Office Space Needs Study

Background Report (Accessible Version)

March 5, 2024

Parcel

gladki planning associates

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Cover Image: CoStar Realty Information Inc.

Table of Contents

Table of Figures

Acknowledgements

Project Consulting Team

The project consulting team responsible for completing this study included a range of industry-leading professionals offering expertise spanning the full breadth of land economics, land use planning and municipal strategy / policy implementation. Parcel Economics Inc. ("Parcel") has served as the project lead for this study, with additional project support provided by Gladki Planning Associates ("Gladki", "GPA").

City of Toronto Project Team

Our study process has involved extensive collaboration with staff from the City of Toronto. Consisting of a core working group from the City Planning and Economic Development and Culture Divisions, these additional personnel continue to provide input, advice and direction through the entire study process on matters primarily relating to land use policy, municipal strategies and engagement with local stakeholders.

Other Participants

Our detailed research program and "ground-testing" of study recommendations has also involved engaging with a range of stakeholders, including external industry participants active in the development—or use—of commercial real estate in Toronto and beyond. This involved soliciting feedback form a diverse group of developers, asset managers, businesses / employers, industry groups and other individuals familiar with the delivery—and management—of office commercial uses, as well as stakeholders with experience in office conversions.

Executive Summary

Background

Context

- As a function of recent industry trends—and the fundamental shift that has occurred across the globe since the outset of the COVID-19 pandemic in 2019—the ways in which local businesses and their employees are using office spaces has changed materially.

- Further compounding these issues, new real estate developments of all kinds—including both standalone office and other contemporary residential / mixed-use projects—have become increasingly challenged by rising interest rates, heightened construction costs and evolving municipal / provincial policy contexts.

Purpose

- In response to these challenges, Parcel Economics Inc. ("**Parcel**")—in cooperation with project partners Gladki Planning Associates ("**GPA**")—has been retained by the City of Toronto to review office space needs across the City through validation of current and anticipated future market conditions, as well as to gain an improved understanding of potential policy directions that could help yield the ideal type and scale of commercial/employment uses in preferred locations.

- To this end, our role for this study will be to provide additional research, analysis and strategic insight from a **market and economic perspective**, as well as in the context of establishing an **appropriate land use policy framework** that has regard for key objectives of the City.

- The results of this study are specifically focused on informing future changes to the City's Official Plan, Zoning By-laws and Economic Development / Culture programs, in due course.

Scope

- An extensive and detailed research program has been undertaken as part of this first phase of work for the study, comprising a number of distinct components **focused on evaluating past and present conditions** in Toronto.
- The next phase of work is intended to be **more "forward-looking" in nature**, as outlined as part of the "Next Steps" identified herein.

Preliminary Findings

Softening of the Market

The office market in Toronto has undoubtedly softened and even key employment centres have been hit by continued changes in the wake of the COVID-19 pandemic. This includes heightened vacancies, increased available space and poor absorption, among other relevant performance indicators.

Signs of Resilience

Higher-quality, well located office spaces continue to fare well and remain favourable in periods of reduced demand such as this. This highlights the resilience of Toronto's Financial Core and broader Downtown, including its continued role as the City's key employment centre and hub of office activity.

Uncertainty in Future Supply

An abundance of active and longer-term pipeline office developments are proposed to enter the market, to the extent that future supply could already be exceeding established forecasts (**if built, as currently proposed**).

Not All Office Space is Equal

Significant differentiation in the market for office uses has been observed across all key reporting metrics, including as a function of location, class of space, age of buildings, and industry positioning / tenanting, among other factors. This distinction continues to emphasize a need to maintain and enhance the supply of Class A space in Toronto and potentially re-evaluate future prospects for Class B and C level spaces.

Downtown Focus

While recognizing the important equity outcomes of jobs distributed broadly across the City of Toronto, preliminary findings reinforce the continued strength of the Toronto East York District—and more specifically the Downtown and Financial District. This dynamic has increased in recent years as tenants have sought and relocated to higher quality spaces in more accessible locations of Toronto. Due to a variety of factors, including proximity to regional transit, office uses in Toronto's Downtown provide the city with a nationally significant economic advantage. Opportunities associated with this strategic advantage should be embraced and leveraged by the municipality.

Multi-Faceted Approach

It is challenging to consider office uses in isolation from other macroeconomic factors and municipal strategic objectives, which inherently go "hand-in-hand" with other facets of healthy community building. This includes equal consideration of the ongoing housing crisis and a need for an expansion in the supply of local residential uses.

Next Steps

- Relying on research collected to date and summarized as part of this preliminary reporting, subsequent phases of the study will be focused on:
  - Preparing a **comprehensive needs assessment** that considers both the short-term and anticipated longer-term market demand for various classes / locations / formats of office space across the City;
  - Consideration for the **economics of new real estate developments**, including nuances across a range of development types and building typologies; and,
  - Developing **policy directions and recommendations** that effectively balance a range of municipal strategic priorities, including—but not necessarily limited to—ensuring an adequate supply of office space to meet future needs long-term, as well as to ultimately protect the City's role as a major centre for economic activity on a global scale.

The results of this ongoing analysis and research will also continue to be communicated to key stakeholders, including parties already engaged through preliminary phases of work, among other local business interests and the public at large.

1.0 Introduction

1.1 Background

Context

Prior to the COVID-19 pandemic, Toronto was experiencing extremely tight office market conditions, including record low vacancy rates and a rapid expansion in the supply of new Class A/AAA office spaces. With a primary focus on the Financial Core and broader Downtown area, this represented an unprecedented level of growth that exceeded established long-range employment forecasts for the municipality. This was particularly remarkable given that it immediately followed an extended period of relatively limited supply expansion for many years amidst a significant "condo boom" leading up to that point in time.

In light of more recent industry trends—and the fundamental shift that has occurred across the globe since the outset of the pandemic in 2019—the ways in which local businesses and their employees are using office spaces has changed materially.

For example, growing expectations around **work-from-home flexibility**, the continued popularity of **co-working** spaces, efficiency-driven **office space per worker compression** and a range of other factors have all led to a discernable decline in office demand. The ripple effect of these changes has involved a significant increase in vacant / available space across the City, even in what have historically served as the municipality's strongest and most steadfast submarkets.

Further compounding these issues, new real estate developments of all kinds—including both standalone office and contemporary mixed-use projects—have been increasingly challenged by rising interest rates, heightened construction costs and evolving municipal / provincial policy contexts. In the midst of a housing crisis, this continues to bring about new discussions around municipal priorities and what existing real estate portfolios and/or new-build developments should be used for.

Purpose

This study serves as a timely research exercise focused on: (i) re-evaluating **current and longer-term office space needs** in Toronto; and (ii) effectively **prioritizing and balancing supply requirements** across both residential and non-residential use types moving forward.

Given the context above, the City has retained Parcel Economics Inc. ("**Parcel**")—in collaboration with project partners Gladki Planning Associates ("**GPA**")—to review office space needs across the City through validation of current and anticipated future market conditions, as well as to gain an improved understanding of potential policy directions that could help yield the ideal type and scale of commercial/employment uses in preferred locations.

With this context in mind, the primary purpose of this study is to satisfy the following objectives:

- To analyze and project **office market demand** across various commercial property classes and distinct sub-areas of Toronto;
- Explore the underlying rationale / business case, benefits and potential adverse implications of **office space conversions** (to both residential and other non-residential uses); and,
- To develop **policy directions and recommendations** that effectively balance a range of municipal strategic priorities, including—but not necessarily limited to—ensuring an adequate supply of office space to meet future needs long-term, as well as to ultimately protect the City's role as a major centre for economic activity on a global scale.

The results of this study are specifically focused on informing future changes to the City's Official Plan, Zoning By-laws and Economic Development / Culture programs.

1.2 Scope

A comprehensive approach is necessary to arrive at reliable recommendations that provide the City with the information required to optimize the provision of office space in a manner that is **implementable, both from a market opportunity and financial viability perspective**.

To arrive at the preferred outcomes identified, our project team is actively considering a variety of factors, including the following methods ("tools") to satisfy the underlying objectives of this study:

- Evaluate / re-evaluate **relevant municipal data, reporting and established forecasts**;
- Review the implications of an **evolving land use policy context** at both the municipal and provincial levels;
- Review the market conditions and policy directions established in **other major municipalities across Canada / North America** facing similar challenges;
- Establish an updated "baseline" profile of the **current inventory and overall health / performance of office-based commercial real estate** across the City;
- Identify recent **macroeconomic trends and other business factors** influencing office uses;
- Compare the **actual and intended function of key local office nodes from a commercial market perspective**, including their relationship with and/or competitive positioning relative to other communities;
- Establish the City's **office development capacity** in terms of potential future space delivery;
- Prepare a **comprehensive needs assessment** that considers both the short-term and anticipated longer-term market demand for various classes / locations of office space across the City;
- Consider the **economics of new real estate developments**, including nuances across a range of development types / building typologies; and,
- Feedback from **local stakeholders**.

1.3 Study Parameters

Key Geographies

Given the City-wide purview and multi-faceted nature of this study, it has been important to consider unique market conditions prevailing across a range of different locations and development contexts. This geographic nuance has been captured by clearly differentiating between traditional, industry-based real estate submarket delineations (i.e., **private sector focused**) and more policy-based or political delineations and boundaries established by local governments (i.e., **public sector focused**). In our experience, except for the "prestige" that can often be associated with a specific municipal address, market-based activities are largely agnostic to pre-defined geographies predicated on land use policies alone.

Notwithstanding the foregoing dynamic, we have focused the bulk of our market research for this study on the following key geographies for consistency with the City's existing planning framework and parallel policy initiatives. Each of these geographies has also been illustrated below, in Figure 1.1:

The City as a Whole

We have considered data for the entire City of Toronto with the purpose of establishing community-wide averages and demand / supply characteristics as our main "top-down" benchmark. This has also been helpful for setting context when addressing more area-specific trends and potential future policy directions.

The "Districts"

The Districts of Toronto & East York, Etobicoke-York, North York and Scarborough have all represented convenient and logical sub-municipal geographies for consideration to capture the nuances across broader areas of the City. This has been especially true for more suburban market contexts.

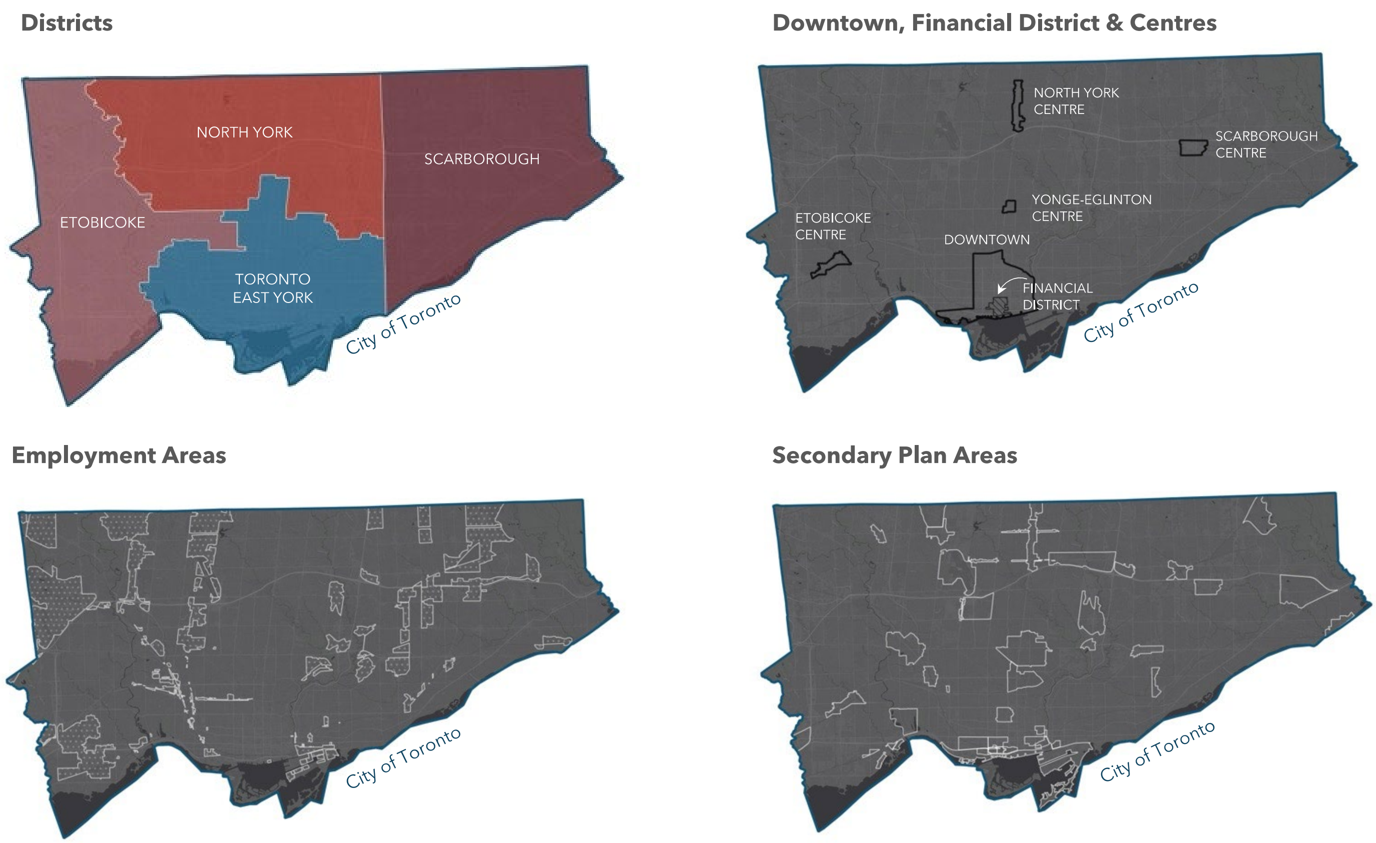
The Downtown (& Financial Core)

As the focal point for a vast majority of the City's current and anticipated future office activities, we have addressed the unique conditions within the Downtown and Financial Core (per Official Plan delineations).

The "Centres" (& Other Areas of Interest)

In conjunction with our consideration of District-wide averages, we have further evaluated a number of other sub-municipal areas of interest, including the City's identified "Centres" (Eglinton, North York, Etobicoke and Scarborough), in addition to selected other Secondary Plan Areas (ConsumersNext, etc.).

Figure 1.1 Toronto's Planning Framework & Policy Initiatives Coincide with Key Geographies



Source: Parcel.

Key Reporting Elements

We have identified four key reporting elements that are expected to have the most fundamental impact on the future office commercial landscape of Toronto.

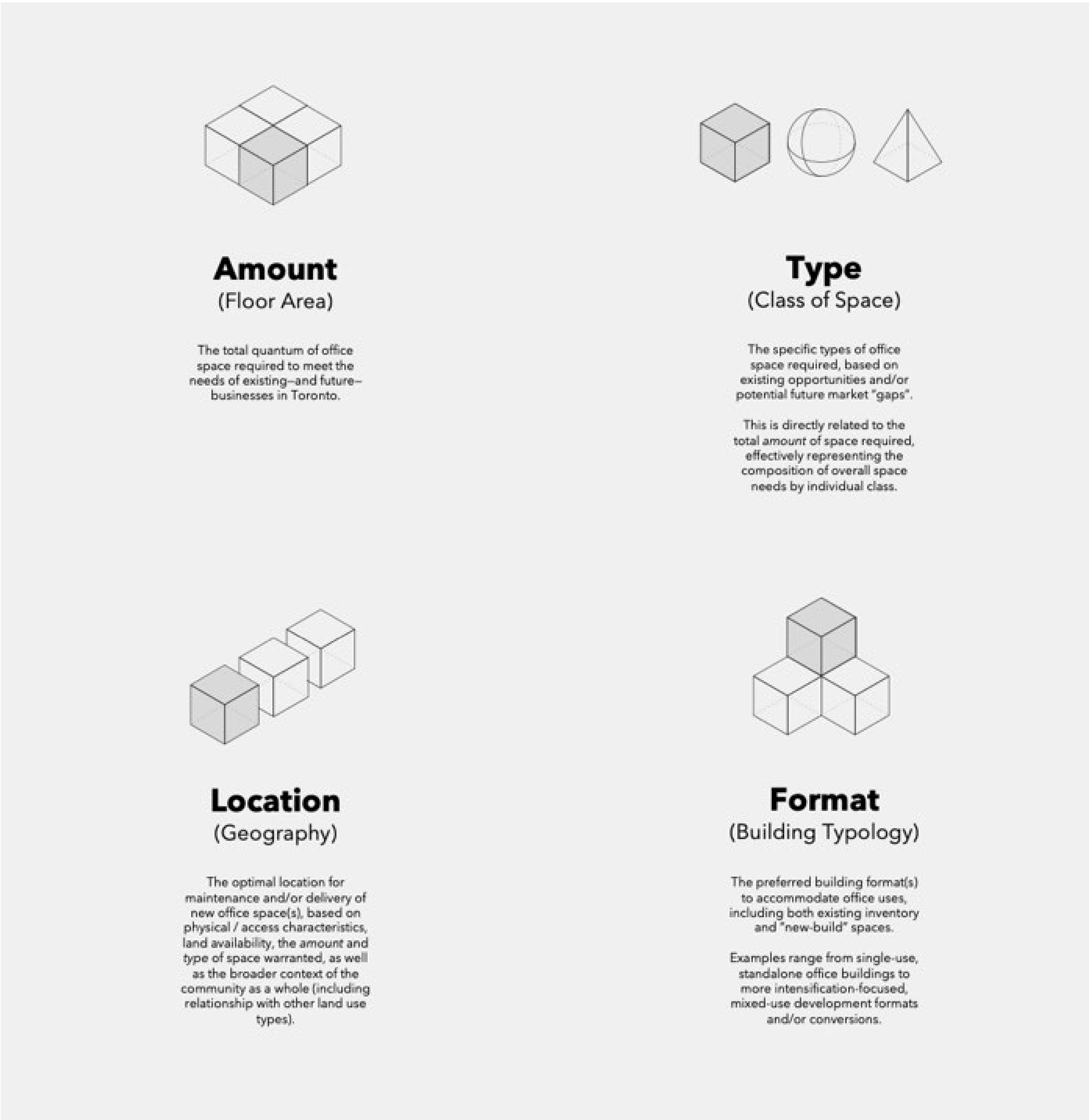
As detailed in Figure 1.2, this has involved specific consideration for the **Amount**, **Type**, **Location** and **Format** of office uses to be maintained and developed over the longer-term planning horizon as the market continues to shift and respond to recent macroeconomic changes. These are intended to frame the primary "takeaways" from our work, as well to establish specific areas of consistency across both the market-based and policy-based recommendations established via the relatively broad range of research and analyses undertaken for this study.

