

Official Plan Review – Office Replacement Policies – Proposals Report

Date: June 25, 2024

To: Planning and Housing Committee

From: Interim Chief Planner and Executive Director, City Planning

Wards: All

SUMMARY

This report is the first of a two-phased approach in bringing forward Official Plan Amendments related to the City’s adopted office replacement policies. This report provides an update on the ongoing Office Space Needs Study (Office Study), which informs the described policy directions related to office replacement. City Planning and Economic Development and Culture (EDC) staff will use the proposed policy directions (Attachment 1) for the basis of stakeholder engagement prior to recommending office replacement Official Plan amendments to the Planning and Housing Committee and City Council.

Through the Office Study, staff are seeking to balance the need for new housing, including affordable housing, with Toronto’s long-term employment growth and the creation of transit-supported complete communities, while addressing the office market conditions resulting from the COVID-19 pandemic. The Office Study also considers the growing space needs for alternative employment sectors, such as retail, service commercial, cultural and entertainment-based activities, institutional uses, storage and warehousing, and life sciences that add to the City’s diverse and resilient economy.

Upon completion of the Office Study, including stakeholder engagement, staff will generate final recommendations that would amend existing Official Plan policies including those under appeal as part of Official Plan Amendment 231 (OPA 231) and policies within the Downtown Plan and Yonge-Eglinton Secondary Plan.

In the subsequent report, staff will address policy and non-policy options, including those related to office conversion, replacement requirements and incentives for alternative non-residential employment uses and affordable housing.

RECOMMENDATIONS

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

1. The Planning and Housing Committee endorse the proposed policy directions outlined in Attachment 1 to this report and request the Chief Planner and Executive Director, City Planning to report back in the fourth quarter of 2024 with final policy recommendations.

FINANCIAL IMPACT

The City Planning Division confirms that there are no financial implications resulting from the recommendations included in this report in the current budget year or in future years.

Over the long term, the conversion of office space to residential may have future financial implications for the City of Toronto. Commercial uses are an important component of the City's property tax base and contribute a higher share of assessed value relative to residential uses. At the same time, these impacts may be offset by enabling the intensification of commercial properties with additional residential density. City Planning staff will continue to work with Corporate Financial Planning to determine the scale of potential impact on property taxes.

The Deputy City Manager and Chief Financial Officer have reviewed this report and agree with the financial impact information.

EQUITY IMPACT STATEMENT

Planning for employment space within complete communities is the first step in planning for future economic growth, job creation and inclusive prosperity for all Torontonians. Communities need to have adequate infrastructure, services, and amenities to support both current needs and future growth.

While industries that traditionally rely on office space have seen a fundamental shift in how employees work, there are numerous other industries which play vital roles in Toronto's economy which continue to rely on physical space. The Office Study takes these needs into consideration.

The City of Toronto recognizes that housing is essential to the inherent dignity and well-being of the person and to building sustainable and inclusive communities. The need for additional, attainable housing is recognized by all levels of government, as a pressing necessity. The City's Housing TO 2020-2030 Action Plan has as a fundamental goal of providing opportunity to access to safe, good quality and affordable housing as an important determinant of physical and mental health.

CLIMATE IMPACT

On October 2, 2019, City Council declared a climate emergency for the purpose of "naming, framing and deepening our commitment to protecting our economy, our ecosystems and our community from climate change" (Item MM10.3). This was followed up with the adoption of Transform TO Net Zero Strategy, which includes targets to achieve net-zero emissions in Toronto by 2040 (Item IE26.16).

The Growth Plan for the Greater Golden Horseshoe Area supports intensification and building "compact and complete communities" as a strategy to help reduce greenhouse gas emissions and plan more adaptive communities that are resilient to the impacts of climate change.

The Office Study addresses the reduction of embodied carbon (the upfront energy and emissions of extraction, processing and transporting building materials embedded in an existing building) through allowing for the adaptive reuse of existing buildings.

DECISION HISTORY

At its meeting on December 16, 2013, City Council adopted OPA 231, following the City's first Municipal Comprehensive Review (MCR) to conform to the 2006 Provincial Growth Plan. The Minister of Municipal Affairs and Housing approved OPA 231 in 2014 with the exception of certain lands within the Lower Don Special Policy Area. OPA 231 is in effect for the most part although some policies remain before the Ontario Land Tribunal ("Tribunal"). The Tribunal has approved significant portions of OPA 231, including a number of Council adopted site specific settlements. The Tribunal has not yet considered appeals to office replacement policies. An April 2021 consolidation of OPA 231 is available at this link: <https://www.toronto.ca/legdocs/refdocs/11463.pdf>

