



STAFF REPORT ACTION REQUIRED

Proposed Planning Incentives to Support the Replacement of Office Space in New Mixed Use Developments – Draft Zoning By-law Amendments

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| Date: | April 18, 2016 |
| To: | Planning and Growth Management Committee |
| From: | Chief Planner and Executive Director, City Planning Division |
| Wards: | All |
| Reference Number: | P:\2016\ClusterB\PLN\PGMC\PG16013 |

SUMMARY

This report presents results of the consultations on proposed planning and financial incentives to support the replacement and retention of office space in new mixed use developments. This report responds to the comments related to the planning incentives. A separate report responding to the financial incentive comments and proposals will be submitted at a later date in the context of the broader Imagination Manufacturing Innovation and Technology (IMIT) report. The proposed planning incentives would provide parking reductions, floor area exemptions and priority application processing for office sites proposed to be lawfully demolished and redeveloped with residential uses in the *Downtown and the Central Waterfront, Centres* and other locations in the City within 500 metres of a rapid transit station.

Based on the feedback received, the proposed planning incentives eligibility criteria have been refined. The incentives are proposed to be implemented through amendments to the Zoning By-laws and the Gold Star program. Draft amendments to the Zoning By-laws are appended as Attachment 1 to this report and are recommended to form the basis of further public and stakeholder consultations.

The proposed Zoning By-law Amendment would implement the incentives across the city by amending Zoning By-law 569-2013 and, because portions of it remain before the Ontario Municipal Board, a number of other Zoning By-laws across the City to cover sites within 500 metres of a rapid transit station and in the *Downtown and Central Waterfront* and the *Centres*.

The financial incentives that were part of the consultation will be considered separately, in conjunction with the review of the existing Imagination, Manufacturing, Innovation, Technology (IMIT) Incentive Program that is taking place in 2016 and will be reported out at that time.

The proposed planning incentives support City Council's policy of promoting office space near rapid transit stations, achieving mixed use development and the maintenance of office space on sites that could have otherwise had permanent loss of office space.

RECOMMENDATIONS

The Chief Planner and Executive Director, City Planning Division recommends that:

1. Planning and Growth Management Committee authorize the Chief Planner and Executive Director, City Planning Division, in consultation with the General Manager, Economic Development and Culture, to conduct an Open House to consult with stakeholders and the general public on the incentives for the replacement/retention of existing office space near rapid transit as set out in the proposed Zoning By-law Amendments appended as Attachment 1 to this report.
2. Notice for the public meeting under the *Planning Act* be given in accordance with the regulations under the *Planning Act* and request that the Chief Planner and Executive Director, City Planning Division report back to Planning and Growth Management Committee at a statutory meeting for the Zoning By-law Amendments in the third quarter of 2016.

Financial Impact

The recommendations in this report have no financial impact.

DECISION HISTORY

On December 16, 2013 Council adopted OPA 231, which contains policies for the economic health of the City and policies, designations and mapping for employment areas. OPA 231 contains policies promoting the maintenance and growth of office uses in the Downtown, the Centres and within 500 metres of rapid transit stations. Council also directed staff to 'report to the Planning and Growth Management Committee in the first half of 2014 on additional incentives that the City may consider to promote the development of and maintenance of office space in the Downtown, Centres and within walking distance of rapid transit stations'.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2013.PG28.2>

A joint report dated July 23, 2014 was submitted by the Chief Planner and Executive Director City Planning Division, the General Manager, Economic Development & Culture and the Director, Corporate Finance and considered by Council at its meeting of August 25, 2014. The report outlined proposed financial and planning tool incentives to support the replacement of office space in selected areas with rapid transit. Council directed staff to consult with the public and stakeholders on the proposed financial and planning incentives to support replacement of office space and to report further to Planning and Growth Management Committee in the first quarter of 2015.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2014.PG35.16>

ISSUE BACKGROUND

A large amount of the City's existing employment is in offices and a correspondingly large amount of its employment growth will also be in offices. Because of this, maintaining and increasing the supply of office space in the City is of key importance. Office space generates considerably more transit ridership than the same amount of residential floor space and provides a better return on investment in transit infrastructure. The Official Plan policies recognize the importance of locating offices close to rapid transit because of the limited capacity of the regional road network to support office growth and because of the significant public investment in rapid transit.