It is also important to note at the outset of this reporting that each of these key reporting elements are:

- Largely inter-related / inter-dependent;
- Subject to constant change as market conditions evolve;
- Some of these elements are reasonably flexible and "fluid" (e.g., it can be relatively easy for business types to change as tenants come and go within existing or potential new commercial spaces), whereas others can be much more "sticky" and/or slow to evolve (e.g., factors tied to physical building locations, footprints, and formats).

As such, it is important to consider the results of this type of study with a healthy understanding of the **underlying opportunities, consequences and trade-offs associated with each of these distinct elements.** This includes consideration for which elements are necessary to prioritize to "get it right" rather than potentially adopting a more flexible or responsive approach capable of adapting over time with the dynamics of urban development patterns.

Figure 1.2 Key Reporting Elements: Amount, Type, Location & Format of Office Space



Source: Parcel.

A Closer Look: Type (Class) of Office Space

In conjunction with the broader subset of key reporting elements established in Figure 1.2, it is also important to consider more specifically the impact of varying qualities of office buildings and/or spaces on future market activity. Although there is some undeniable subjectivity involved with different classification systems, there is a general cascade in the segmentation of “high”, “average” and “low” quality offices corresponding with Class A, Class B and Class C, respectively.

In the Toronto context, most Class A to AAA office spaces are associated with: (i) premium and iconic buildings centrally located in the Financial Core with immediate access to a mix of higher-order transit infrastructure (e.g., subway plus commuter / regional rail via direct connections to the PATH network, etc.); and/or, (ii) more recent office space deliveries with a focus on high-quality fit-outs / amenities and technologically-advanced building construction.

The Importance of “Class”: Defining Different Types of Office Space

Class A (AAA)

The most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high quality finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

Class B

Buildings competing for a wide range of users with rents in the average range for the area.

Building finishes are fair to good for the area and systems are adequate, but the building does not compete with Class A at the same price.

Class C

Buildings competing for tenants requiring basic, functional space at rents below the average for the area.

Source: Parcel, based on definitions provided by BOMA (Building Owners and Managers Association) International.

1.4 Assumptions & Limitations

When completing this type of early-stage market assessment, it is important to identify the key assumptions and limitations inherent to our approach. Consistent with other similar analyses for City-wide development planning and policy-based efforts, we note that the demand forecasts and other economic research presented herein should not necessarily be taken as conclusive nor definitive evidence of the market opportunity available to—nor the financial feasibility of developing—individual office spaces across Toronto.

Rather, **our research is intended to provide a more general and preliminary understanding of the likely opportunities available over the longer-term planning horizon**, based on the assumptions provided. To this end, the following provides a summary of the key assumptions that must be understood as limitations to the analysis undertaken as part of this assignment.

Analytical Structure & Approach

- The findings presented in this report do not account for the unique financial expectations, strategic positioning and/or other individual preferences of existing or new businesses, nor the current / future owners of commercial properties and development sites in Toronto. As such, although our research may indicate a positive preliminary finding as it relates to commercial viability and/or development opportunity, it does not necessarily assert that these observations will ultimately be consistent with the perspectives (and/or parallel analyses) of individual commercial business / prospective tenants or developers.

- Further to above, we note that the recommendations and directions emerging from this study will be provided in the context of broader objectives across the City and specific areas of the municipality that seek to achieve an appropriate balance between yielding both economic and social value. As such, our assessment is not intended to focus exclusively on maximizing profitability and/or optimizing returns on investment, but rather balancing out a more complete range of municipal strategic objectives and priorities.

Other Assumptions

- It is assumed that a reasonable degree of economic stability will prevail in the Province of Ontario, and specifically in the context of the City of Toronto, over the course of the development planning horizon identified in this study.

- It is important to recognize that the lingering effects of the COVID-19 pandemic will continue to result in uncertainty as it relates to current and potential future market conditions; particularly within the office sector. To the extent possible, reasonable assumptions and a conservative approach have been applied to reflect this uncertainty.

- The statistical inputs relied upon in our analysis are considered sufficiently accurate for the purposes of this analysis. These statistical sources—including available Statistics Canada Census data, municipal information and third-party real estate information—have ultimately informed a number of the key underlying assumptions and inputs to be utilized in our assessment of the performance of commercial real estate in Toronto.

In the event that material changes occur that could influence the foregoing assumptions, the various analytical assumptions, key research findings and other strategic recommendations contained in this report should be reviewed or updated by Parcel, accordingly.

2.0 Market Context

Key Findings

- Downtown Toronto is the most significant office node in the City. Relative to other areas, Downtown also contains a disproportionately high amount of Class A space.
- Heightened vacancy and availability is most pronounced across older, lower-quality office buildings that are located outside of core areas of Toronto.
- Toronto's core has generally exhibited resilience throughout COVID-19. That said, amidst reduced demand and heightened competition it is difficult for landlords to increase the rents they can charge tenants.
- In Toronto, there is some 8.8 million square feet of office space under construction and 59.4 million square feet proposed in the pipeline.
- Office conversions can vary significantly in their overall complexity and costs, with a spectrum of distinct typologies identified for consideration as part of future phases of this study.
- Employees, industry professionals and developers provided a range of opinions on the future of the Toronto office market, including factors that will more immediately guide demand over the short to medium term.
- Insights were also provided on mechanisms that could be used to maintain the vibrancy of the city, including: (a) how the city can best approach conversions; and (b) policies or incentives that can be used to drive a better balance of quality office space with other non-residential uses and housing.

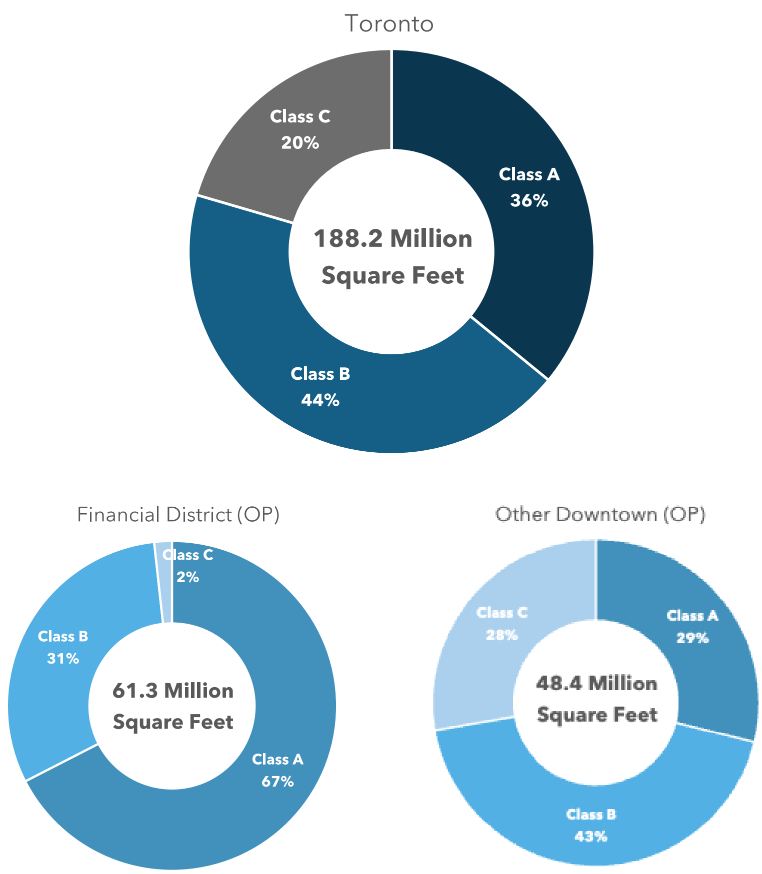
2.1 Performance of Existing Office Space

Inventory

Downtown Toronto—contains the largest share of office space across the City of Toronto.

Approximately 60% of Toronto's office space is in Downtown Toronto, 33% of which is in the Financial District.

Figure 2.1 The Majority (58%) of Toronto's Office Space is Located Downtown

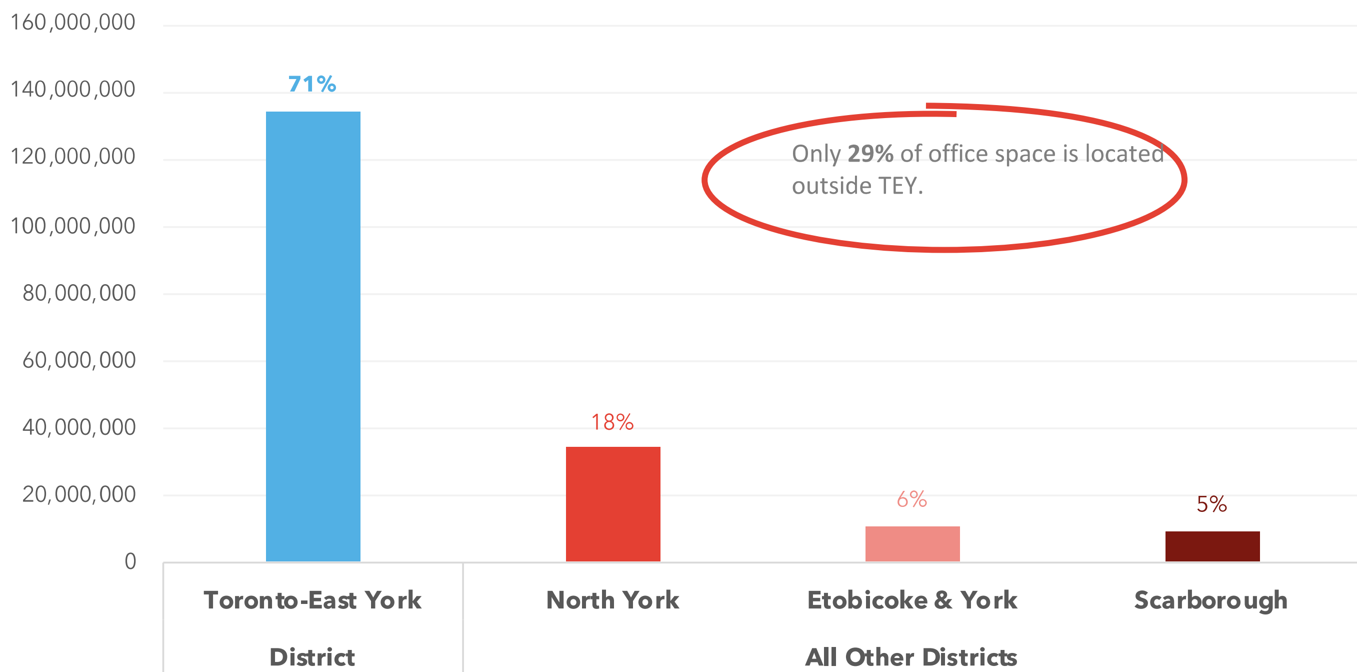


Source: Parcel with CoStar Realty data. See Figure 1.1 for illustration of key geographies.

Toronto-East York (TEY) hosts 71% of all office space across Toronto, largely due to the volume of space located in Downtown Toronto (83% of space in TEY). Most other office space in TEY is concentrated within three Secondary Plan Areas ("SPA's"), specifically Yonge-Eglinton, Yonge-St. Clair and Garrison Common North, which consume some 10% of office space in TEY.

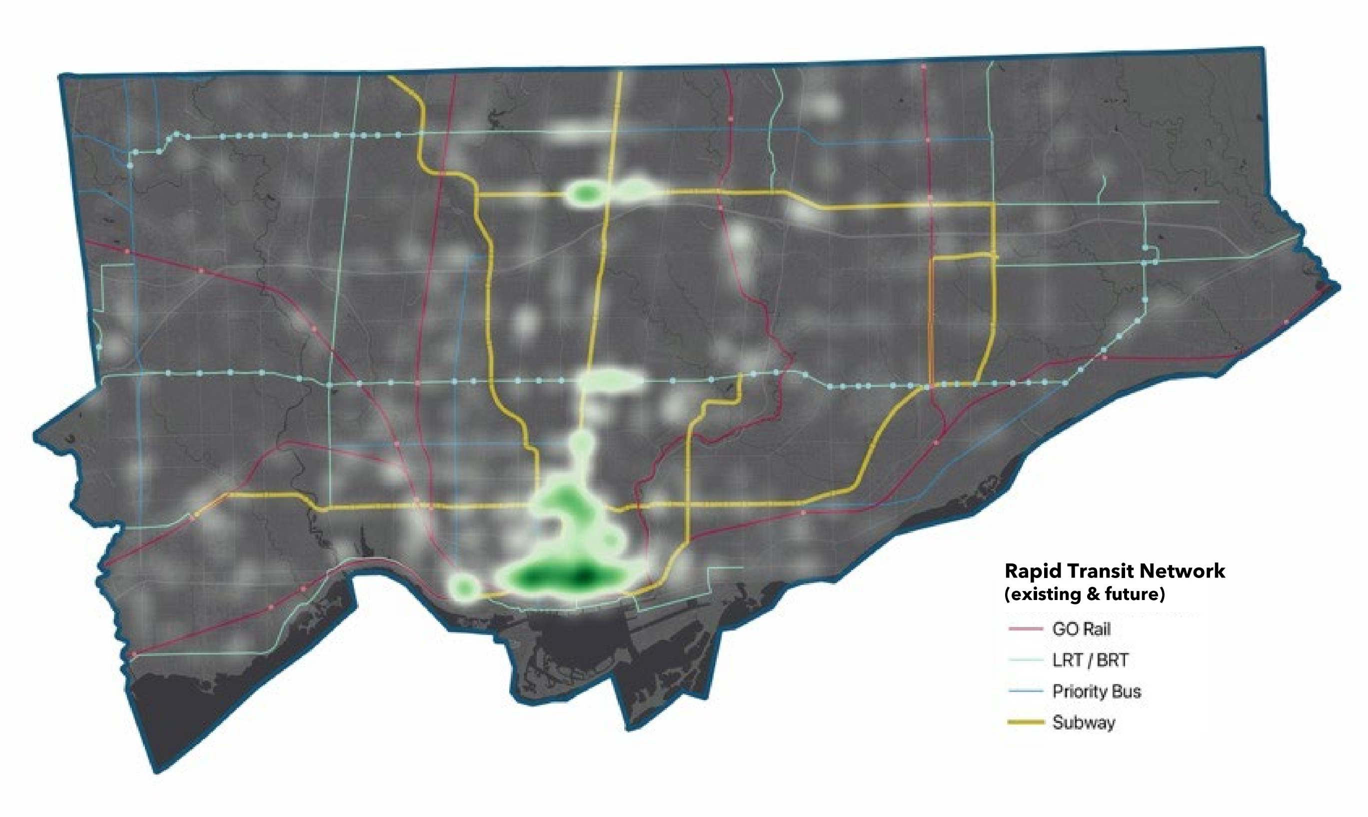
Beyond the TEY District, the North York District contains the most significant concentration of office space, much of which is affiliated with larger buildings located in the North York Centre, the Don Mills Centre and along Sheppard more generally.

Figure 2.2 Toronto-East York Has More Office Space than All Other Districts Collectively



Source: Parcel with CoStar Realty data.