At its meeting on May 11, 2016, Planning and Growth Management Committee authorized City Planning, in consultation with Economic Development and Culture to consult with stakeholders and the public on incentives for the replacement/retention of existing office space near rapid transit. Incentives were proposed to be implemented through amendments to the Zoning By-laws and the Gold Star program and were part of the 2016 review of the Imagination, Manufacturing, Innovation, Technology (IMIT) Incentive Program. Planning and Growth Management Committee's decision can be found here: <https://secure.toronto.ca/council/agenda-item.do?item=2016.PG12.5>

At its meeting on July 23, 2018, City Council adopted the Midtown Official Plan Amendment (OPA 405) pursuant to Section 26 of the Planning Act. City Council's decision can be found here: <http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.PG31.7>

At its meeting on May 22, 2018, City Council adopted the Downtown Official Plan Amendment (OPA 406) pursuant to Section 26 of the Planning Act. City Council's decision can be found here: <http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.PG29.4>

OPAs 405 and 406 were submitted to the Ministry of Municipal Affairs and Housing on August 9, 2018 for Ministerial review and approval. The Minister issued its Decision approving the OPAs on June 5, 2019. The Decisions can be found here:

- Midtown - <https://www.toronto.ca/legdocs/refdocs/11188.pdf>
- Downtown - <https://www.toronto.ca/legdocs/refdocs/11189.pdf>

At its meeting on November 8, 2023, City Council requested City Planning and Economic Development and Culture to study potential conversion of office space across the City into new housing, consider what zoning and other regulatory or policy relief may be required to enable economically viable office conversions and evaluate the feasibility of requiring the provision of affordable housing in lieu of the replacement of office space. More information regarding the motion can be found in <https://secure.toronto.ca/council/agenda-item.do?item=2023.PH7.9>

At its meeting on February 6, 2024 City Council requested City Planning and Economic Development and Culture to explore opportunities to provide financial incentives, policies and other options to support the conversion or adaptation of vacant office space into other non-residential employment uses, including the potential to utilize as a funding source for such efforts savings from lower than forecast Tax Increment Equivalent Grants payments to office developments covered by an Imagination, Manufacturing, Innovation and Technology (IMIT) Program Financial Incentive Agreement experiencing high vacancy rates. More information can be found in <https://secure.toronto.ca/council/agenda-item.do?item=2024.EX11.6>

BACKGROUND

Issue Context

Increasing office vacancies is a trend impacting large cities across North America as companies adjust to hybrid work following the COVID-19 Pandemic. These challenges have prompted several municipalities to introduce interventions, including financial support for businesses, cultural events, promotion and marketing, infrastructure investments, and enabling office-to-housing conversions.

Concurrently, Toronto is experiencing a prolonged housing crisis that has elevated pressures for residential intensification. In part, this increased pressure has led to development applications that propose to add residential uses above existing office buildings, convert office to residential uses, or demolish office buildings entirely. The loss of office space is typically a permanent outcome that cannot be reversed later if market conditions change.

The Official Plan contains in-effect policies in certain geographies that require the replacement of office space that is proposed to be demolished or removed as part of a development application. The purpose and intent of the Official Plan policies is to protect office space and retain employment opportunities in transit-supportive locations.

Considering Toronto's important economic role as Canada's largest concentration of office employment and corporate headquarters and the potential risks of losing office employment space, any policy changes should be informed by comprehensive analysis of trends in the real property market and broader economy.

Office Space Needs Study

To respond to office vacancies and address development pressures on office buildings, the City initiated the Office Space Needs Study which includes an office market analysis, weighs the benefits and risks of office space conversion and explores policy options that balance office needs in the short- and long-term. Staff retained land economists to assist with the analysis conducted as part of the study.

Development Applications

Staff are tracking applications, Pre-Application Consultation meeting requests and inquiries proposing to remove or demolish office space to better understand market nuances and emerging development trends. From Q3 2023 to Q2 2024 staff have and continue to track over 35 development proposals involving office space.

While the Office Study is underway and where in-effect office replacement policies exist in the Downtown Plan and Yonge-Eglinton Secondary Plan areas, staff have been negotiating with applicants seeking non-replacement of existing or approved office gross floor area. Where appropriate and on a site-by-site basis, staff are requesting replacement to be provided as alternative non-residential uses (including exploring opportunities for hotels, medical offices and post-secondary institutions) or affordable housing beyond the minimum amount secured through Community Benefits Charges (CBC).

POLICY CONSIDERATIONS

Planning Act

The *Planning Act* is Provincial legislation that sets out the rules for land use decision making in the Province. It provides the basis for a policy-led planning system in Ontario. The *Planning Act* requires an Official Plan to contain goals, objectives and policies established primarily to manage and direct physical change and the effects on the social, economic, built and natural environment of the municipality or part of it (Section 16.1.a).

Provincial Policies

The Provincial Policy Statement, 2020 (PPS 2020) provides policy direction on matters of provincial interest related to land use planning and development. The Growth Plan builds upon the policy foundation of the PPS 2020 and provides a strategic framework for managing growth and environmental protection in the Greater Golden Horseshoe region, of which the City forms an integral part.