As presented in the July 23, 2014 report, the City has seen a renewal of office construction in the Downtown core with approximately 700,000 to 750,000 square metres of new 'AAA' office space constructed in the decade ending 2013. However, the City has not experienced the same demand for mid-size, mid-priced office space and Class 'B' and 'C' space, experiencing a loss of approximately 300,000 square metres of this type of office space over the last decade. Loss of office space also means loss of office jobs. Employment survey data estimates that since 1990 the City has lost about 40,000 office jobs. Currently, there are proposals to demolish office buildings and redevelop the lands for residential uses with no office replacement component across the City including near Bloor Street West and Bay Street (24,445 square metres) and Yonge Street and Bloor Street (7,200 square metres) as well as buildings along Eglinton Avenue east of Yonge Street.

The replacement of office space by residential condominium towers with little or no office component in the *Downtown*, the *Centres* and at rapid transit stations is particularly problematic for the future of transit-based office supply in Toronto outside of the Financial District. Residential condominium towers have a degree of permanence because of the difficulty in purchasing all of the individual units from individual owners for the purpose of redevelopment. Important sites on rapid transit are therefore being permanently removed from the potential to accommodate new office development. The ability to balance population growth with new employment growth accessible by rapid transit would also be reduced, as would the ability of the City to maintain its share of the regional office market.

There is generally a good market for existing office space within walking distance of rapid transit in Toronto. A September 2015 report by Colliers provided detailed data showing that office space within 400 metres of a rapid transit station exhibited higher rents and lower vacancies in Toronto. In no area of the City did office within walking distance of a rapid transit station have a vacancy rate greater than 3 percent. The specific areas where the proposed incentives are focussed generally have a good office market. The incentives proposed in this report promote and at the very least, preserve office space on rapid transit. These incentives are considered necessary to maintain office space in locations near rapid transit stations outside of the Financial District.

The Provincial Policy Framework

The Growth Plan for the Greater Golden Horseshoe, 2006, designates the *Downtown* and four *Centres* identified in the Toronto Official Plan as 'Urban Growth Centres'. For the *Downtown*, the Scarborough Centre, the North York Centre, the Etobicoke Centre and the Yonge-Eglinton Centre, Sections 2.2.4 and 2.2.5 of the Growth Plan specify they be planned:

- With a minimum density target of 400 residents and jobs per hectare;
- As high density major employment centres that will attract provincially; nationally or internationally significant employment uses;
- To accommodate and support major transit infrastructure;
- To accommodate a significant share of population and employment growth; and
- As focal areas for investment in institutional and region-wide public services, as well as commercial, recreational, cultural and entertainment uses.

The Growth Plan also identifies 'Major Transit Station Areas' as the area within 500 metres of a higher order transit station. Section 2.2.5 of the Growth Plan provides that 'Major Transit Station Areas' be planned to achieve:

- Increased residential and employment densities that support and ensure the viability of existing and planned transit service levels; and
- A mix of residential, office, institutional and commercial development wherever appropriate.

Incentives proposed in this report support the retention of these areas as mixed use areas to provide for an increase in employment as well as population consistent with the Provincial planning policy framework.

Official Plan

In December 2013, Council adopted Official Plan Amendment 231 which set out a strategy for promoting the future economic health of the City as well as new designations and policies for *Employment Areas*.