Figure 2.3 Existing Office Space is Concentrated in Downtown Toronto



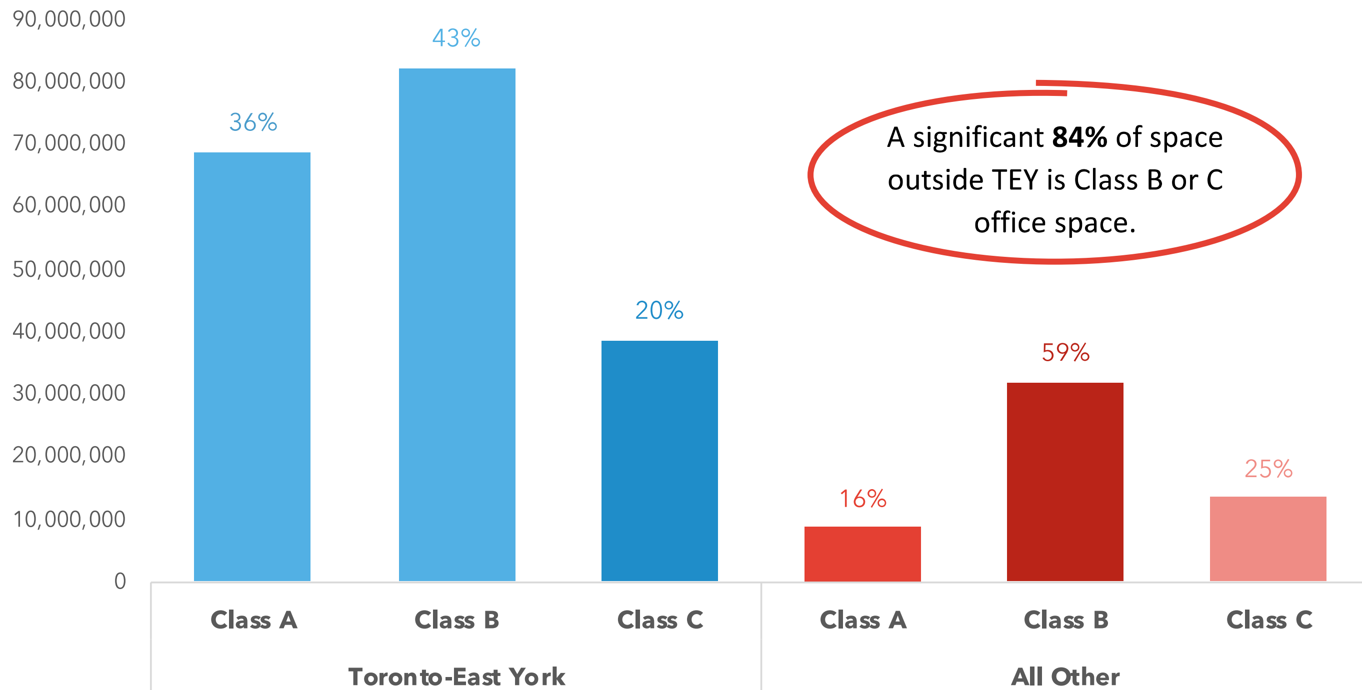
Source: Parcel with CoStar Realty data.

The state of Toronto's office market largely reflects market activity in Toronto East York (specifically the Downtown) due to the significance of space in this area.

TEY contains a disproportionate share of Class A office space when compared to other more suburban office clusters in the region. This is largely tied to the existing composition of space in Downtown Toronto, where **50% of offices are catalogued as Class A**.

Class A space makes up a comparatively small share of space across other Toronto districts with comparably heightened share of Class B and C space. This trend is particularly strong in the **Scarborough District where a notable 96% of space** is classified as Class B or C space.

Figure 2.4 Suburban Office Districts Have a Heightened Share of Class B & C Office Space



Source: Parcel with CoStar Realty data.

Vacancy

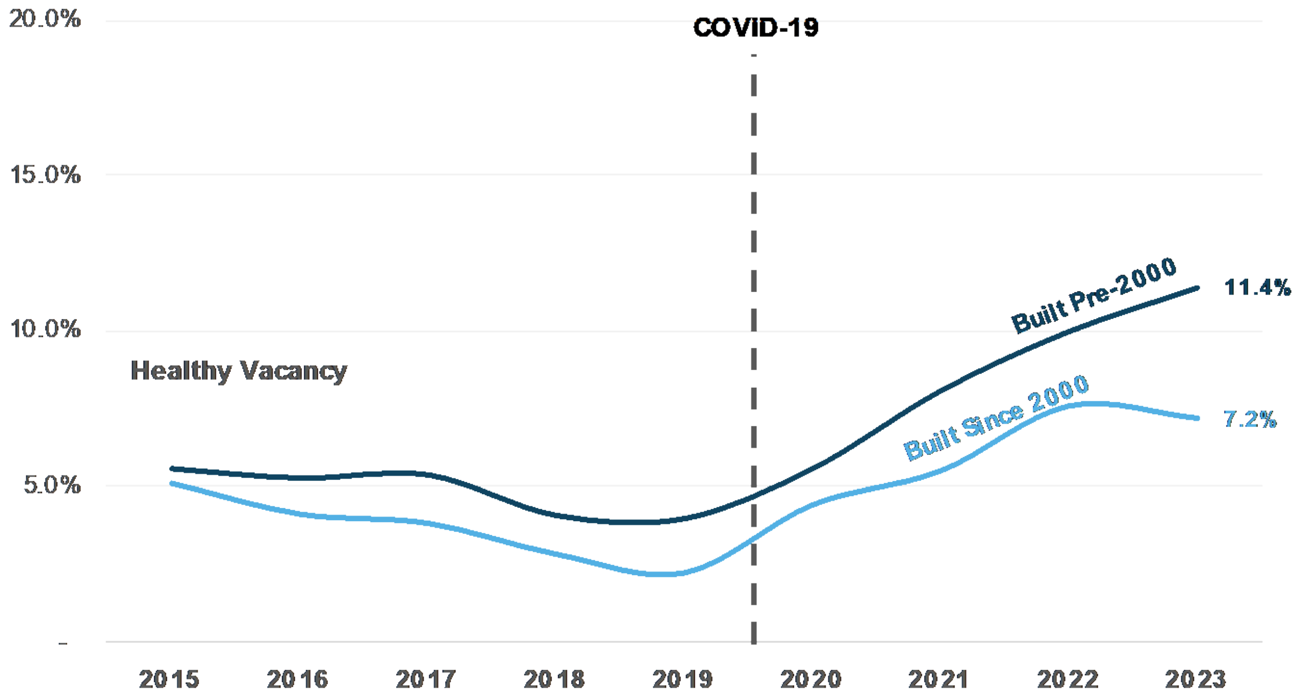
The vacancy of older office buildings in Toronto has consistently been higher than newer office buildings. This gap has also increased in recent years, with vacancy across older office buildings currently tracking 4.3% higher than newer buildings. To demonstrate this nuance, we have compared vacancy trends across buildings built pre-2000 (old), relative to those built post-2000 (new) in Figure 2.5.

Older buildings—which often lack upgraded facilities and high-quality finishes—are at an inherent disadvantage in terms of quality. Prior to the COVID-19 pandemic, their appeal or function was largely to price-sensitive or frugal tenants who would otherwise be priced out of the market.

The COVID-19 Pandemic shifted this dynamic. **Quality office space has become a key driver of demand**, prompting many employers to seek new, higher-end spaces to draw their employees back to the office. This has simultaneously increased the vacancy among older buildings.

As employers look for ways to draw employees back to the office, older buildings are increasingly less desirable.

Figure 2.5 Higher Vacancy is Associated with Older Office Buildings



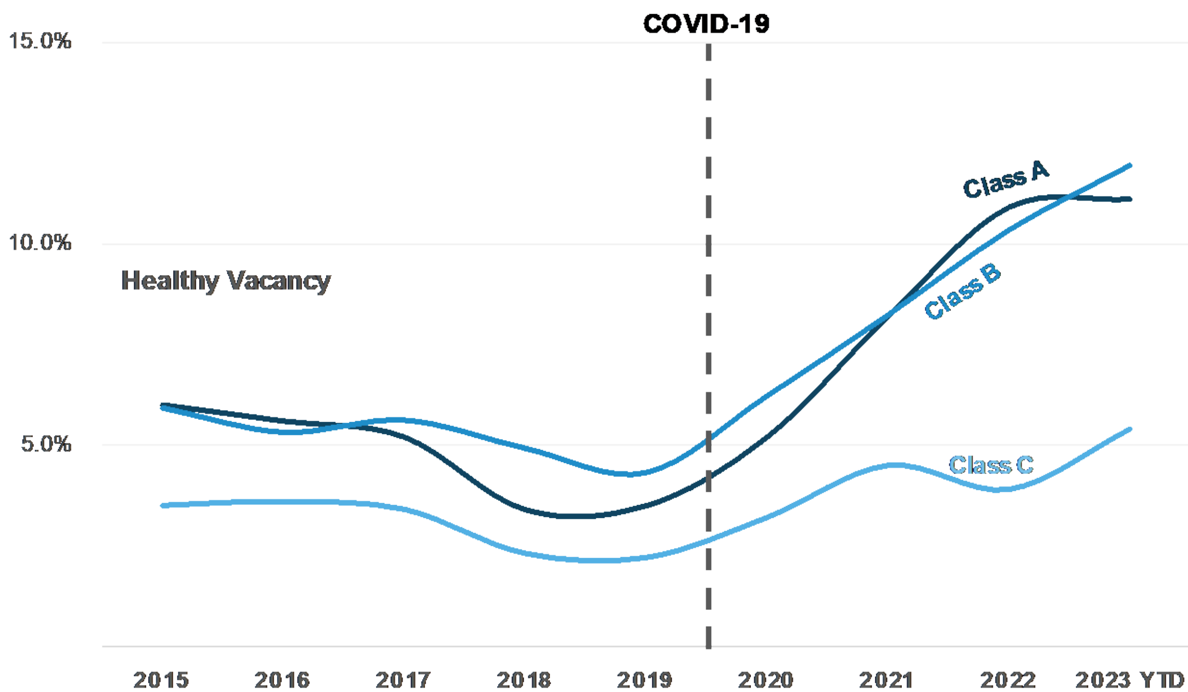
Source: Parcel with CoStar Realty data. Data for 2023 reflects year-to-date data.

An increasing push for quality is also apparent in examining vacancy across different classes of office in Toronto. As shown, the vacancy rate of Class B space has been rising since 2019. While a similar dynamic was apparent across Class A space, it has more recently started to stabilize.

Class C space continues to perform well, with vacancy rates tracking well below Class A and B space. This trend counteracts the shift, or push for, higher quality office space referenced above. However, Class C space differs from its Class A and B counterparts in that there is a comparably limited supply of overall space (20% of all space in Toronto). Class C offices do not face the same degree of competition as they look to maintain and draw tenants. Furthermore, it is likely demand for Class C space is maintained by tenants who simply seek desks for their employees.

Class B properties are uniquely challenged. They lack the necessary features & amenities to attract tenants seeking high-quality space but simultaneously do not represent the lowest quality or cheapest office space on the market.

Figure 2.6 In Toronto, Vacancy Trends Vary by Class

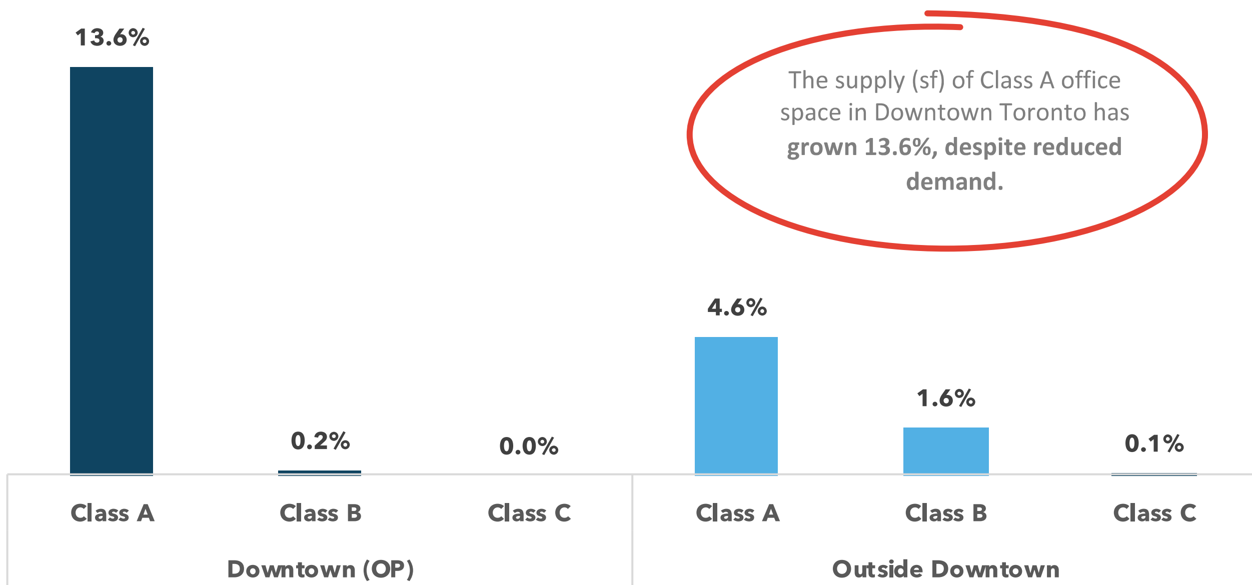


Source: Parcel with CoStar Realty data. Data for 2023 reflects year-to-date data.

Vacancy is also impacted by the introduction of new supply. Despite growing demand for Class A space, the vacancy rate currently sits at 11.1%, in-line with Class B vacancy and well-above that of Class C.

This trend is associated with the continued influx of new Class A space in recent years (Figure 2.7). An influx of higher-end office space amidst dampened demand has temporarily amplified vacancy as the market adapts to new supply. By comparison, there has been minimal growth in the supply of Class B and C offices over this period. Existing and rising vacancy in these buildings is more directly tied to the relocation of existing tenants, combined with an inability of owners to fill available spaces.

Figure 2.7 New Class A Supply Since 2019 has Propelled Vacancy



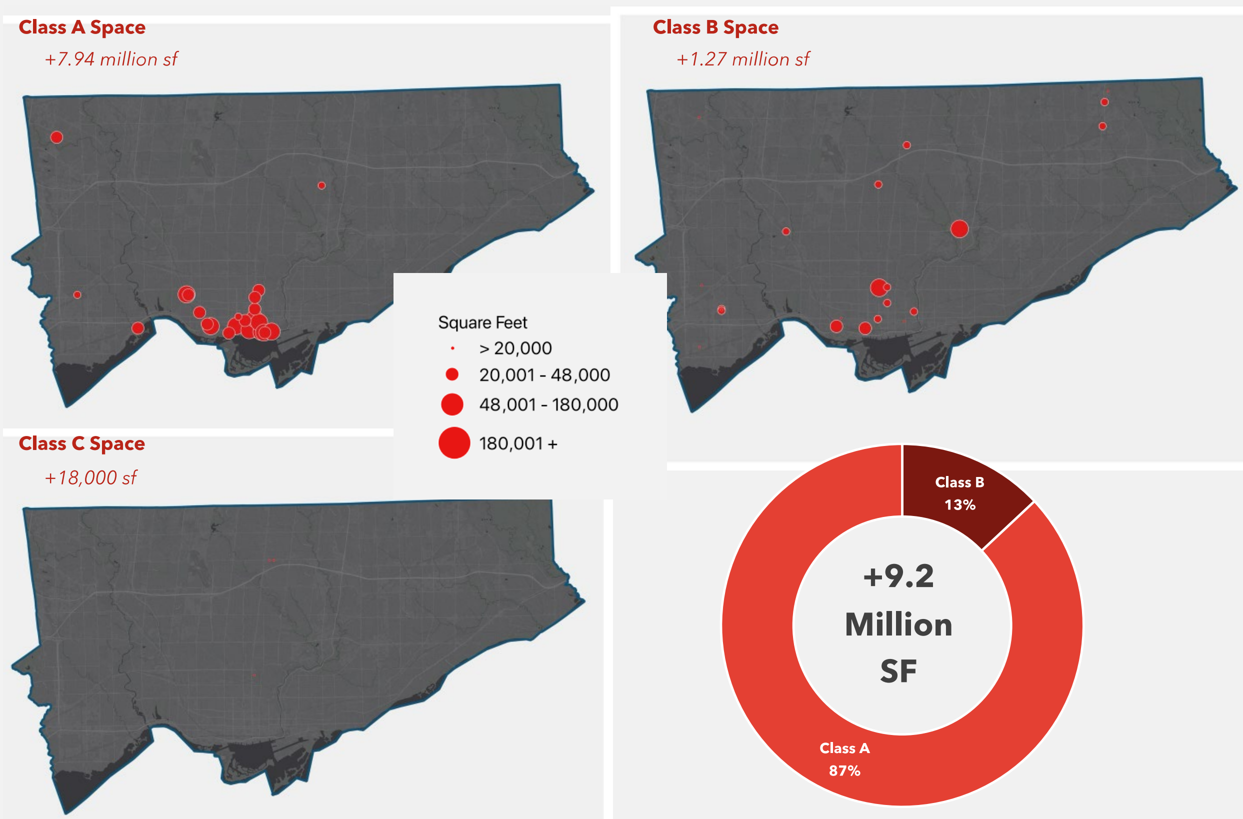
Source: Parcel with CoStar Realty data.

A Note About New Supply: Further Examination

Since 2019, some 9.2 million square feet of new office space was added to the Toronto market, **87% of which was Class A space**. Roughly 81% (7.4 million square feet) of this space was added within the Downtown (Downtown & Financial District area), some 93% of which was Class A space.

The delivery of new office space impacts office market trends, particularly during periods of reduced demand. It contributes to increases in vacant and available space, alongside other market factors, including rental rates and office absorption.

Figure 2.8 Class A Office Space Comprises the Majority of New Office Space Since 2019



Source: Parcel with CoStar Realty data.

Availability

Vacancy vs. Availability: What's the Difference?

