existing land and building supply</b>	The City needs to <b>improve the market appeal</b> of the existing area through highly visible investments in infrastructure and other capital projects. It will also be necessary to work with the eventual owners of the US Steel site to maximize potential of the asset. The City should also work <b>with other landowners</b> to bring surplus lands to market, <b>work with the port</b> to ensure future development is aligned with the City vision and <b>consider selected conversions</b> to other employment uses, including retail.
4	<b>Consider targeted site acquisition to acquire an element of control</b>	Given the economics of redevelopment, <b>a more aggressive approach may be required</b> to encouraging new development. Case studies show clearly that municipal site control is a key factor in the success of brownfield redevelopment projects. The City should consider <b>targeted site acquisition</b> to gain control of competitive parcels to encourage new business investment, and engage Federal and Provincial authorities around the brownfield cleanup opportunity.
5	<b>Establish a program to bring sites to market</b>	A program should be established to <b>bring the sites to market</b> . Elements of the program should include facilitating the delivery of underutilized sites to market, providing greater clarity and certainty over the level of contamination, identifying and fostering other intensification opportunities and advising on the need for incentives and investment to drive new development.
6	<b>Explore program management options</b>	The City should also consider options for program management. One option could be the <b>creation of a Steering Committee</b> to provide oversight and guidance. Current committees should not take on this role. The emphasis should be on private sector appointments with industrial land development experience and senior business leaders familiar with real estate finance and municipal decision-making dynamics, including the Steel Industry, the Port, the Airport and Rail companies, and political representation from the City (ideally the Mayor) as well as from the brokerage community familiar with heavy industry in the Hamilton / Burlington / Niagara area.





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