The PPS 2020 provides province-wide policy direction on land use planning and development to promote strong communities that are resilient to climate change, a strong economy, and a clean and healthy environment. The PPS 2020 includes policies on key issues that affect communities, such as:

- The efficient use and management of land and infrastructure;
- Ensuring opportunities for job creation;
- Supporting complete communities with a diverse mix of land uses and a vibrant public realm, including an equitable distribution of parks;
- Providing for a range and mix of housing options, including affordable housing, to serve all household sizes, incomes and ages;
- Retaining employment areas, while protecting for land use compatibility, ensuring redevelopment of lands outside of employment areas retain space for jobs, including institutional development, retail and office uses; and
- Expanding access to existing and future transit, as well as safe, convenient and comfortable active transportation, while minimizing parking provisions.

The Growth Plan 2020 provides a strategic framework for managing growth and environmental protection in the Greater Golden Horseshoe (GGH) region, of which the City of Toronto is an integral part. The policies of the Growth Plan build on the policies of the PPS 2020 and take precedence where there is conflict, except where relevant legislation provides otherwise. In accordance with Section 3 of the *Planning Act*, all Council decisions that affect a planning matter shall conform with the Growth Plan 2020.

The Growth Plan contains direction for achieving complete communities with access to a diverse range of housing options, protected employment zones, public service facilities, recreation and green space that better connect transit to where people live and work.

Proposed Provincial Planning Statement, 2024 (not in-effect)

On April 6, 2023, the Minister of Municipal Affairs and Housing introduced the Helping Homebuyers, Protecting Tenants Act ("Bill 97") that would make changes to the Planning Act, Municipal Act, Residential Tenancies Act and the Building Code Act. The Province also released the proposed Provincial Planning Statement ("PPS") that would combine the current Provincial Policy Statement (2020) and the Growth Plan (2020) into a single document.

On April 10, 2024, the Minister of Municipal Affairs and Housing released a revised Provincial Planning Statement that includes key policies related to office uses and non-residential development including:

- Permitting and facilitating residential intensification of underutilized commercial sites for residential use;
- Supporting redevelopment of commercially-designated lands to support mixed-use residential;
- Promoting economic development and competitiveness by providing opportunities for a diversified economic base;

- Permitting a diverse mix of land uses, including residential, employment, public service facilities and other institutional communities on lands for employment outside of employment areas, to support the achievement of complete communities; and,
- Directing major office development to major transit station areas or other strategic growth areas where frequent transit service is available.

The Province has not brought the revised Provincial Planning Statement into effect and, as of the date of this report, the PPS 2020 and the Growth Plan (2020) remain relevant provincial plans, to which it is necessary to have Official Plan policies conform.

Official Plan

The City's Official Plan is founded on a growth management strategy which steers growth and change to some parts of the city, while generally limiting significant change in other areas. The Downtown, including the Central Waterfront, and the Centres, are identified as areas that can best accommodate a vibrant mix of residential and employment growth.

Newly adopted Chapter 1 of the Official Plan identifies housing accessibility and affordability as one of the key priorities for the City. Chapter 1 also identifies Toronto as a city of complete communities where residents can access the necessities of daily life including affordable housing and employment opportunities.

Chapter 2 contains policies to support economic competitiveness and investment in the Downtown and Centres, including establishing density targets for jobs and residents per hectare. One of the goals of the Official Plan is to reduce reliance on the automobile through planning for new development in targeted growth areas.

Official Plan Section 3.5.1 - Creating a Strong and Diverse Civic Economy contains policies to nurture and expand Toronto's economy including by stimulating transit-oriented office growth in the Downtown and Central Waterfront, the Centres and within walking distance of existing and approved and funded subway, light rapid transit and GO stations in *Mixed Use Areas*, *Regeneration Areas* and *Employment Areas*.

The Section 3.5.1 office policies introduced by OPA 231, including Policy 3.5.1.9 have not been heard by the Tribunal, and are not in-effect. OPA 231 related policies of Section 3.5.1 include policies that promote office development in key areas, encourage major freestanding office buildings to locate in key areas, and introduced an office replacement policy as follows:

Policy 3.5.1.9. New development that includes residential units on a property with at least 1,000 square metres of existing non-residential gross floor area used for offices is required to increase the non-residential gross floor area used for office purposes where the property is located in a *Mixed Use Area* or *Regeneration Area* within:

- a. The Downtown and Central Waterfront;
- b. Centre; or
- c. 500 metres of an existing or an approved and funded subway, light rapid transit or GO train station.

Where site conditions and context do not permit an increase in non-residential office gross floor area on the same site, the required replacement of office floor space may be constructed on a second site, prior to or concurrent with the residential development. The second site will be within a *Mixed Use Area* or *Regeneration Area* in the Downtown and Central Waterfront; within a *Mixed Use Area* or *Employment Area* in the same Centre; or within 500 metres of the same existing or approved and funded subway, light rapid transit or GO train station.