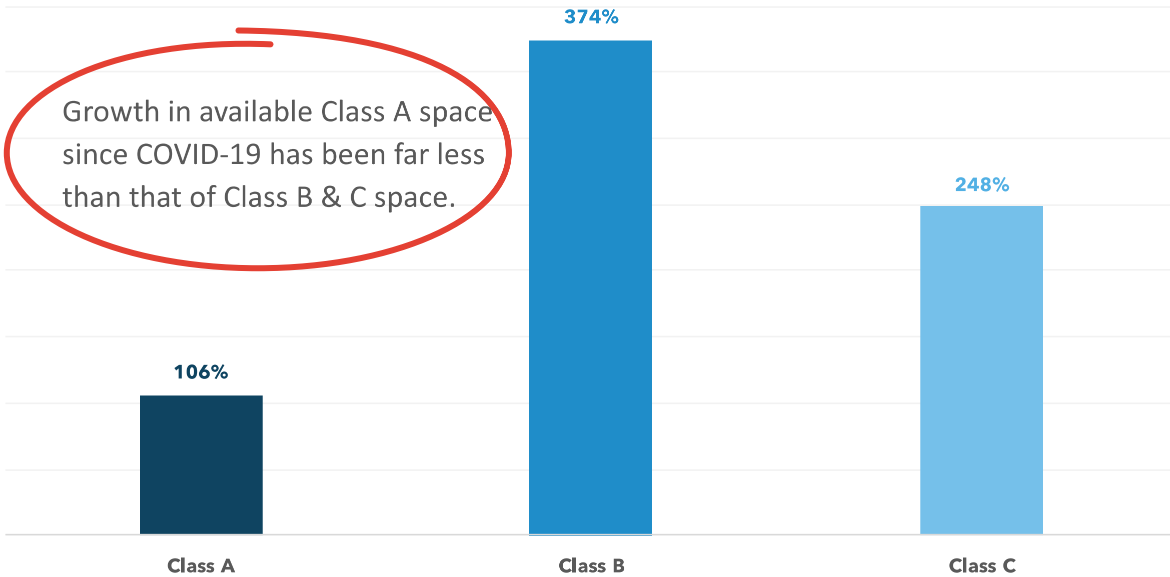
Vacancy reflects the share of space that is not currently occupied by a tenant. Availability reflects any space that is being actively marketed for sub-lease, regardless of whether the space is vacant, occupied under construction, or coming to the market.

Availability generally provides a broader picture or more fulsome indication of a market's current state as it reconciles immediately vacant space in addition to space that is set to come on stream soon.

Movement to new and high-quality office space—often referred to as the "flight to quality"—is evidenced in examining office availability rates across existing office space in TEY. While the share of available space has grown across all classes of office space, it is lower quality buildings that have been the hardest hit.

To draw people to the office amidst growing interest in workplace flexibility (i.e., work-from-home etc.), demand for office spaces that provide more unique, appealing, and desirable features than their lower-quality counter parts are driving demand.

Figure 2.9 Growth in Office Space Availability between 2019 & 2021 shows the Growing Attraction of High-Quality Spaces



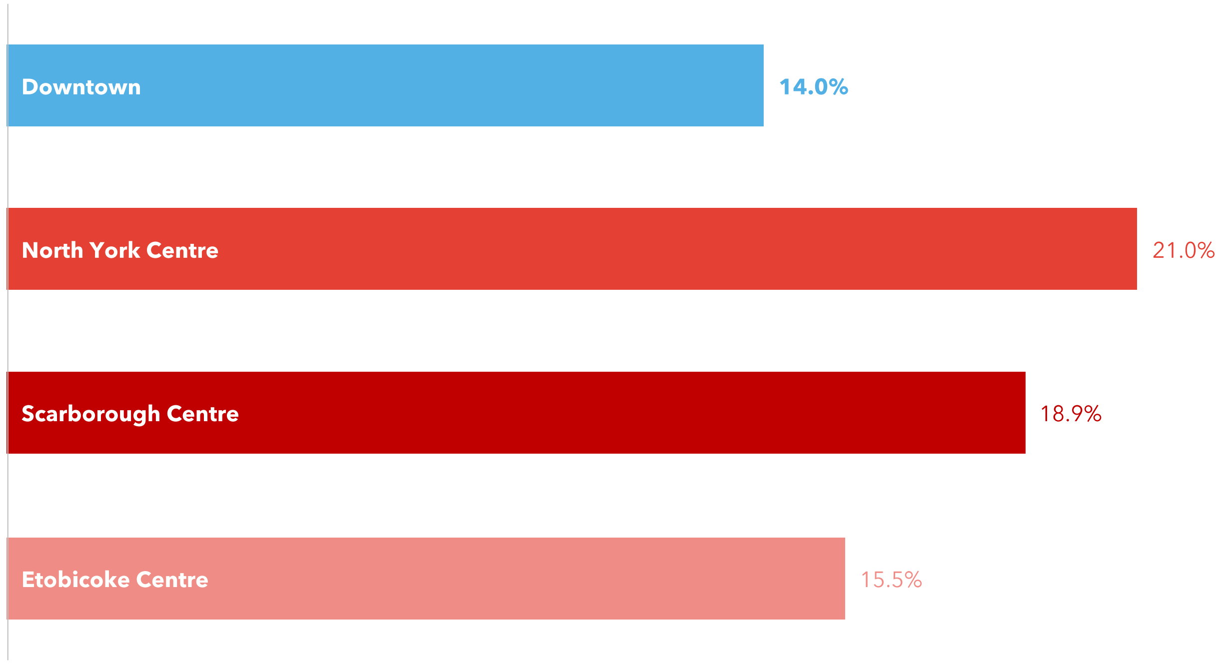
Source: Parcel based on CoStar Realty data. Data reflects 2023 year-to-date.

Trends in availability highlight the resilience of Toronto's Downtown and its continued role as the City's key office hub.

Location is another key factor driving demand for office space across Toronto. Relative to other locations, the Downtown (OP) area currently has the lowest share of available space (14%). More peripheral nodes have a higher share of available space despite their comparably limited supply.

Suburban districts contain a heighted share of lower-quality Class B and C space. Difference in the quality of space available, combined with the more peripheral locations of these areas, has the vulnerability of these offices. As companies reassess their office space needs and focus on attracting employees back to the office, they are **opting for higher-quality space at convenient and accessible locations.**

Figure 2.10 Office Space Availability is Currently Higher in Peripheral Areas of Toronto



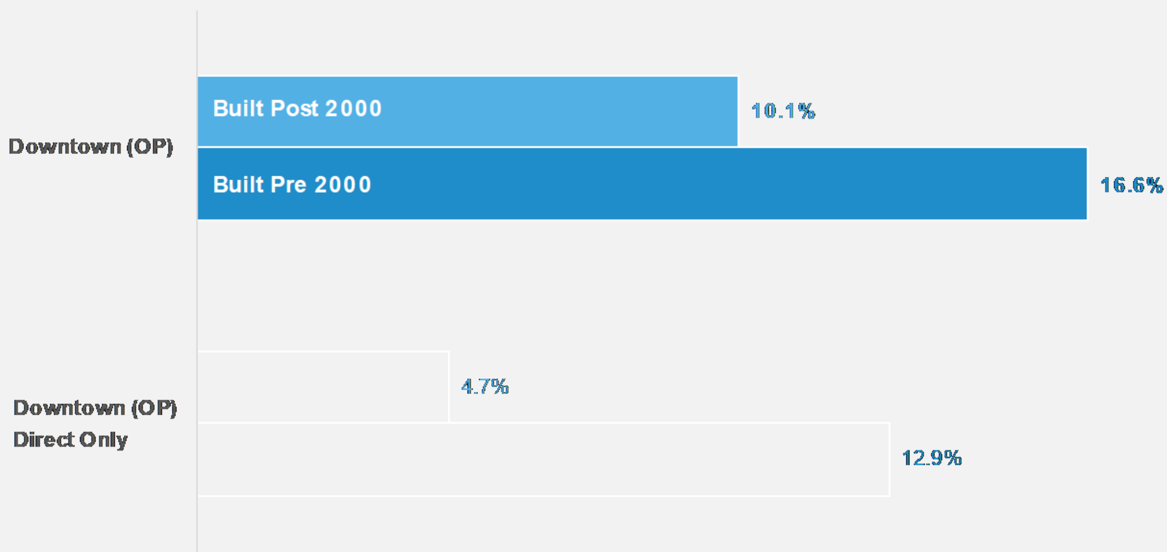
Source: Parcel based on CoStar Realty data. Data reflects 2023 year-to-date data.

“**Flight to Quality**”**:** A Closer Look

The current share of available office space in the Downtown is higher across older office buildings, further highlighting **growing preferences for new space**. There is potential that preferences for newer, high-quality space could continue, as tenants tied to extended lease periods have the opportunity to reconsider their office space needs.

The current draw of newer office development is evidenced through a more granular review of data from CoStar Realty. New office buildings built across TEY since 2019, are approximately **92% leased**. Furthermore, **86% of office buildings presently under construction** in TEY are pre-leased.

Figure 2.1 Current Office Availability Reveals the Attraction of Newer Buildings



Source: Parcel with CoStar Realty data.

Rental Rates

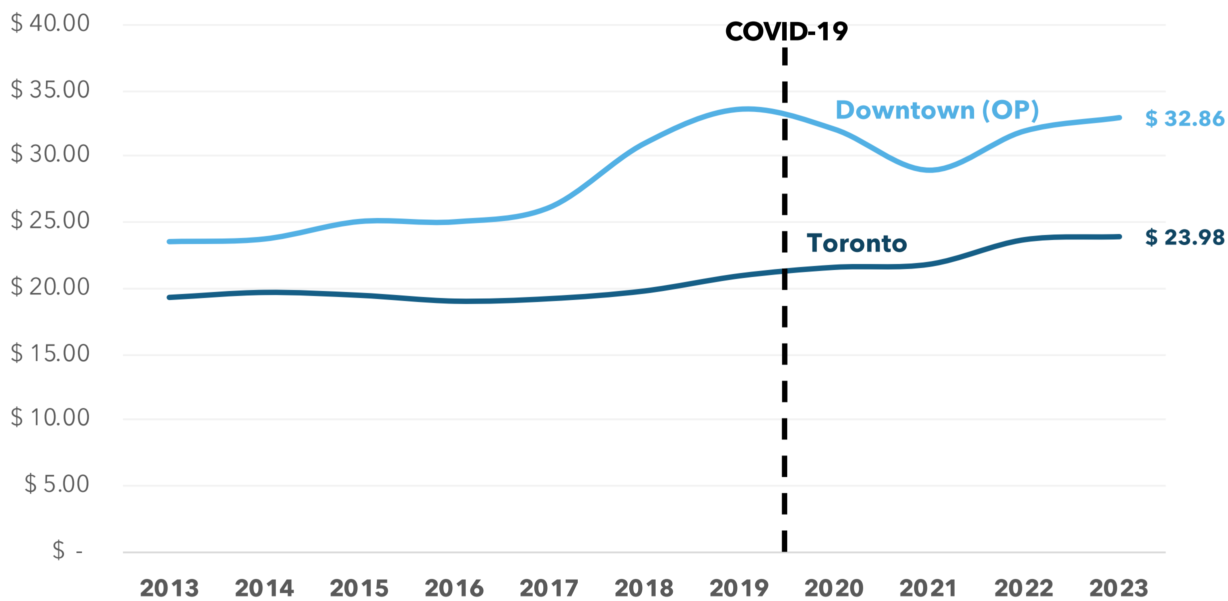
Toronto's core has demonstrated resilience despite weakening demand and increased market competition.

Relative to their respective lows in 2021, the net rent per square foot (PSF) of office space in the Downtown (OP) area—and across Toronto more broadly—has remained relatively flat since 2022. In fact, between 2021 and 2023, the asking net rental rate in the Downtown (OP) area increased.

The improvement of office rents observed in the Downtown between 2021 and 2022, was likely tied to the introduction of new high-quality space over this period, including: Wellesley on the Park, the LCBO Tower, CIBC Square, 65 King Street East, the Exchange Tower, the Well and other similar developments.

More recent flatlining coincides with the rising availability of office space across Toronto and a comparably limited introduction of new space. It is difficult for landlords to increase the rents they are charging tenants amidst **significant competition and reduced demand.**

Figure 2.12 Net Rent (PSF) Continues to Grow Across Toronto's Office Market



Source: Parcel based on CoStar Realty Data. Data for 2023 reflects year-to-date data.

Sublease Activity: Changing Rent

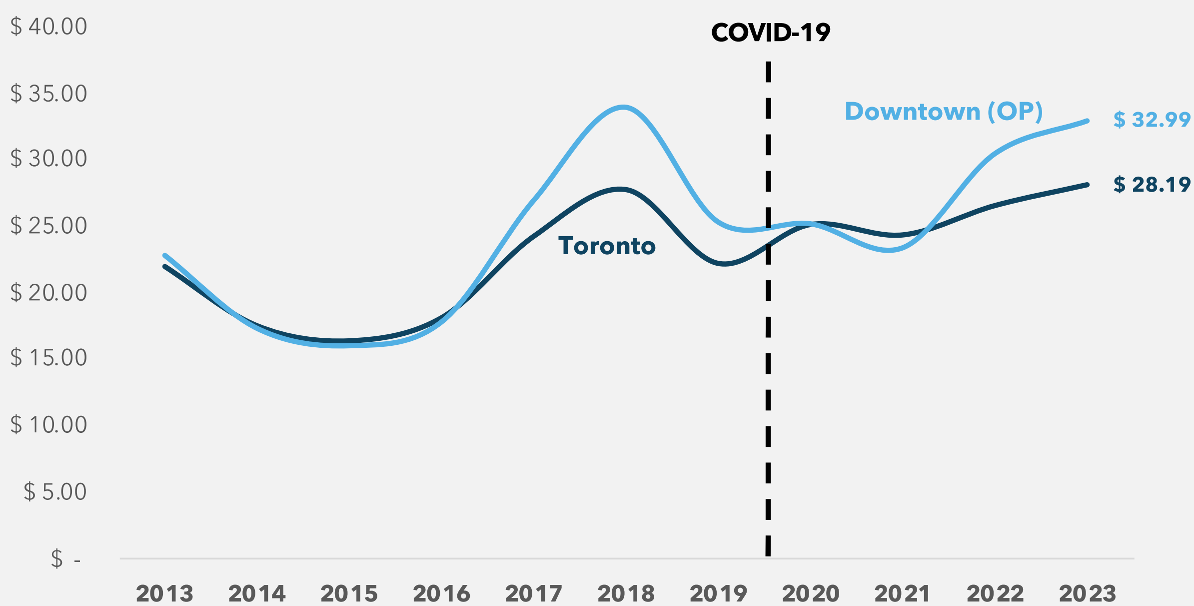
Rental rates are also impacted by a surge in activity across Toronto's sublease market. As shown below, while base rents in the City have remained relatively flat, average sublease rents have improved significantly.

The improvement in sublease rents is likely due to the continued supply of new, high-quality sublease space being added to the market, including: the Well, 160 Front Street West and 16 York Street.

As tenants grapple with uncertainty, many are vacating space and/or deferring decisions to commit to a certain amount or location of office space. That said, they still have a legal obligation to pre-existing leases that inhibit their ability to vacate a space and stop paying rent.

These tenants are adding these high-quality spaces to the sublease market, pushing rents well above what they have been historically and likely explain recent improvements in sublease average rents.

Figure 2.2 Current Office Sublease Rents Have Improved in Recent Years



Source: Parcel with CoStar Realty data.

Class A office space continues to command rents above Class B and C (Figure 2.14), albeit at a less significant premium than historically experienced. This distinction is twofold:

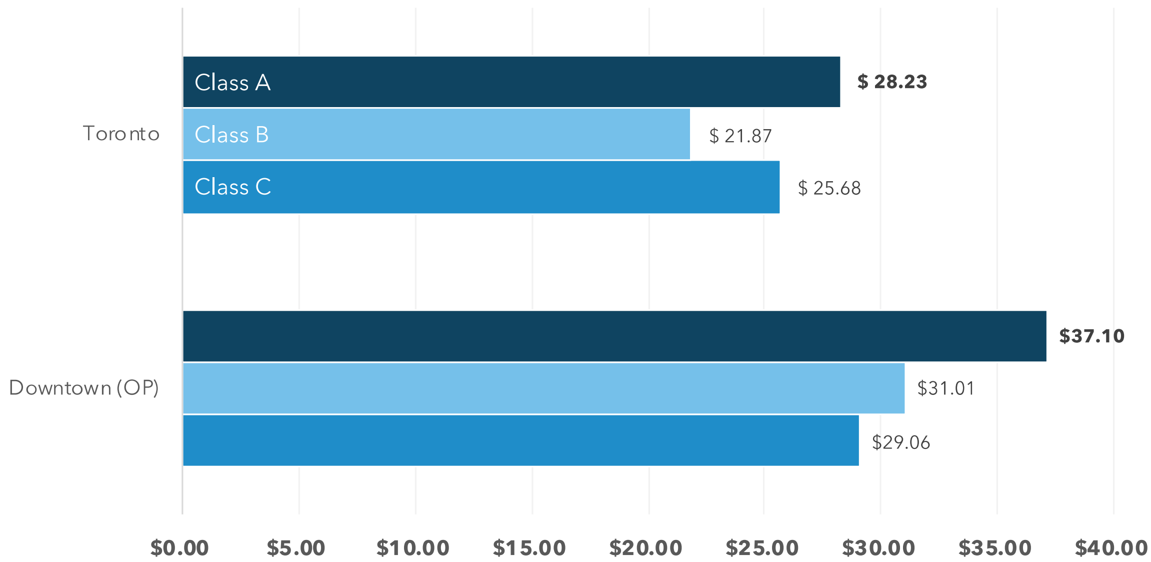
- Heightened vacancy and availability across Class A space puts tenants in a more favourable, negotiating position. With substantial supply in the market, landlords are forced to consider lower rents in favour of occupancy.

- The introduction of new supply has limited growth in the net rent of Class A space by increasing market competition. Conversely a lack of new Class B and C supply has mitigated the impact of growth on the net rent of Class B and C space over the same period (see Figure 2.15).