Most of Policy 2 of Section 3.1.5 of the Official Plan was brought into force by the Ontario Municipal Board. This policy sets out a multi-faceted approach to economic development in Toronto that includes the stimulation of office development near rapid transit; the protection of *Employment Areas* as stable places of business; providing appropriate locations and opportunities for the retail sector; and, promoting the expansion of the institutional and cultural sectors. This policy provides that a multi-faceted approach to economic development in Toronto will be pursued that:

- a) Stimulates transit-oriented office growth in the *Downtown and the Central Waterfront*, the *Centres* and within walking distance of existing and approved and funded subway, light rapid transit and GO stations in other *Mixed Use Areas*, *Regeneration Areas* and *Employment Areas*;

Provision of incentives for the development, including replacement of, office space in these transit-rich areas would be one approach to implement this Official Plan policy.

Policy 3 of Section 3.1.5 of the Official Plan provides that a balanced growth of jobs and housing across the City will be pursued to:

- a) Maintain a complete community;
- b) Reduce the need for long distance commuting and lessen regional road congestion; and
- c) Increase the proportion of travel by transit, walking and cycling.

Incentives for office growth and office replacement in transit-rich areas of the City will assist in maintaining a balanced growth of jobs and housing in the context of the significant amount of residential development occurring in the City in recent years.

Policy 4 of Section 3.1.5 of the Official Plan, directs the City to establish incentives for the development of offices and industries:

4. Programs and incentives will be established to grow employment and investment consistent with the policies of this Official Plan, particularly targeting key economic clusters and the development of offices and industries. These programs will include both fiscal incentives and the priority processing of development applications.

The incentives proposed in this report provide criteria to implement the Official Plan policies.

Policies 6 and 9 of Section 3.1.5 of the Official Plan are under appeal and will be the subject of mediation at the Ontario Municipal Board in 2016.

Policy 6 calls for the promotion of new office development in *Mixed Use Areas* and *Regeneration Areas* in the *Downtown and Central Waterfront*, *Centres*, and all other *Mixed Use Areas*, *Regeneration Areas* and *Employment Areas* within 500 metres of an existing or approved and funded subway, light rapid transit, or GO station. It also provides that Secondary Plans and Site and Area Specific policies may establish policies providing for minimum standards for commercial development within 500 metres of an existing or approved and funded subway, light rapid transit or GO station.

Policy 9 speaks to the situation where a site with over 1,000 square metres of office space is being redeveloped with residential units in a *Mixed Use Area* or *Regeneration Area* designation area in the *Downtown*, the *Centres*, or within 500 metres of an existing or approved and funded subway, light rapid transit or GO station. It requires that an increase in the office space accompany the residential development, even if the increase is small and is tantamount to office replacement. The office replacement can occur off-site within the same *Downtown*, *Centre* or within 500 metres of the same subway station.

Proposed Incentives for Office Development

The Official Plan provides that for sites well-served by transit, consideration will be given to minimum and maximum parking requirements (Policy 2.4.1.7, Bringing the City Together: A progressive agenda of transportation change). The City's Gold Star program provides priority processing for development applications for office buildings and mixed use buildings with 5,000 or more square metres of office gross floor area.

The incentives endorsed by Council in 2015 for the purposes of consultation proposed to advance these policy and program objectives and to further support the replacement of office space based on the following eligibility criteria and specific incentives:

Eligibility Criteria:

- office space greater than 1,000 square metres in office and mixed use buildings;
- office space located in the Downtown (except within the Financial District), the Centres and other areas within 500 metres of a transit station. These locations included lands designated in the Official Plan as *Mixed Use Area* or *Regeneration Area* in the *Downtown and Central Waterfront* (except for the Financial District), the four *Centres*, or within 500 metres of a rapid transit station; and
- flexibility for sites with between 1,000 and 2,000 square metres of existing office space to provide the space off-site in any eligible location. Sites with 2,000 or more square metres of existing office space would have the option of off-site replacement, but would be limited to sites within the same area within which they are located (ie. within the *Downtown*, the same *Centre* or within 500 metres of the same rapid transit station).