The Official Plan can be found here: <https://www.toronto.ca/city-government/planning-development/official-plan-guidelines/official-plan/>.

Downtown Plan

The Minister-approved Downtown Plan contains numerous policies that emphasise the importance of Downtown as an economic driver for the city, region and province, with the protection and promotion of non-residential uses in the Financial District, the Health Sciences District, the King-Spadina and King-Parliament Secondary Plan Areas and the Bloor-Bay Office Corridor.

The Financial District is Canada's premier business office centre, clustered within walking distance of Union Station. Financial District policies encourage opportunities to increase non-residential uses and includes the following non-residential replacement policies:

Policy 6.2. Development within the Financial District will:

- 6.2.1. be encouraged to provide a net gain of gross floor area for office uses; and
- 6.2.2. ensure no net loss of office and overall non-residential gross floor area.

Policy 6.3. Should the requirements in policy 6.2.2 not be fulfilled on a site proposed for development or redevelopment, these requirements can instead be fulfilled on another site within the Downtown.

The Bloor-Bay Office Corridor is identified as an important location outside the Financial District and includes the following non-residential replacement policies:

Policy 6.7. Development within the Bloor-Bay Office Corridor will:

- 6.7.1. be encouraged to provide a net gain of gross floor area for office uses; and area.
- 6.7.2. ensure no net loss of office and non-residential gross floor

Policy 6.8. Should the requirements in policy 6.7.2 not be fulfilled on a site proposed for development or redevelopment, these requirements can instead be fulfilled on another site within the Downtown.

The Health Sciences District is identified as an important concentration of teaching hospitals and research facilities which provides critical health services to the regional and provincial populations. The Health Sciences District includes the following non-residential replacement policy:

Policy 6.14. Development within the Health Sciences District will replace existing institutional and non-residential gross floor area either on-site or off-site.

Policies for *Mixed Use Areas* in the Downtown Plan encourage a diverse range of uses, including retail, service, office, institutional and residential uses.

The Downtown Plan can be found here:

<https://www.toronto.ca/wp-content/uploads/2022/06/962d-cityplanning-official-plan-41-secondary-plan-downtown-plan.pdf>

Yonge-Eglinton Secondary Plan

One of the goals guiding development in the Yonge-Eglinton Secondary Plan area is the continuation of a prosperous Midtown by maintaining and expanding major offices, retail and community service facilities. Fostering a mix of office spaces and creating new, adaptable incubator and community spaces is essential to supporting a prosperous local economy, fostering innovation and broadening opportunities for stable employment.

Within Mixed Use Areas “A” and “B”, the Yonge-Eglinton Secondary Plan requires that tall buildings and large redevelopment sites capable of accommodating multiple buildings will provide 100 per cent replacement of any existing office gross floor area located on the site. All or a portion of the office replacement may be transferred to a receiving site within the Midtown Secondary Plan area, subject to certain requirements.

The Yonge-Eglinton Secondary Plan can be found here:

www.toronto.ca/wp-content/uploads/2019/07/96a5-CityPlanning_OPA405.pdf

OFFICE SPACE NEEDS STUDY OVERVIEW

Office Study Status Update

The City retained consultants to conduct market and planning analysis and support public and stakeholder engagement on the Office Space Needs Study.

The Office Study is being conducted in two phases over an eight-month period. Phase one is complete and included a review of existing office-related policies and programs, office-related development, market trends and stakeholder engagement, and resulted in a background report, attached as Attachment 2 to this report.