Currently, the net rent of Class B space is tracking below that of Class C space. Class B offices have been significantly impacted by the pandemic, primarily as an increasing number of tenants drop their existing leases in favour of higher-quality Class A space and better located offices. Simultaneously, Class B offices are unable to compete with Class C spaces that benefit from demand by more cost-conscious tenants priced out of the Class A market.

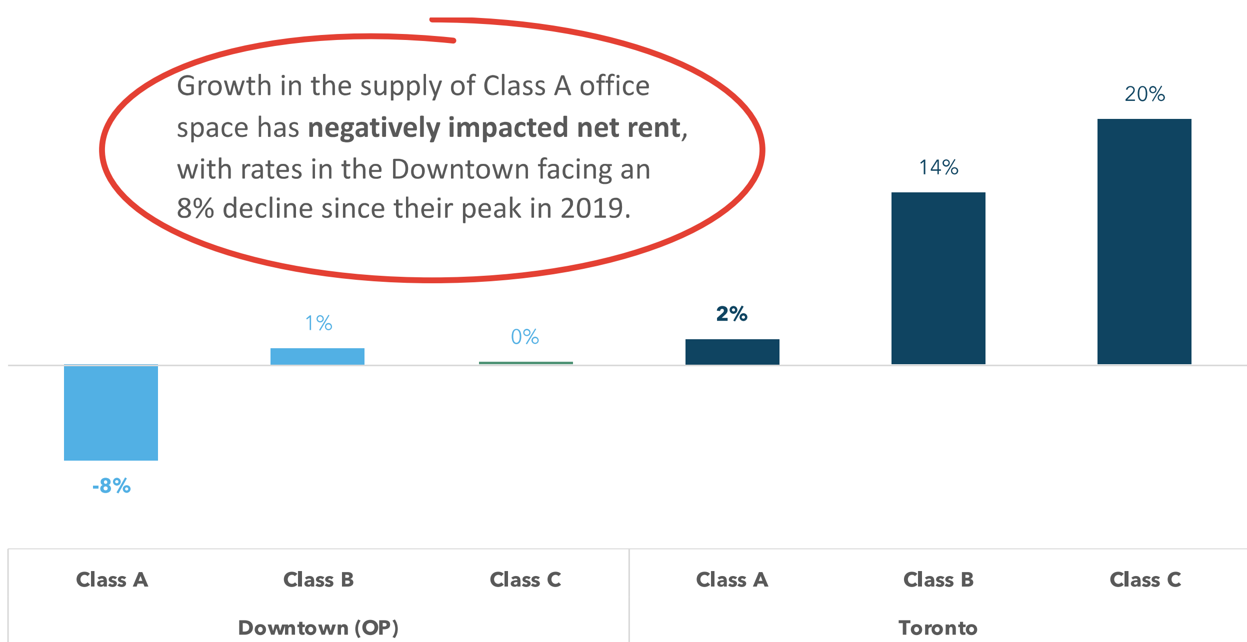
Rent reductions—as detailed above—have become necessary to attract interest from tenants and to differentiate Class B offices from existing Class A and C spaces.

Figure 2.14 Class A Space Commands the Highest Rents (PSF)



Source: Parcel based on CoStar Realty data.

Figure 2.15 Class A Rent Growth has Been Limited by New Supply



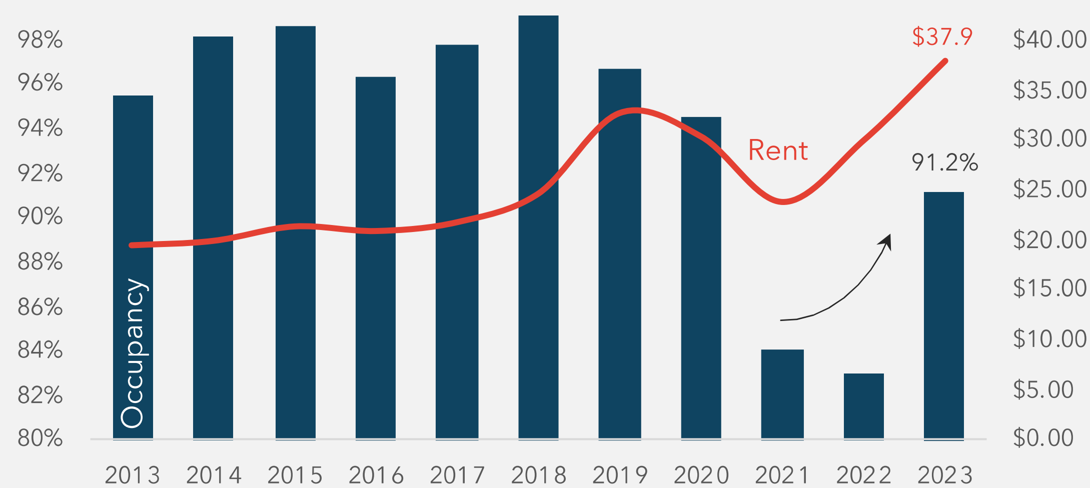
Source: Parcel based on CoStar Realty data.

“**Net Rent**”: Further Examination

Currently, the net rental rates for Class C space in Toronto is only slightly below reported net rental rates for Class A space. This is largely because Class C space consumes a much smaller share of Toronto’s office space. As such, single transactions have a much larger, or notable, impact on prevailing market conditions.

This nuance is shown below, whereby a spike in Class C office occupancy in the Financial District, coincided with a spike in net rents.

Figure 2.3 Reduced Class C Supply, Increases the Variability of Market Conditions



Source: Parcel with CoStar Realty data.

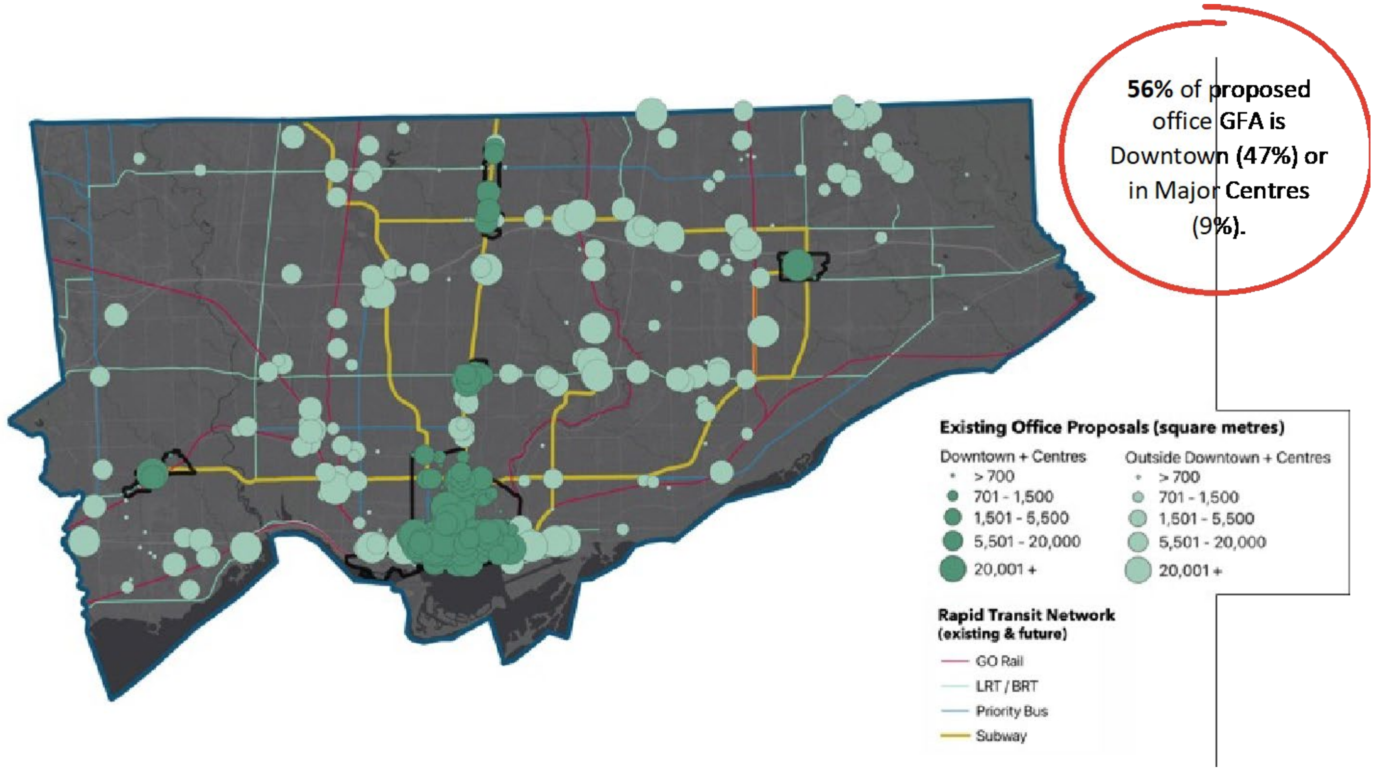
2.2 Proposed Office Space

There is currently 8.8 million square feet of office space under construction in Toronto. An additional 59.4 million square feet (5.5 million square metres) is also proposed across Toronto longer-term.

- Existing office construction is concentrated Downtown, reinforcing the role of the core as a hub of economic activity. While there are several applications for office space outside the Downtown, each application includes a much smaller amount of space.

- The **prominence of the core as an office hub** is apparent in reviewing development activity, albeit at a less significant scale than historically. This is due to the significance of development planned on the Unilever Lands (21 Don Roadway). Located just east of the Downtown area, this proposal includes a significant 9.7 million square feet (900,000 square metres) of office space, thereby reducing the volume of activity affiliated with the Downtown.

Figure 2.17 Proposals (Active & Under Review) for New Office Space are Largely Located Downtown & in Major Centres



Source: Parcel based on development application data from the City of Toronto.

Under Construction

Current office construction is largely clustered Downtown, validating the **continued role and function of the city's core** in sustaining office activity.

- There is a heightened share of applications in the Downtown, compared to other portions of the City. These applications also account for the largest volume of space (69%). Conversely, there are only two office developments under construction in existing centres, consuming only 6% of new office space.

- Much of the Downtown's under construction activity is in a defined Secondary Plan Area (e.g., King-Spadina (Portland Commons, King Toronto Commercial), Railway Lands East (CIBC Square Phase 2). By comparison, construction activity occurring in an Employment Areas is limited, only 23% of space.

- Remaining activity is dispersed across Toronto. While there are ten applications, each includes a smaller volume of space and collectively accounting for 25% of space under construction.

Proposed: "Active" Applications[1]

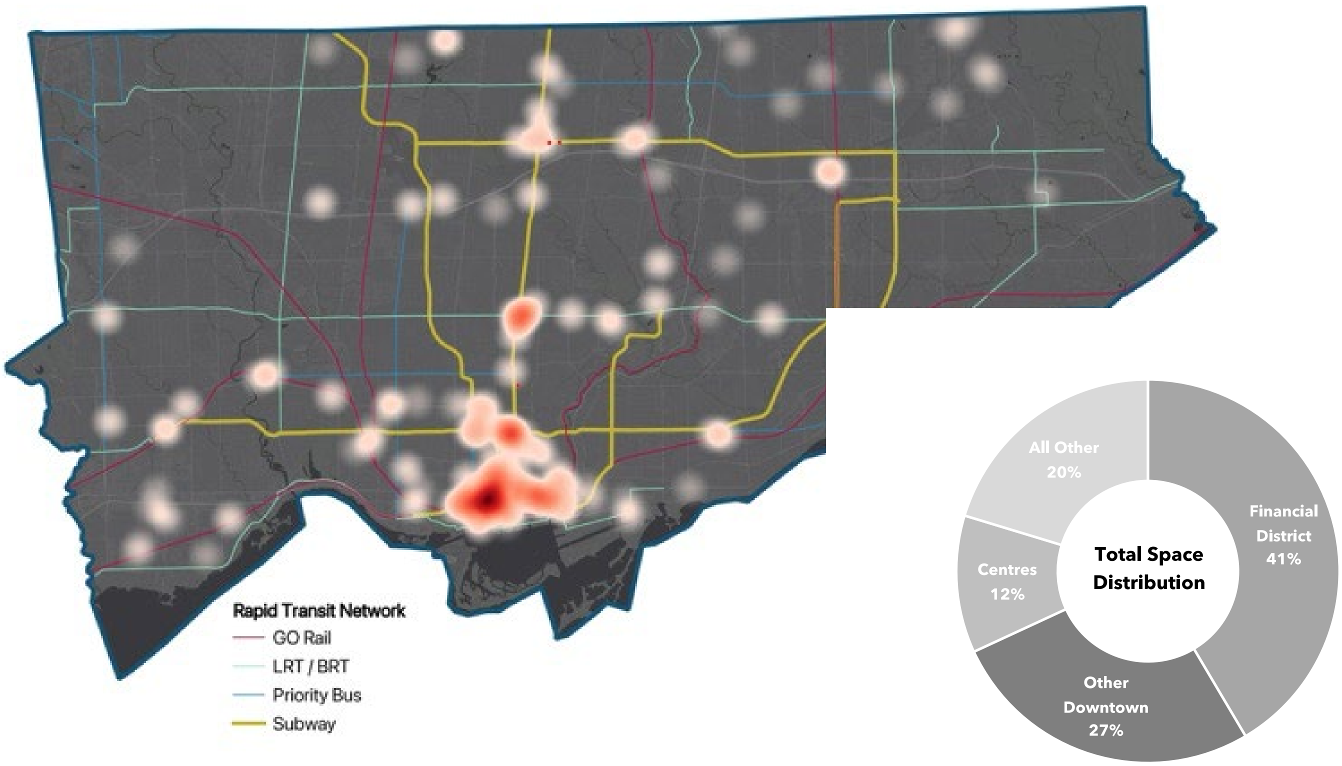
New office space is being proposed outside the Downtown and TEY more generally but at a **much smaller scale** than that being considered in the core.

- TEY continues to represent the largest share of proposed development activity. Currently, there is 29.0 million square feet (2.6 million square metres) of office space proposed Downtown, some 68% of all space.

- Some 59% of proposals are located outside the Downtown, including in Scarborough (Agincourt), North York (Don Valley) and Etobicoke-York (Etobicoke-Lakeshore). The volume or scale of these proposals is comparably smaller, consuming only 32% of office space in the pipeline.

[1] Development projects with activity between July 1, 2017 and June 30, 2023. Built projects are those which became ready for occupancy and/or were completed. Active projects are those which have been approved, for which Building Permits have been applied or have been issued, and/or those which are under construction. Projects under review are those which have not yet been approved or refused and those which are under appeal.

Figure 2.18 Existing "Active" Office Proposals are Largely Concentrated Downtown



Source: Parcel based on data provided by the City of Toronto.

Proposed: "Under Review" Applications[2]

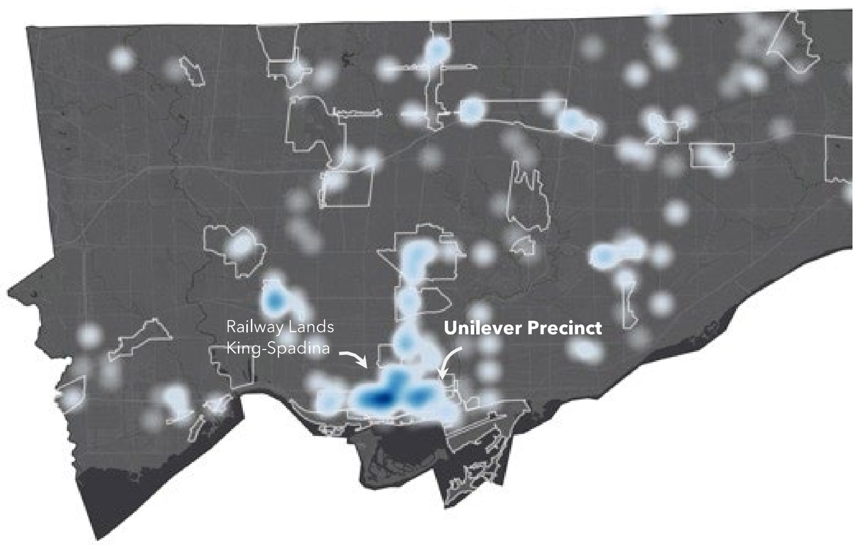
Most office space under review in Toronto is **located Downtown, or as part of the Unilever Precinct** to the immediate east of this area (i.e., 21 Don Roadway, representing an initial phase of development at "East Harbour"). This is due to the size and scale of office development contemplated at these locations.

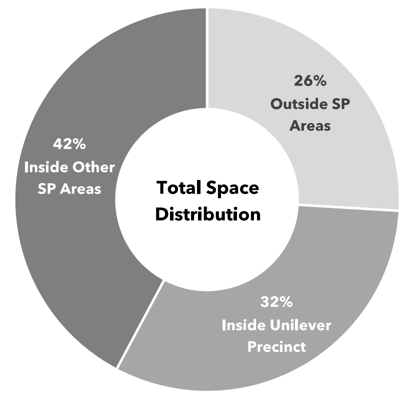
- Relative to trends in recent construction, a significant share of proposed space is outside both the Downtown and other Centres. This is due to the 9.7 million square feet (900,000 square metres) of office space proposed at 21 Don Valley (East Harbour), just outside the Downtown. This potential node for new office activity represents some 32% of office space currently under review in Toronto.
- As a result of space proposed at 21 Don Valley, a larger share of space currently under review is found to be within Employment Areas (45% of space under review) and/or within Secondary Plan Area (74% of space under review).
- Across Toronto there is some 188 applications with office space under review, only 50 of which are located Downtown. Although more applications are located outside the Downtown area, space is generally clustered Downtown (7.9 million square feet / 730,000 square metres) or at 21 Don Valley (900,000 square metres / 9.7 million square feet). these applications comprise 58% of office space under review in Toronto.