Planning Incentives:

1. Reduced Parking Requirements: no additional parking spaces, as defined and required by the applicable zoning by-law, would be required for replacement office space than was provided for the original office space.
2. Density Calculation Exemption: exclude the replacement office space from the calculation of gross floor area in calculating the density of the development, except for locations adjacent to lands designated in the Official Plan as *Neighbourhoods*.
3. Application Processing Priority: Development applications on eligible sites and which include at least 2,000 square metres of replacement office space and the total office space floor area accounted for at least 25 per cent of the total project gross floor area would be eligible for priority processing under the Gold Star program.

CONSULTATION PROCESS

Staff from City Planning, the Economic Development and Culture and Corporate Finance Divisions met with the Building Industry and Land Development (BILD) Association on October 28, 2014 and with representatives of NAIOP, the Commercial Real Estate Development Association on March 26, 2015. On June 24, 2015 a Public Open House was held at Metro Hall. Notice of the Open House was sent to approximately 5000 persons and organizations who had signed up to be notified of any matters related to the Official Plan Review. Approximately 20 persons attended the Open House.

COMMENTS

The following section summarizes comments heard during the consultations. This report responds to the comments related to the planning incentives. A separate report responding to the financial incentive comments will be submitted at a later date.

Eligibility Criteria

Locations

- Generally, the proposed incentives would be welcomed in the Downtown, the Centres and around rapid transit stations to support the replacement of existing office space when residential redevelopment occurs.
- The exclusion of incentives from the Financial District and the boundaries of the Financial District elicited differing views. Some participants were of the view that the development of new office or replacement of existing office space in the Financial District does not require incentives as office space can outbid residential space for the use. Others pointed out that incentives were very helpful in the development of new office space in the South Core.
- The boundaries of the Financial District set out in the Official Plan were discussed in one stakeholder event and the comment was made that the Financial District already extends south of the rail corridor towards the Lake.

- Some industry representatives commented that policy should be sensitive to market demand and that some areas may not have a market for office regardless of incentives.
- It was questioned why the incentives apply to 'approved and funded' rapid transit stations as well as existing stations as approval and funding does not guarantee the transit line will actually be constructed.

Minimum Size

- The threshold of 1,000 m² for the replacement of office space and the incentives under discussion was thought to be an excessively low threshold.
- Participants also commented that the 1,000 m² threshold may have unintended consequences of triggering office replacement when multiple sites were consolidated into a single development, such as in the case of second storey offices over retail.
- The view was expressed that not simply the replacement space should be subject to the incentives but any increase in office space as well.
- The view was expressed that there was a need to co-ordinate the office replacement incentives with the overall IMIT program and the review of the IMIT program that will occur in 2016, and properties should not be eligible for tax grants under both the existing IMIT program and the proposed office replacement incentives.

Off-Site Replacement

- There is merit in the idea of permitting flexibility to allow off-site replacement of the office space. It was suggested that even more flexibility than was proposed should be permitted and that office near rapid transit outside of the Downtown and Centres should be permitted to be replaced near any rapid transit station in the City.

Planning Incentives

Parking Reduction

- The costs of structured parking are a significant expense to the construction cost of a new mixed use or office development. It was pointed out that in many instances reduced parking requirements could make a significant difference to the ability to construct and rent replacement office space.
- The parking incentive to not require more spaces than had existed for the original office building will reduce the blended parking requirement for residential/commercial and would be an effective incentive in some instances.
- However in some instances office tenants would desire more parking and the parking incentive would not be effective.

Density Exemption

- NAIOP and BILD representatives both viewed the exclusion of the replacement office space from the density calculation as a potentially effective incentive.
- Several members of BILD questioned why sites adjacent to *Neighbourhoods* would not have the benefit of this particular incentive. There were questions as to how this floor space exclusion would affect eligibility for Section 37 community benefits.

Priority Processing

- Open house participants were generally supportive of the priority processing incentive.

Proposed Revisions

Based on the comments and feedback from the consultation, refinements have been made to the eligibility criteria and the planning incentives related to priority application processing under the Gold Star program. Eligibility criteria revisions been incorporated in the proposed Zoning By-law Amendments appended as Attachment 1 to this report.