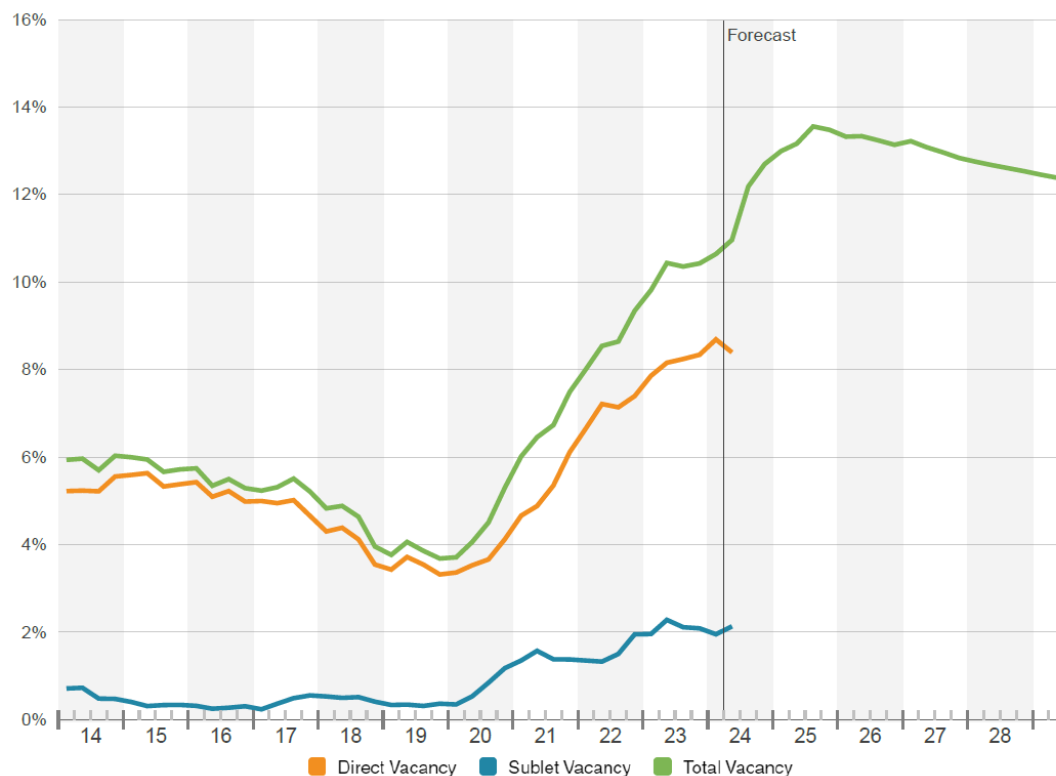
Phase two is ongoing and includes office space needs projections, office conversion analysis, development of policy and program options, and public and stakeholder engagement, and will result in a final report summarizing the findings and analysis of the study. While the final report is not yet available, preliminary study findings are summarized below.

Office Market Context

A review of available market metrics from CoStar Group Inc. provides a snapshot of current office sector conditions and insight on near-term trends. At a city-wide level, vacancy rates have increased from a low of 3.7% in 2019 prior to the COVID-19 pandemic to 10.5% by Q2 2024. These figures reflect the totality of Toronto's office inventory (17,650,000 m²) including owner-occupied buildings. CoStar projects vacancy rates will reach close to 14% in 2025 before stabilizing (see Figure 1 – City-Wide Vacancy Rate). Toronto's availability rate, a measure of vacancy that includes space that will become available in the future, is currently at 16.0%, up from 6.0% in 2019. Vacancy and availability rates vary by location, building class, and age of construction. In general, newer construction buildings tend to be performing better than older buildings, as are specific geographies located near major transit hubs, such as Union Station.

Office sector jobs, as recorded by the Toronto Employment Survey, had more than fully recovered from the pandemic by 2023. One of the largest factors driving increased vacancies in the Toronto market has been the delivery of 1,055,000 m² of new office space over the past five years. In addition, more efficient internal layouts and the introduction of hybrid work have resulted in a reduced ratio of floor space to worker.

Figure 1: City-Wide Vacancy Rate



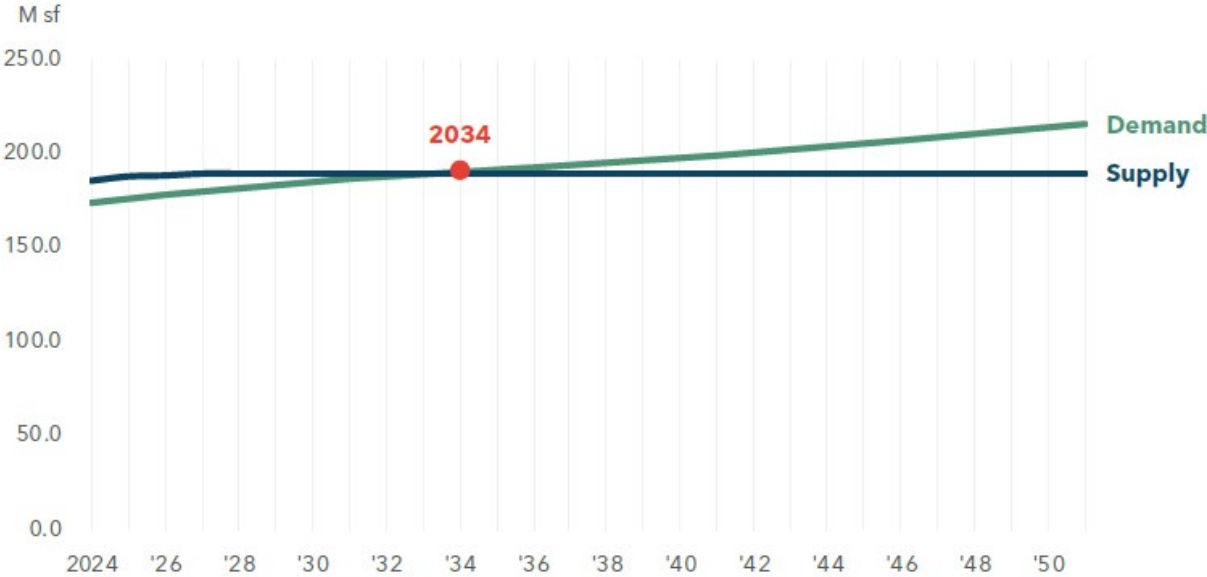
Office Market Projections

Long-range projections for future office needs were developed by the consultant team that outline scenarios for potential floor space uptake. This analysis relies, in part, on the employment projections developed by City Planning for the Lands Needs

Assessment (2023). The consultant team also considered existing vacant space, under construction office buildings, and trends towards increased office space efficiencies.