[2] Development projects with activity between July 1, 2017 and June 30, 2023. Built projects are those which became ready for occupancy and/or were completed. Active projects are those which have been approved, for which Building Permits have been applied or have been issued, and/or those which are under construction. Projects under review are those which have not yet been approved or refused and those which are under appeal.

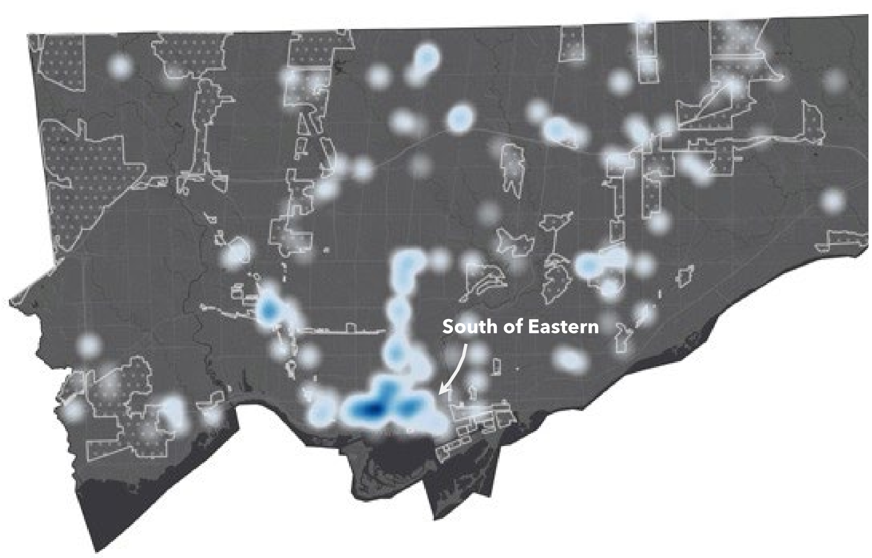
Figure 2.19 While Applications are Dispersed, the Downtown has the Highest Volume of Office Space (GFA) Currently Under Review

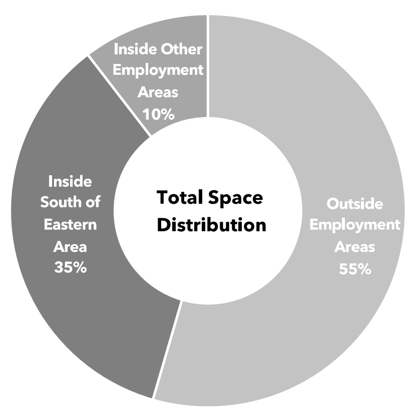
Secondary Plan Areas





Employment Areas





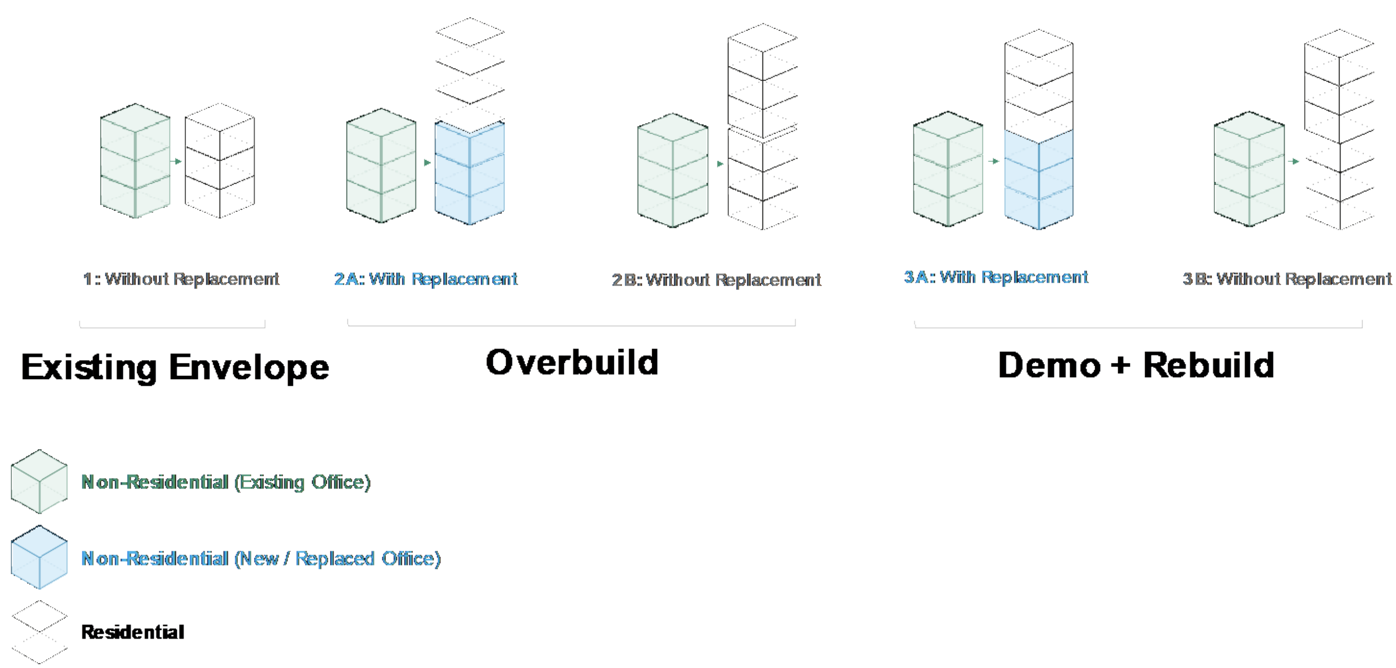
Source: Parcel based on data provided by the City of Toronto.

2.3 Office Conversion Profiles

In much the same way that there is significant inconsistency and confusion around the nomenclature used to describe various forms of “affordable” housing, it is critical when developing policies relating to office replacement that there are many different forms of “office conversion” that can occur. As will be explored in future phases of work for this study, these can vary significantly in terms of their financial feasibility, as well as in terms of their more practical ease-of-implementation (e.g., having regard for such issues as floorplates / land areas, structural building characteristics, etc.).

To shed some light on these differences, the following provides an overview of several office conversion typologies identified by Parcel, as well as a profiling of several sample development projects in Toronto that have either recently been constructed / are under construction or are proposed to enter the market in the coming years.

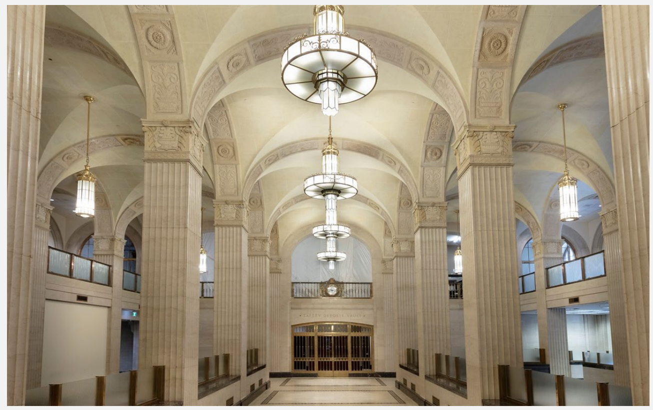
Figure 2.20 Multiple Types of Office Conversions That Vary in Cost & Complexity



Source: Parcel.

Existing Envelope: Office Building Renovations & Refurbishments

The spectrum of office space conversion typologies above deliberately excludes any revitalization of existing office spaces. Although capital re-investments in existing office properties are potentially becoming rarer under softened market conditions, there are some notable examples of this type of activity in the Toronto context, including recently (e.g., 320 Bay Street, pictured below).



Source: Colliers.

For future phases of this study relating to forecast market opportunity and/or financial feasibility of office conversions, these types of renovations and/or refurbishments of aging office buildings do not need to be considered as directly, given that they do not materially affect the supply of office space in the City (i.e., resulting in **neither a reduction nor expansion of space**). That said, they can certainly be encouraged and supported by the municipality in an effort towards maintenance and renewal of its existing office space inventory.

Indicators: Increase No Change Decrease

Profile #1: 111 St Clair West

1: Existing Envelope

Formerly the head office of Imperial Oil, this building was **converted in 2011** to an ownership residential tower, with retail at grade.

	Before	**After**	
Use(s):	Office	Mixed Use	
Gross Floor Area (GFA):	**438,000 sf**	**438,000 sf**	●
Non-Residential - Office	438,000 sf	0 sf	●
Non-Residential - Other	0 sf	27,000 sf	●
Residential GFA	0 sf	411,000 sf	●
Office Space (%)	**100%**	**0%**	●
Residential Units:	-	400	●

Profile #2: 488 University Avenue

2A: Overbuild

An existing office building was redeveloped in 2017. The redevelopment maintained the 18-storey building and the office GFA and added a 37-storey **ownership residential** tower above.

	Before	After
Use(s):	Office	Mixed Use
Gross Floor Area (GFA):	**292,000 sf**	**700,000 sf**
Non-Residential – Office	292,000 sf	278,000 sf
Non-Residential – Other	14,000 sf	5,000 sf
Residential GFA	0 sf	417,000 sf
Office Space (%)	**95%**	**40%**
Residential Units:	-	453

Profile #3: 145 Wellington

3A: Demo + Rebuild

The existing **Class A** office building constructed in 1987 and renovated in 2007, is proposed to be redeveloped with a full podium office replacement, grade-related retail and an ownership residential tower above.

	Existing	**Proposed**
Use(s):	Office	Mixed Use
Gross Floor Area (GFA):	**158,000 sf**	**545,000 sf**
Non-Residential – Office	158,000 sf	158,000 sf
Non-Residential – Other	0 sf	2,000 sf
Residential GFA	0 sf	385,000 sf
Office Space (%)	**100%**	**29%**
Residential Units:	-	476

Profile #4: 69 Yonge Street

3B: Demo + Rebuild

This **Class B** office building constructed in 1914 and renovated in 2011, is proposed to be converted to a **mixed-use condominium** building through a full restoration and rebuild (infill addition) of the existing property.

	Existing	Proposed	
Use(s):	Mixed Use	Mixed Use	
Gross Floor Area (GFA):	**104,000 sf**	**140,000 sf**	●
Non-Residential - Office	98,000 sf	0 sf	●
Non-Residential - Other	6,000 sf	15,000 sf	●
Residential GFA	0 sf	125,000 sf	●
Office Space (%)	**94%**	**0%**	●
Residential Units:	-	127	●

Profile #5: 214-222 Merton Street

3B: Demo + Rebuild

Three non-residential buildings, including two **Class C** office buildings are proposed to be replaced with a mixed-use building that includes grade-related retail and an ownership residential tower above.

	Existing	Proposed	
Use(s):	Office	Mixed Use	
Gross Floor Area (GFA):	**34,000 sf**	**306,000 sf**	●
Non-Residential – Office	34,000 sf	0 sf	●
Non-Residential – Other	0 sf	4,000 sf	●
Residential GFA	0 sf	302,000 sf	●
Office Space (%)	**100%**	**0%**	●
Residential Units:	-	434	●

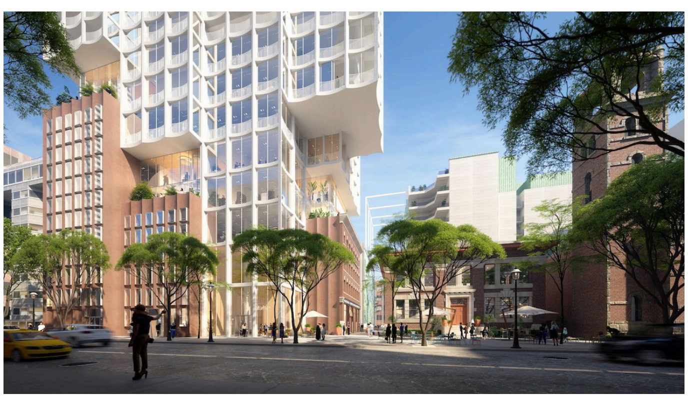
Other Office Conversion Examples

1 St. Clair Avenue
2A: Overbuild

200 University Avenue
2A/B: Overbuild

55 Yonge Street
3A/B: Demo + Rebuild

250 University Avenue
2A/B: Overbuild



100 Lombard
3A/B: Demo + Rebuild

481 University Avenue
3A/B: Demo + Rebuild

20 Front Street West
3A/B: Demo + Rebuild

155 Cumberland Avenue
2A: Overbuild

Additional Consideration: Embodied Carbon

Embodied carbon has become an important area of focus in mitigating climate change. Studies indicate that embodied emissions in construction materials can account for up to 80% of a large buildings' total emissions from extraction to decommissioning. The rehabilitation or adaptive reuse of existing structures, such as through existing envelope and overbuild office conversions, could help offset emissions from new construction materials.

The retention of existing structural elements (walls, floors, roofs, and envelope) also aligns with the latest updates to Toronto Green Standard (TGS) Version 4. TGS v4 includes mandatory embodied emissions limits and requirements for building materials reuse for City-owned buildings, voluntary for the private sector.

2.4 Research Interviews

Parcel conducted informal, virtual research interviews with relevant stakeholders throughout December 2023 and January 2024[3].

This included a range of individuals and industry representatives spanning the following core sampling groups:

- **1A:** Developers & Asset Managers (Major Players – Financial Core);
- **1B:** Developers & Asset Managers (Major Players – Core-Adjacent);
- **1C:** Developers & Asset Managers (Suburban and Non-Core);
- **2:** Employers & HR Representatives;
- **3:** Real Estate Industry Groups & Associations (e.g., BILD, NAIOP, REALPAC);
- **4:** Commercial Real Estate Brokers; and,
- **5:** Other Real Estate Professionals (including: architects / designers, future of work specialists, etc.).

[3] The comments contained in this section represent a summary of discussions with stakeholders and do not necessarily represent the opinions of Parcel or the City of Toronto.

Summary of Key Themes

Topic #1: Market Opportunity

- There is still demand for office space.
- Hybrid Work is the “new normal”.
- Tenants are seeking flexibility while they determine their needs.
- The type of office space in demand is changing, with quality at the forefront.
- Experience, socialization and collaboration are defining office-based work and dictating the type of space tenants are seeking.
- Demand for office space is driven by location (Downtown proximity) and access to transit.

Topic #2: Office Conversion

- Current policies need to change.
- Conversions are a “Win” for the City (e.g., tax base).
- The potential for office conversion is tied to a range of factors specific to each property and building (i.e., land value, potential for alternate uses, existing building scale, costs, etc.).
- Stipulating affordable housing through office conversions is timely but not straightforward.

Topic #3: Potential Solutions

- Stipulate a timeframe for office conversions.
- Create an application-based framework.
- Replacement should not be driven by policy.
- The City should not make decisions solely on tax implications.
- Policy to inhibit the development of the City’s iconic office building(s).
- Physical conversions should be financially supported.

Parallel Engagement: City Planning Research Interviews

In addition to the research interviews completed by Parcel with relevant stakeholders itemized above, City staff also conducted interviews with existing BIAs in Toronto, including: the **Downtown Yonge BIA**, the **Toronto Downtown West BIA**, and the **Bloor-Yorkville BIA**. Similarly, City staff also conducted dedicated interviews with members of **REALPAC** (a national organization centered on maintaining the value and role of a range of real estate asset classes) and **BILD** (Building Industry and Land Development Association).

The themes that emerged from this process are consistent with the observations outlined above and have been detailed further in Appendix A.

See **Appendix A** for complete **Research Interview Summary**.

3.0 Economic Context

Key Findings

- Growth in employment has not been uniform across Toronto. A significant 89% of growth over the past 10 years has occurred within Toronto-East York. This is largely tied to the heightened supply of office space, which is unlikely to change in the short- and medium-term.
- Only 1 in 5 people *usually* work from home. While COVID-19 restrictions and more feasible telework opportunities has increased the share of people working from home, the majority of people report that they are unlikely to work exclusively at home.
- COVID-19 reduced employee traffic across most office nodes in Toronto. The Financial District continues to draw the largest volume of daily traffic, albeit at a much lower scale than pre-Pandemic.
- More local serving office nodes—including the North York Centre and Yonge and Eglinton—saw an increase in employee traffic over this period. This could be related to where employees of these nodes reside, which is generally closer to work.
- Toronto's Financial Core benefits from having a full complement of infrastructure, supporting amenities, transit connectivity and other key location characteristics that solidify its role as a key hub for office uses.
- These characteristics are unmatched by other central and peripheral office nodes across Toronto in addition to other existing or developing office employment centres across the region.