Eligibility Criteria: Locations

Staff agree that the boundaries of the Financial District have moved south, past Union Station and that "planned and funded" transit stations are not a certain indication that a station will be constructed. Accordingly, the location eligibility has been revised to reflect an extension of the boundary of the Financial District to Lake Ontario and properties within 500 metres of existing subway, GO and light rapid transit stations, including stations under construction.

Eligibility Criteria: Minimum Size

Based on the comments from the consultations, staff have reviewed the potential impact of the initial proposed size criteria of 1,000 m². As illustrated in the table below, an estimated 752 buildings representing 7.7 million m² of office space would meet the minimum size threshold of 1,000 m². If the threshold is increased to 2,000 m² the number of buildings is reduced by about 35%, but the office space floor area is only reduced slightly, by about 5%. The intent of the incentives is to support the replacement of office space. Increasing the minimum size eligibility criteria to 2,000 m² would maintain that with minimal impact on the amount of office space captured in these transit-rich areas outside of the Financial District. As well, there are administrative costs associated with implementing the incentives program that would be more strongly supported if the program only applied to these larger buildings.

On this basis, the minimum size threshold is recommended to be revised to only apply to properties with at least 2,000 m² of existing office space.

| Table 1: Number of Buildings and GFA Eligible For Incentives | | |
|---|---------------------|-----------------------|
| | Number of Buildings | GFA (m ²) |
| Council-Endorsed Incentive (Greater than 1,000 m ²) | 752 | 7,714,388 |
| Revised Incentive (Greater than 2,000 m ²) | 497 | 7,355,867 |
| Difference | 255 | 358,521 |

Planning Incentives: Parking Reduction

In the consultations, concern was raised that some developers may wish to build additional parking for the replacement space if the tenant requested it. The parking reduction incentive does not prevent the construction of additional parking spaces with the replacement office space, subject to the applicable zoning on the site. It does provide an incentive for those projects which would become financially unfeasible due to the costs of providing parking on a site, in smaller or constrained sites. For this reason, no revisions are recommended to the parking reduction incentive.

Planning Incentives: Density Exemption

Questions arose in the consultations as to why lands adjacent to a *Neighbourhoods* designation would not receive this 'density bonus'. An increase in the permitted density and scale of development could affect the transition to adjacent *Neighbourhoods*. Ensuring an appropriate transition in scale to adjacent *Neighbourhoods* and minimizing development impacts upon them is one of the key objectives of the Official Plan. The Chief Building Official would be provided with a list of all properties where this provision applies and the Chief Planner would inform the Chief Building Official of the applicability of this incentive when circulating plans for an application utilizing this incentive. Therefore, it is recommended that the density exemption incentive remain as proposed.

Planning Incentives: Priority Processing

No revisions are recommended to this incentive given the general support received in consultations.

Incentive Under Consideration

Eligibility Criteria: Off-site Replacement

Providing off-site replacement permissions is a consideration which could provide flexibility in achieving Council's policy goal of promoting and maintaining office space near transit. City Planning is consulting Toronto Buildings and Legal Services on how this policy goal could be implemented.

Draft Zoning By-law Amendments

The purpose of the Zoning By-law Amendments is to implement the density and parking incentives for office replacement in the *Downtown*, the *Centres* and areas within 500 m of transit stations, as indicated by the "Office Replacement Area" on the zoning by-law maps. As the city-wide zoning By-law 569-2013 is not in force and does not apply to all areas of the City, zoning by-law amendments to multiple zoning by-laws are required to implement these policies.

CONCLUSION

The proposed revisions to the planning incentives to support office space replacement in new mixed use developments respond to the comments and feedback received through the initial public consultations.

Proposed Zoning By-law amendments are appended as Attachment 1 to this report. These proposed amendments are recommended as the basis for consultation. The financial incentives that were part of the consultation will be considered separately, in conjunction with the review of the existing Imagination, Manufacturing, Innovation, Technology (IMIT) Incentive Program that is taking place in 2016 and will be reported out subsequently.

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ATTACHMENTS

Attachment 1: Draft Zoning By-law Amendments

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