At a city-wide level, the resulting projections anticipate that it would take until approximately 2034 for sufficient vacant space to be leased to warrant the construction of major new office buildings (see Figure 2 – City-Wide Office Space Supply vs Demand Projection). The projection outcomes are varied in different geographies based on local demand and office supply conditions. As with any long-range projection, the uncertainty around outcomes magnifies with time due to the likelihood of both positive and negative external events.

Figure 2: City-Wide Office Space Supply vs Demand Projection



Source: Parcel based on supply data from CoStar Realty & employment forecasts from the City of Toronto.

Policy Considerations

Through the stakeholder interviews and background research, economic considerations emerged that went beyond the provision of office space. Growing space needs for alternative employment sectors, such as retail, service commercial, cultural and entertainment-based activities, institutional uses, storage and warehousing, and life sciences are impacting diversity and resilience of Toronto’s economy. Supporting the inclusion of these alternative uses, while continuing to pursue the replacement of non-residential GFA, where required, for uses other than office (e.g., retail, hotel, institutional), is an important consideration coming out of the study findings.

In addition, the need to ensure affordable housing was available to meet the needs of Toronto’s labour force is a City priority. Policies that are flexible to current conditions and adaptable to variable market dynamics can help ensure a balanced approach to city building objectives over the long-term.

Case Study Precedent Research

The consultant team reviewed policy approaches implemented in New York City, Boston, London (UK), Ottawa, and Calgary. The policy approaches differed considerably in response to local issues, but generally sought to balance the conversion of office space to market and affordable housing against achieving economic development goals. New York, Boston, and Ottawa implemented financial incentives to enable conversions in specific circumstances. London, New York, and Ottawa all introduced more flexible regulations in managing the supply of office space.

London's conversion initiatives, the longest running of the case studies, illustrate both the benefits and negatives. While new housing units were created through conversion, many of these units were of sub-standard quality. At the same time, the loss of office space has been attributed to a significant increase in office rents and potential job losses. In response, London introduced a recent strategy to encourage people to return to offices and promote more vibrancy of the financial core.

Financial Feasibility Analysis

To ensure the policy options being advanced were both viable and achieved city building objectives, the consultant team completed a financial feasibility analysis. This analysis modelled the feasibility of a stand-alone office building and typical conversion prototypes: conversion within the existing envelope, overbuilding the existing structure, and demolition and redevelopment. Each prototype was modelled in several different geographies and took into consideration the existing replacement policy as well as more flexible variations. The models were informed by stakeholder interviews and secondary research sources, and relied on the following parameters:

- Development timing based on historical patterns and other market research insights.
- Revenue assumptions based on our findings in the background market conditions research/assessment above (i.e., sales / rental rates, etc.).
- Hard construction costs based on industry standards cost ratios, including articulation of any additional cost premiums (or discounts) associated with various elements to be tested in this analysis.
- Soft costs based on a detailed calculation of the appropriate municipal charges and fees, as well as industry standards assumptions (e.g., architectural and engineering fees as a percentage of hard costs, financing, etc.).
- Operating costs based on industry standard ratios for rental housing and other managed commercial real estate, where applicable.
- Profit / return expectations based on industry standards and/or the needs of the municipality, as appropriate.

Key Preliminary Findings

Not all office buildings are viable conversion projects, whether due to financial constraints, existing design limitations, or other external factors impacting specific sites. While recognizing these limitations, financial feasibility is an important tool for helping to ground policy options to current and anticipated future development conditions. The financial analysis indicates that for areas with in-force 100% replacement policies, reducing this requirement to 25% and enabling the provision of alternative uses such as

affordable housing or other non-residential uses would meet city building objectives in light of existing and projected office demand.

PUBLIC AND STAKEHODLER ENGAGEMENT

Overview

Public and stakeholder engagement was held between December 2023 and May 2024. Research interviews were held to solicit direct feedback from local property and asset managers, the development community and other groups involved in the commercial real estate sector, and members of the public were invited to provide feedback and submit their comments on the preliminary findings of the office study and proposed policy options by attending a virtual public consultation meeting held on May 15, 2024.