3.1 Employment Trends

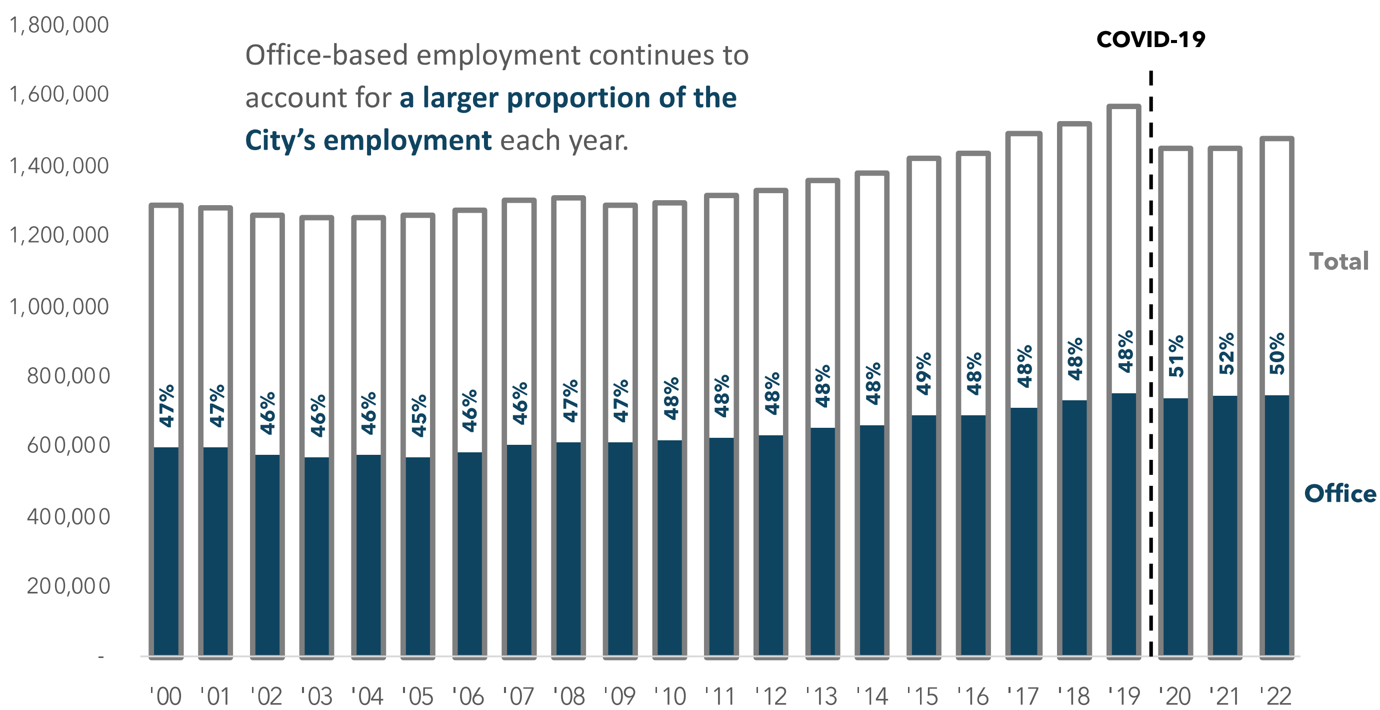
The Toronto Employment Survey ("TES") is an annual survey of businesses across Toronto conducted every summer since 1983. Surveyors visit every establishment in the City to collect information on the number of employees working at each location and the type of work.

Total Employment

The City's recovery has begun, albeit slowly.

Growth in Total Employment (Full-Time + Part-Time) was steady until the COVID-19 pandemic, which impacted the local, provincial and national economies.

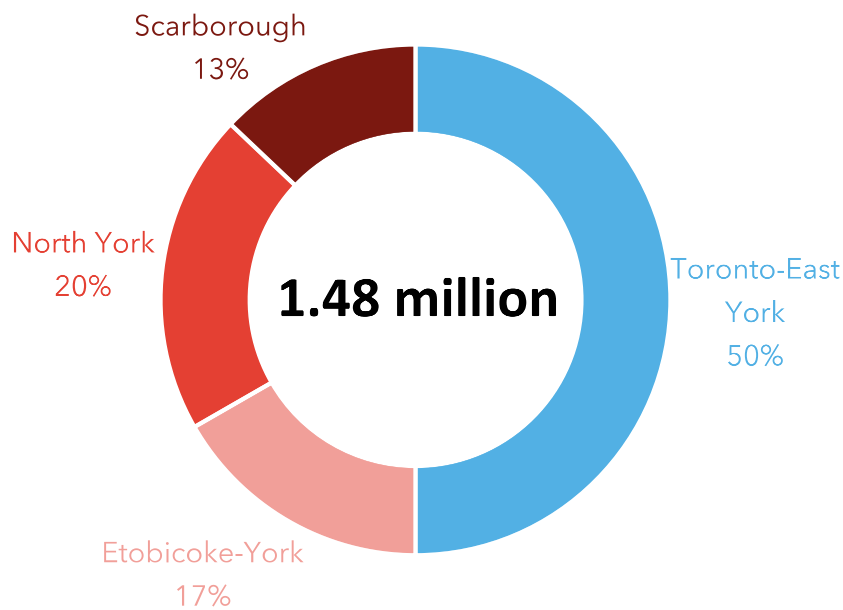
Figure 3.1 After Steady Growth, Employment in Toronto is Slow to Recover from COVID-19



Source: Parcel, based on the Toronto Employment Survey (TES).

The 2022 edition of the survey—the most recent published at the time of this study—counted more than 1.48 million full- and part-time jobs across the City. As noted in the City's TES Bulletin, this amounts to a 2.3% increase since 2021. Compared to just 0.1% growth between the 2020 and 2021 surveys, this signals that Toronto's recovery from the COVID-19 pandemic is underway.

Figure 3.2 More Than 1.48 Million Jobs Across the City in 2022



Source: Parcel, based on the Toronto Employment Survey data, 2022. Includes full- and part-Time employment.

Additional Consideration: Equity & Employment Opportunities

Approximately half of the City's current jobs are in offices. Office space can accommodate a range of businesses including those that offer economic opportunities for visible minority households and attainable employment opportunities for people of various education levels and skill sets. Providing employment options across the city supports complete communities and opportunities for people of all ages and abilities to conveniently access most of the necessities for daily living, including an appropriate mix of jobs and services.

Throughout this study it will be important to consider where job opportunities should be located, what type of space should be available and the relationship between the market and municipal strategic objectives.

Industry Composition

The City's economy is made up of employers across almost all of the NAICS industry categories. The top 5 industries include: Finance & Insurance; Health Care & Social Assistance; Professional, Scientific & Technical Services; Retail Trade; and, Educational Services.

Nearly all identified industries have reduced employment compared to pre-pandemic levels.

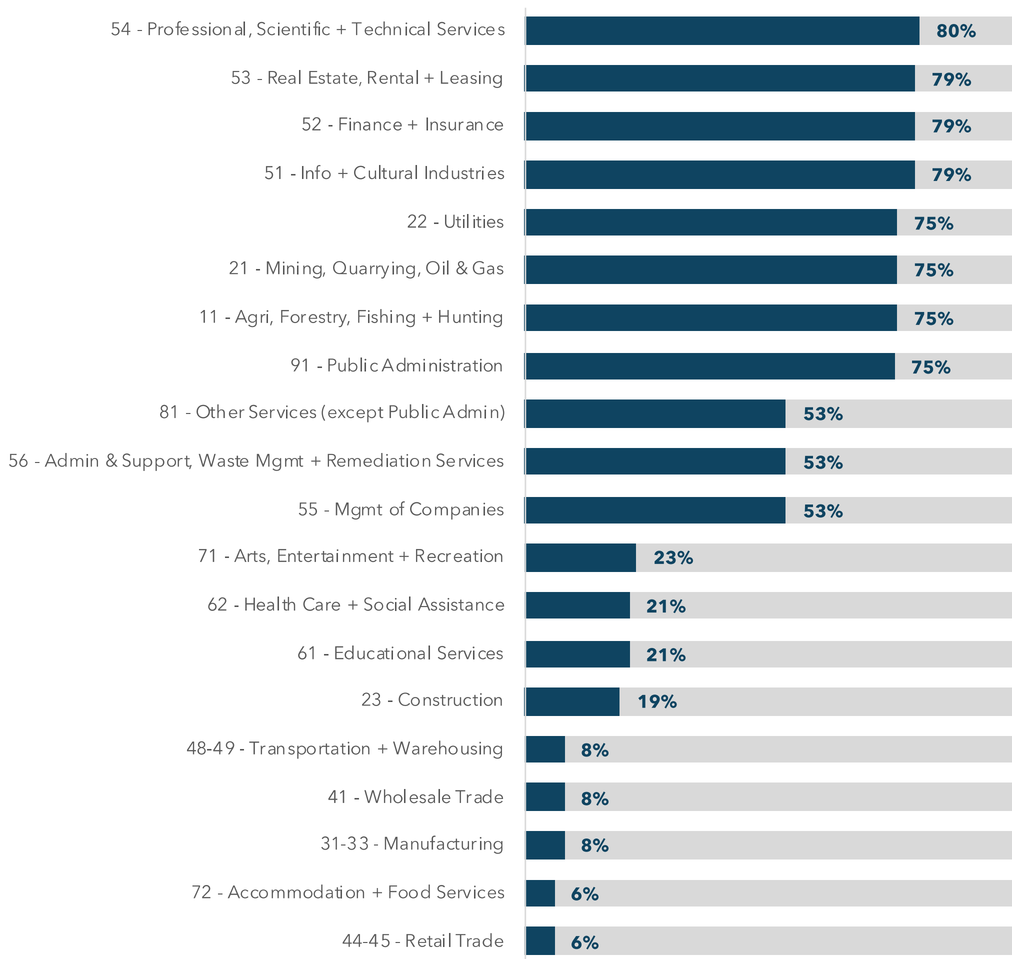
Figure 3.3 Toronto's Top 5 Industries Account for More Than 50% of Employment

Source: Parcel, based on the Toronto Employment Survey (TES).

Although not all industries can have employees working in offices, some industries are much more connected to office space than others. This is further complicated geographically, with major centres such as the City of Toronto hosting head office operations for traditionally non-office-based industries (e.g., mining).

The Province's Growth Plan for the Greater Golden Horseshoe (the "Growth Plan") recognizes this complexity by relying on assumptions by industry and employment type. Figure 17 in the Technical Report 2020[4] outlines the Growth Plan's assumptions related to the main economic sectors that make up *major office*[5] employment across the Greater Golden Horseshoe. When combined with similar assumptions for *population-related*, *employment land employment* and *rural* employment, and using the employment forecasts for Toronto, we can identify which industries are most reliant on the existing and future supply of office space across the City.

Figure 3.4 *Major Office* Employment by NAICS Industry in 2021



Source: Parcel, based on Figures 15, 17, 19 and 21 and the City of Toronto Employment Forecasts contained in the Technical Report, Greater Golden Horseshoe: Growth Forecasts to 2051, June 16, 2020.

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[4] Technical Report, Greater Golden Horseshoe: Growth Forecasts to 2051, June 16, 2020.

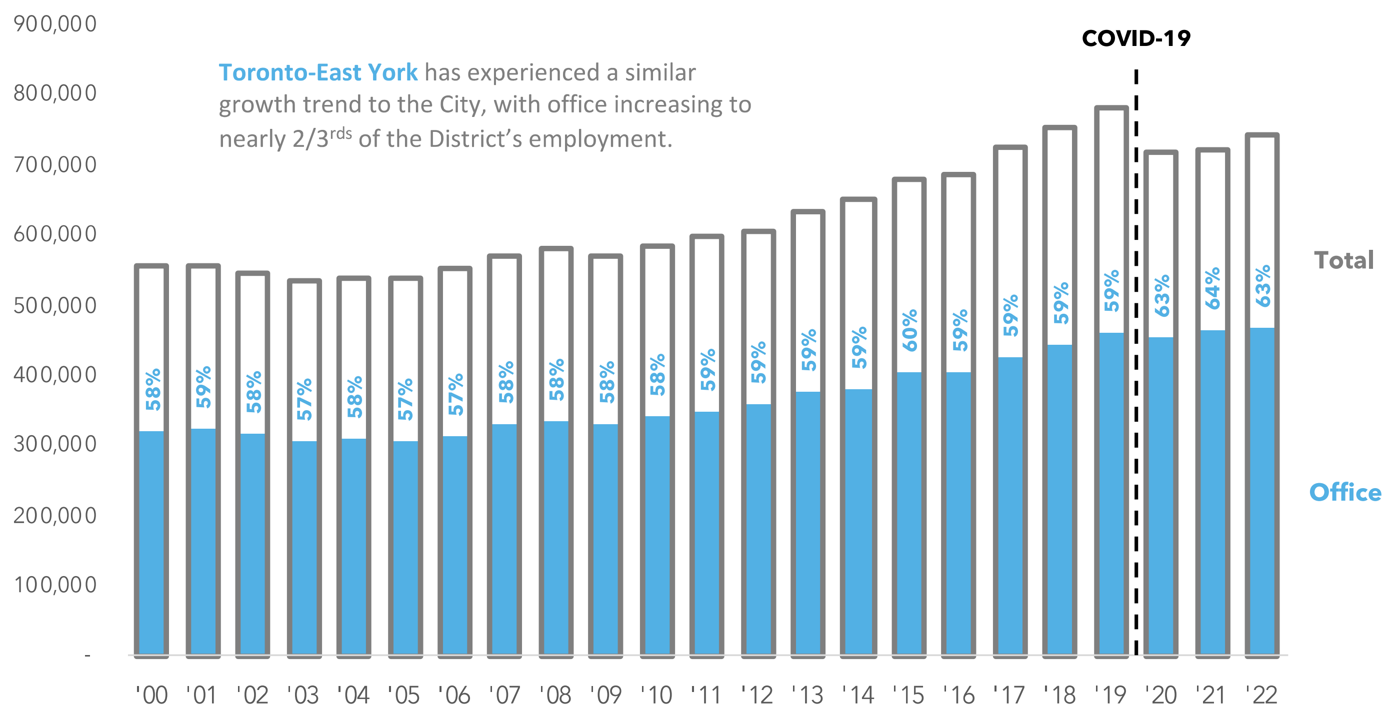
[5] Free standing office buildings more than 20,000 net square feet (1,858 net square metres).

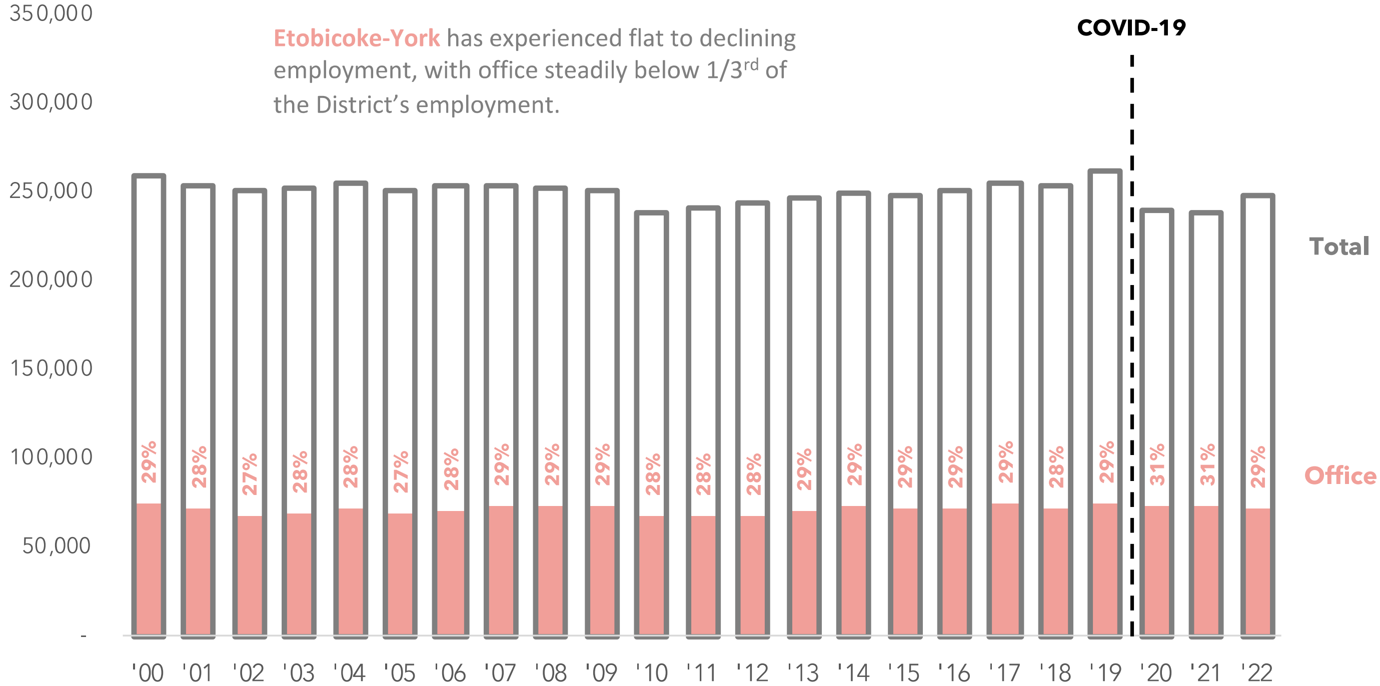
Geographic Distribution

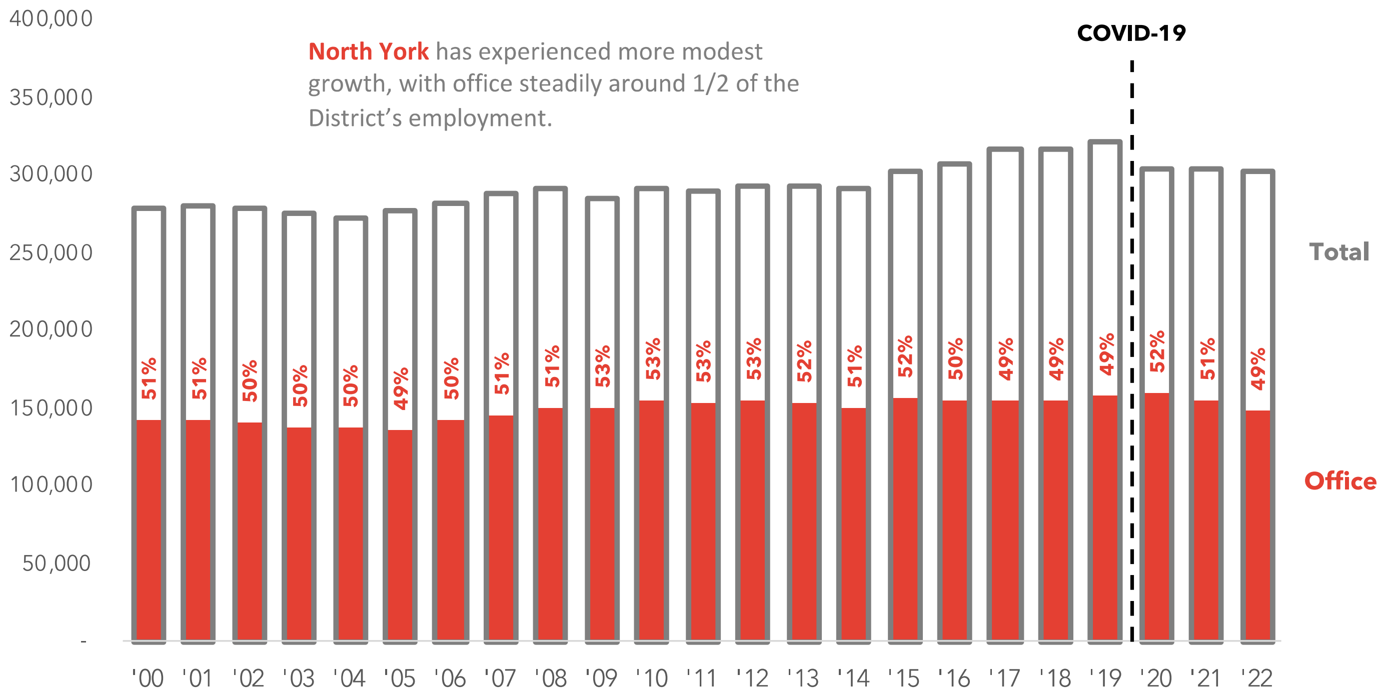
Over the years growth in employment, particularly office-based, has not been uniform across the Districts.