Stakeholder Interviews and Meetings

The consultant team and City staff conducted approximately 30 interviews with office developers, industry stakeholders and Business Improvement Areas. These interviews provided information on emerging trends not yet visible in available data, as well as insights on the real estate and office space-related decisions that stakeholders are making which could impact future market conditions. A full summary of the key themes can be found in the Background Report, Attachment 2 to this report, and is oriented around market dynamics, practicalities of office conversions, and potential policy approaches that respond to current conditions. Staff hosted a follow-up Stakeholder Consultation Meeting with relevant stakeholders on May 14, 2024 to present the preliminary findings of the study and policy options.

The following is a summary of stakeholder feedback:

- Core office markets (i.e., hubs, the downtown etc.) will return and less desirable spaces are likely to be eliminated.
- COVID-19 accelerated hybrid work adoption but its future is unknown.
- Transit connectivity is a key factor in determining office demand, office space in accessible locations is leasing across all office classes.
- There is no reason or incentive to increase the supply of commercial space in Toronto under existing market conditions.
- The potential for alternate uses is informed by viability of existing office uses versus other uses, economic output drives decisions.
- The City should let the market determine office supply.
- Existing policies related to office replacement should be reconsidered given the current office vacancy rates.
- Timeframes on policy enables flexibility when it is needed. This is a better approach than a hard shift in policy.
- Concerns on the potential implications from office vacancies and conversions on the City's property tax base.
- There is a need to maintain a balance of office in the downtown to support retail and other uses.

- Residential conversions can add population to support the retail market.
- Need to balance the lack of office needs versus extreme housing needs. Sectors such as Health Science and Institutions have issues with employee housing.
- Development cost in Toronto is substantial, making development of almost any kind infeasible.
- Affordable housing requirements challenge many projects financially.
- Workplaces have changed: focus is on flexibility, amenities, collaboration and worker experience.

Community Meeting

Comments received at the Community Consultation Meeting held on May 15, 2024 and through email included:

- Office conversions have the potential to deliver complete communities.
- Conversions provide opportunities to support affordable housing and shelter space, long term care or co-op housing.
- Consider communal living opportunities given the office building layout.
- Concerns about adding friction within the development process by including affordable housing requirements.
- Conversions should be incentivized through long term tax abatements that have proven successful in other cities.
- The City needs to consider the conversion issue urgently. Vacancies are high and expected to increase in the coming years.
- Need to expedite timelines for approvals to facilitate conversions or create a new process for conversions.
- Potential to customize office conversion policies for different geographies.
- Potential to include institutional uses such as schools in vacant office space.
- Residential approvals should be considered through a minor variance application rather than rezoning.
- Wide floorplates are a challenge to convert. Requirement for water balance or outdoor amenity space are difficult to comply on a conversion.
- City staff reviewing conversions need to have a flexible approach to approving office to residential conversions.

COMMENTS

Objectives Informing the Proposed Policy Directions

Based on the consultant Background Report, Office Study preliminary findings and stakeholder and public engagement, staff will apply the proposed policy directions as part of focused stakeholder engagement. See Attachment 1 – Proposed Policy Directions.

Objective 1: Balance

- A key objective of the Official Plan is to nurture and expand Toronto's economy including by stimulating transit-oriented office growth. Physical space provides the opportunity for all types of non-residential and employment growth. At the same time, the City has identified all kinds of housing as a key city building objective which is required in the short and long-term. Any change to existing office replacement policies must balance the need for new housing, including affordable housing, with the need to grow employment space within complete communities.

Objective 2: Duration

- While the office market has softened in the short-term, demand for office space is projected to return starting in 2034. If conversion of office to residential were permitted based on market demand alone, there is a risk that the City would lose too much office space to residential development. Staff would recommend a policy framework and approach that staff and Council can revisit as market conditions and City priorities change.

Objective 3: Extent

- Preliminary Study findings show that current and projected office demand varies significantly between different geographies. The Office Study assessed sub-geographies throughout the City with a focus on those corresponding to the geographies subject to Official Plan policy 3.5.1.9, the Downtown Plan and Yonge-Eglinton Secondary Plan.

Objective 4: Achieving City-building Objectives

- Any reassessment or reduction of office replacement requirements should include the consideration of achieving of increased housing supply and particularly affordable and supportive housing.

Objective 5: Feasibility

- Prior to recommending policy amendments, staff should apply feasibility as a lens for achieving short and long-term goals related to employment opportunities and housing.

Planning Rationale

A key objective of the Official Plan is to nurture and expand Toronto's economy including by stimulating transit-oriented office growth. With almost half a million new jobs expected by 2051, it is important to identify where those jobs will be located. Council adopted office replacement policies are generally intended to protect opportunities for non-residential growth and ensure that future employment space is located in proximity to transit.

Newly adopted Chapter 1 of the Official Plan recognizes the critical importance of housing accessibility and affordability and identifies addressing housing demand, as one of the key priorities for the City.

With low office demand and high vacancy rates, staff are of the opinion that a temporary reduction in the City's overall supply of office space will not have a detrimental effect on the City's economy in the short term. In the medium-term, staff anticipate that office demand will return.

In order to limit long-term loss of office space, staff propose putting a time limit of four (4) years on any revised policy so that the policy may revert to the original 100% replacement requirement (or any other amount) at that point without the need to bring forward a new Official Plan Amendment.

Staff are examining ways in which the office replacement policies could be made more flexible and achieve a wider set of objectives. Current office replacement policies in Chapter 3 and the Yonge-Eglinton Secondary Plan require removed/demolished office space to be replaced like-for-like with new office space. The Downtown Plan contains policies that require all non-residential uses, including office space, to be replaced with new non-residential space but leaves flexibility on the type of non-residential use.

The proposed policy directions include the flexibility to convert office space into any non-residential use or affordable or supportive housing. Alternative non-residential uses may include office, community, institutional, retail, hotel, compatible employment uses and more. Staff heard many ideas from residents and stakeholders about converting office space to alternative uses such as vertical agriculture or manufacturing, institutional uses, co-living facilities and more. The proposed policy directions would provide the flexibility to allow for a broad range of alternative uses. This modification of the in-force replacement policies would only apply to office space. Properties containing other non-residential uses, such as hotels and institutional uses, would still be subject to the existing policy where applicable.

Based on the feasibility analysis conducted through the Office Study, approximately 25% of existing office space may be replaced with alternative uses to continue to meet other city building objectives. Reducing the 100% office replacement requirement to a minimum of 25% incentivizes redevelopment while achieving new opportunities for affordable housing or new non-residential space as part of replacement.

Finally, staff note that the Official Plan including Chapter 3, the Downtown Plan and Yonge-Eglinton Secondary Plan, contains numerous policies encouraging and supporting office development around transit and in priority locations. Office replacement is one policy tool and the proposed policy directions are not intended to signal that there are no instances where office uses may be a priority. Development proceeds on a site-by-site basis and the entirety of the Official Plan must be taken into consideration when making a decision on the replacement or non-replacement of office space.

The proposed policy directions support complete communities and the efficient use of land in proximity to transit. The proposals for policy direction are consistent with the

PPS 2020 and does not conflict with the Growth Plan (2020) or the other policies of the Official Plan.

While the City's goal is to support the office sector through facilitating and enabling continued office development throughout the City, in the short-term, a reduced requirement to replace existing office is warranted in specific locations. The proposed policy directions would require City Planning and Economic Development and Culture staff to closely monitor changing real estate market dynamics. As necessary, staff will report to Council with policy changes that are responsive to varying local contexts across Toronto, as in some instances requiring a replacement percentage higher than 25% and up to 50% may be more appropriate and a prudent approach to protect employment uses.

Non-Policy Next Steps

Staff have direction to continue considering non-policy options including incentives for both alternative non-residential uses and affordable housing.

As part of the ongoing work to bring forward a new Community Improvement Plan resulting from the review of the Imagination, Manufacturing, Innovation and Technology (IMIT) Program, City Planning and EDC staff are exploring financial incentives to support the conversion of vacant office space to other non-residential employment uses.

Preliminary analysis shows that while there may be demand for other non-residential uses, it may be costly to convert vacant office space to suit the needs of other uses. An incentive program may help with the cost of adapting or building new space.

In November 2023, City Council increased the HousingTO 2020-2030 Action Plan targets to 65,000 rental homes, including affordable rental, rent-geared-to-income and rent-controlled homes. In June 2024, Council approved a new Rental Housing Supply Program to update the Open Door Affordable Rental Housing Program. The program will continue to support affordable housing construction by providing City financial contributions, including capital funding, and development charges, planning fees and property tax relief. City Planning staff will continue to engage with the Housing Secretariat to enable affordable housing within office to residential conversions. The Council decision regarding the new Rental Housing Supply Program can be found here: [Agenda Item History - 2024.PH13.8 \(toronto.ca\)](#).

CONCLUSION

The COVID-19 pandemic accelerated trends in work and economic conditions which has led to increasing office vacancies amid Toronto's ongoing housing crisis. The proposed policy directions are intended to balance the need for new housing, including affordable housing, with Toronto's long-term employment growth and the creation of transit-supported complete communities.

City Planning and Economic Development and Culture staff are of the opinion that the proposed policy direction to provide greater flexibility for required office replacement generally balances employment and residential city-building objectives.

With Committee's endorsement of the draft policy direction, staff will finalize the Office Space Needs Study, continue to refine policy direction and report back with policy recommendations in September or October 2024.

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SIGNATURE

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ATTACHMENTS

Attachment 1: Proposed Policy Directions
Attachment 2: Office Space Needs Study Parcel's Background Report