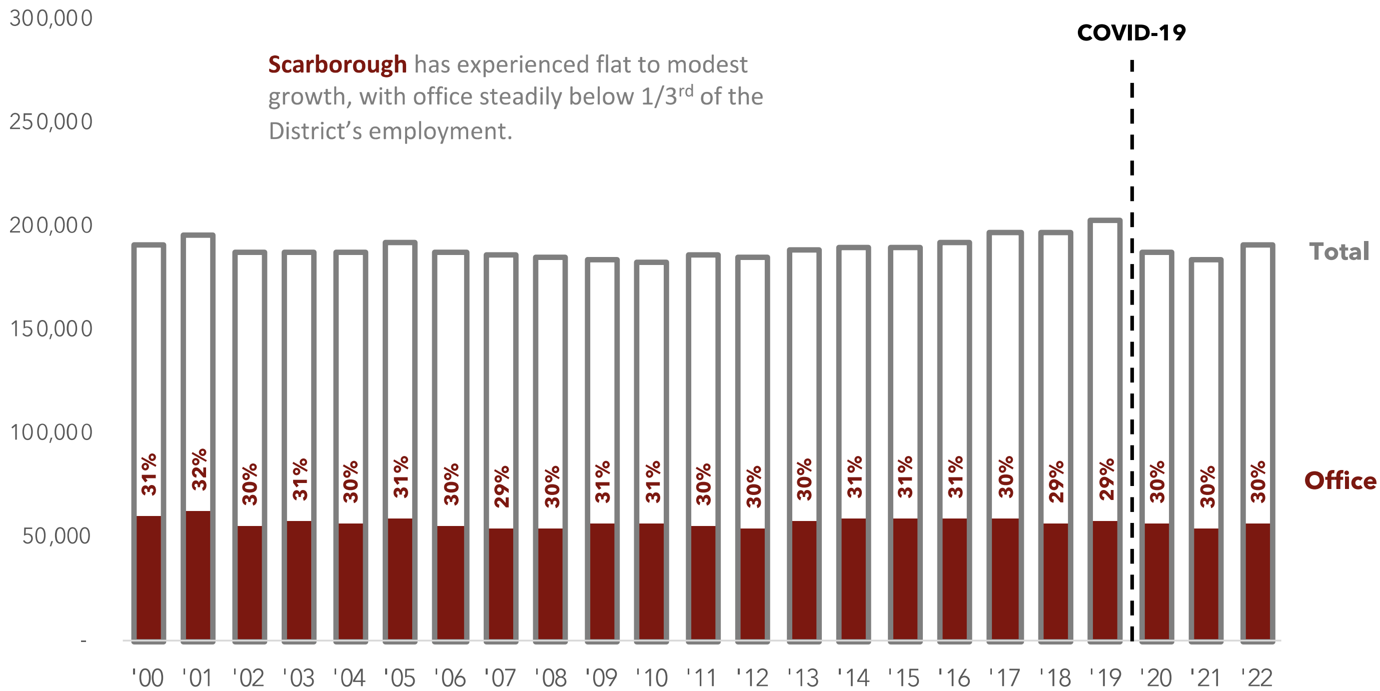
All four districts were affected by COVID and as of the 2022 survey, employment in each remains below pre-COVID levels (i.e., the 2019 TES). We note that 89% of the employment growth over the past 10 years has occurred within Toronto-East York.

Figure 3.5 The Citywide Employment Trend Has Not Been Uniform Across the Districts




Etobicoke-York has experienced flat to declining employment, with office steadily below 1/3rd of the District's employment.
COVID-19
350,000
300,000
250,000
200,000
150,000
100,000
50,000
-
29% 28% 27% 28% 28% 27% 28% 29% 29% 29% 28% 28% 28% 29% 29% 29% 29% 29% 28% 29% 31% 31% 29%
'00 '01 '02 '03 '04 '05 '06 '07 '08 '09 '10 '11 '12 '13 '14 '15 '16 '17 '18 '19 '20 '21 '22
Total
Office

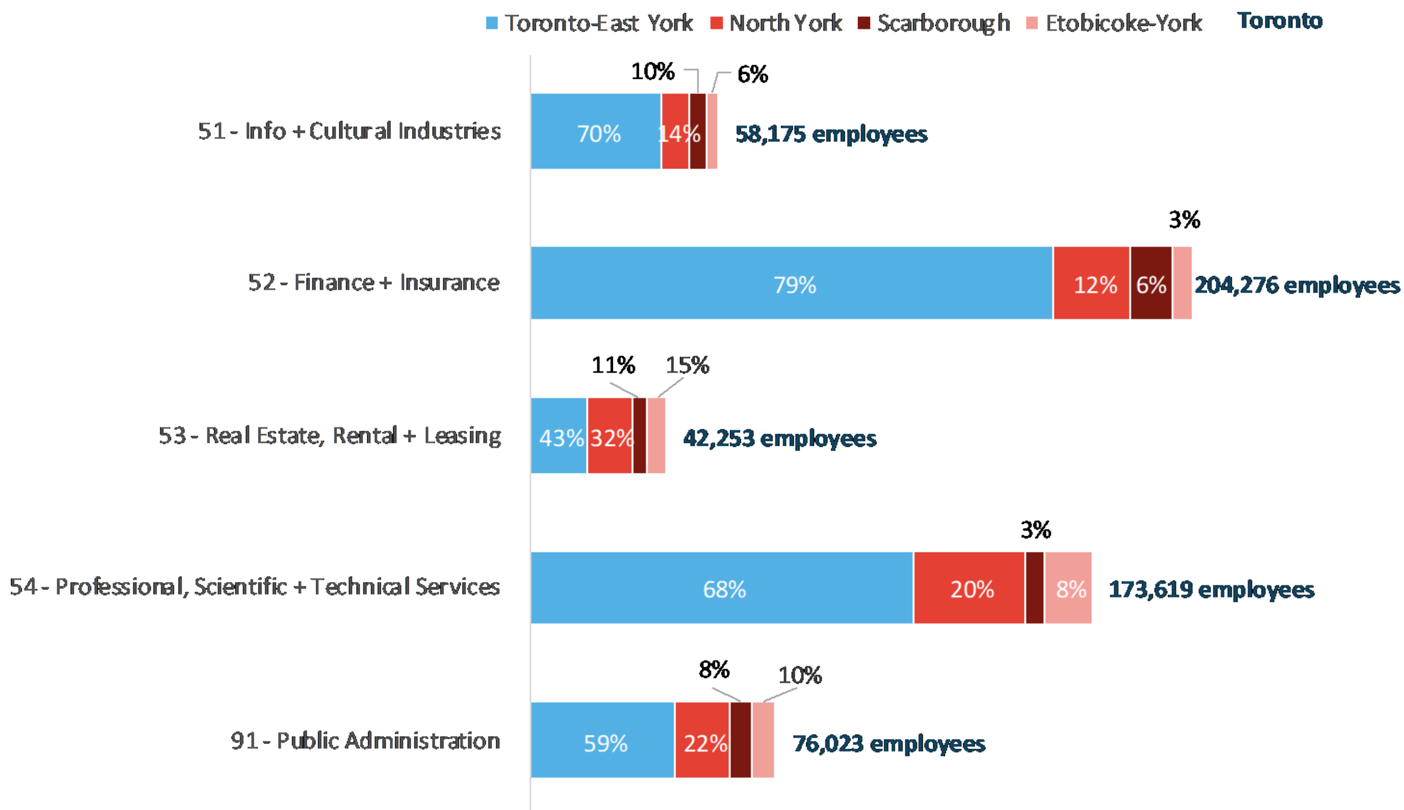

North York has experienced more modest growth, with office steadily around 1/2 of the District's employment.
COVID-19
400,000
350,000
300,000
250,000
200,000
150,000
100,000
50,000
-
51% 51% 50% 50% 50% 49% 50% 51% 51% 53% 53% 53% 53% 52% 51% 52% 50% 49% 49% 49% 52% 51% 49%
'00 '01 '02 '03 '04 '05 '06 '07 '08 '09 '10 '11 '12 '13 '14 '15 '16 '17 '18 '19 '20 '21 '22
Total
Office



Source: Parcel, based on the Toronto Employment Survey (TES).

Consistent with the data in Figure 3.5, the industries identified in Figure 3.4 as being most reliant on offices are primarily located in Toronto-East York. This is in large part due to the more significant supply of office in Toronto-East York (see Figure 2.2 in Section 3). This is unlikely to change in the short- and medium-term.

Figure 3.6 Employees in Office-Based Industries Are Predominantly in Toronto-East York



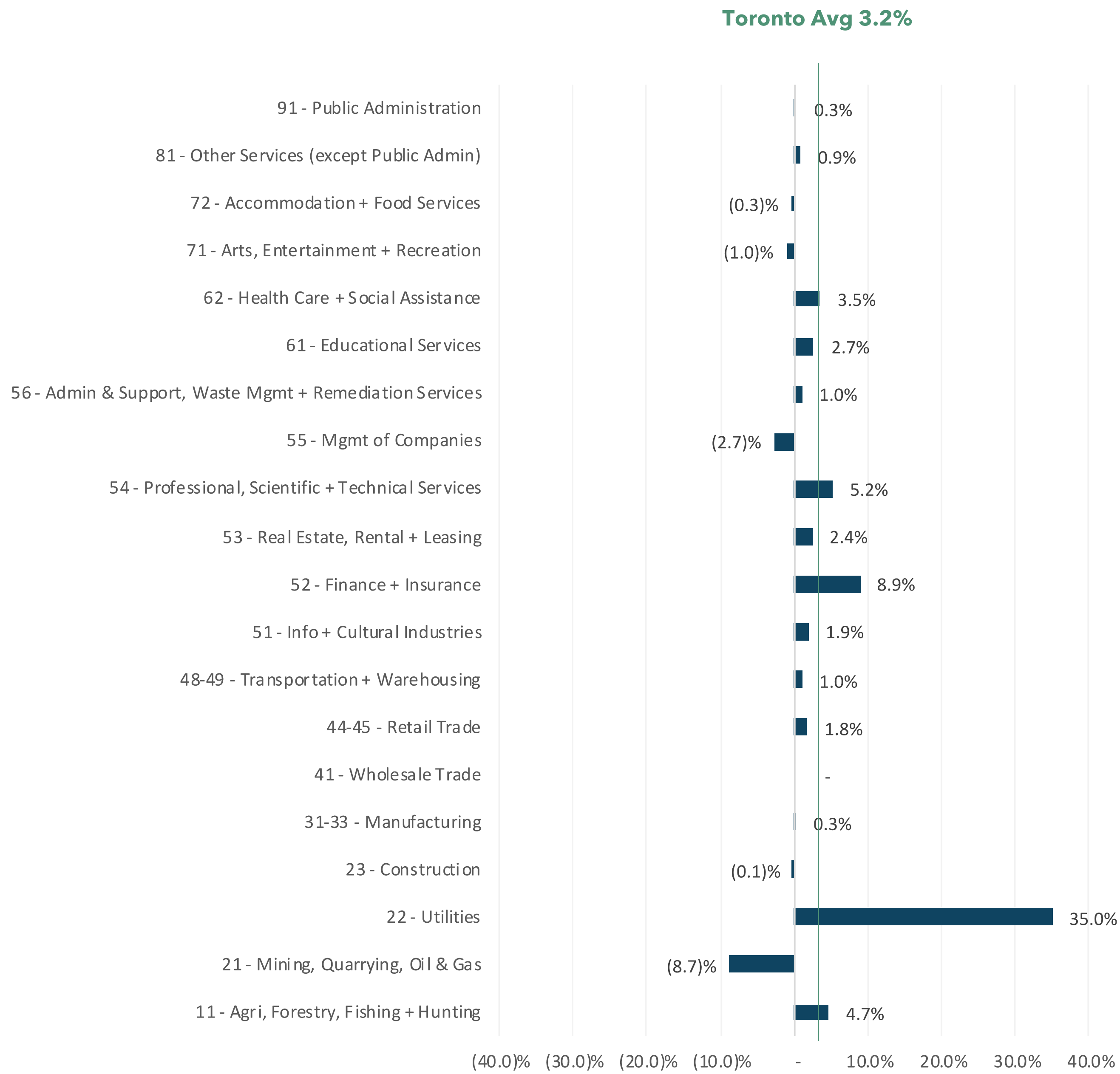
Source: Parcel, based on the 2022 Toronto Employment Survey (TES).

Business Size

Over the past 10 years, office-based industries have continued to grow in the context of employees per establishment.

Using Finance & Insurance as a key example of a typical office-based industry, businesses grew in the number of employees per establishment by nearly 9% annually over the 10-year period.

Figure 3.7 Many Industries Are Growing the Number of Employees per Establishments



Source: Parcel, based on the average annual growth published in the Toronto Employment Survey from 2012 to 2022.

3.2 Business Trends

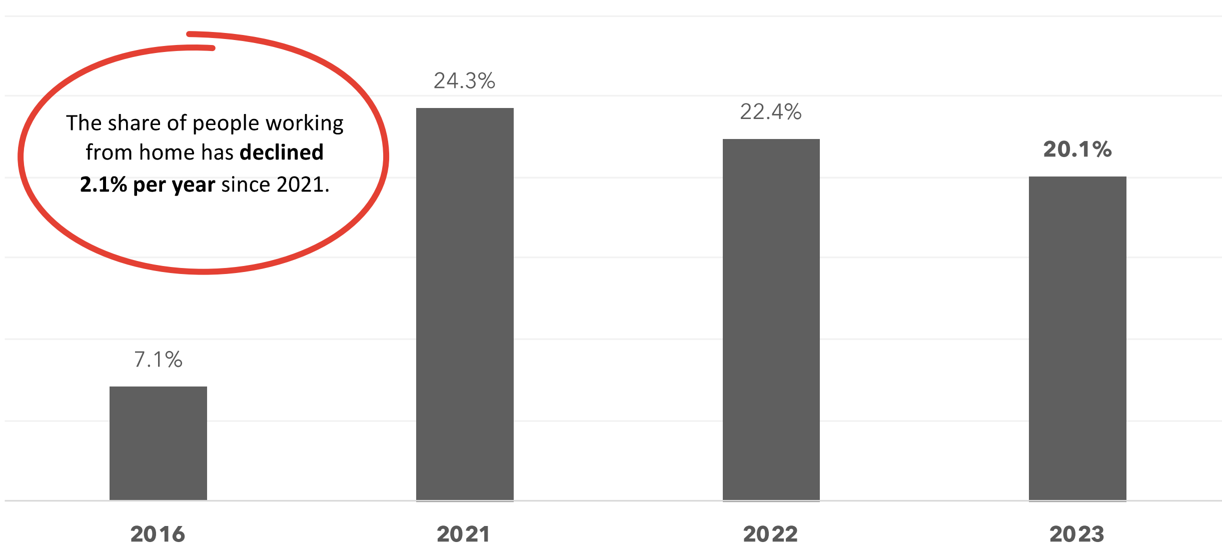
Work From Home

Only one in five workers in Canada *usually* works from home.

Between 2016 and 2021, the share of people working from home increased from 7.1% to 24.3%, a growth of 17.2%. This shift was sparked by the onset of the COVID-19 pandemic, as individuals and workplaces were subject to stringent COVID-19 restrictions and more feasible telework opportunities.

Since its peak in 2021, the share of people working from home across Canada has **gradually declined**. This decline has mirrored reductions in public health restrictions, the gradual waning of infections, enhanced adoption of vaccines, and a push for the return to in-person work.

Figure 3.8 The Share of People Working from Home in Canada has Declined Since the Height of the COVID-19 Pandemic

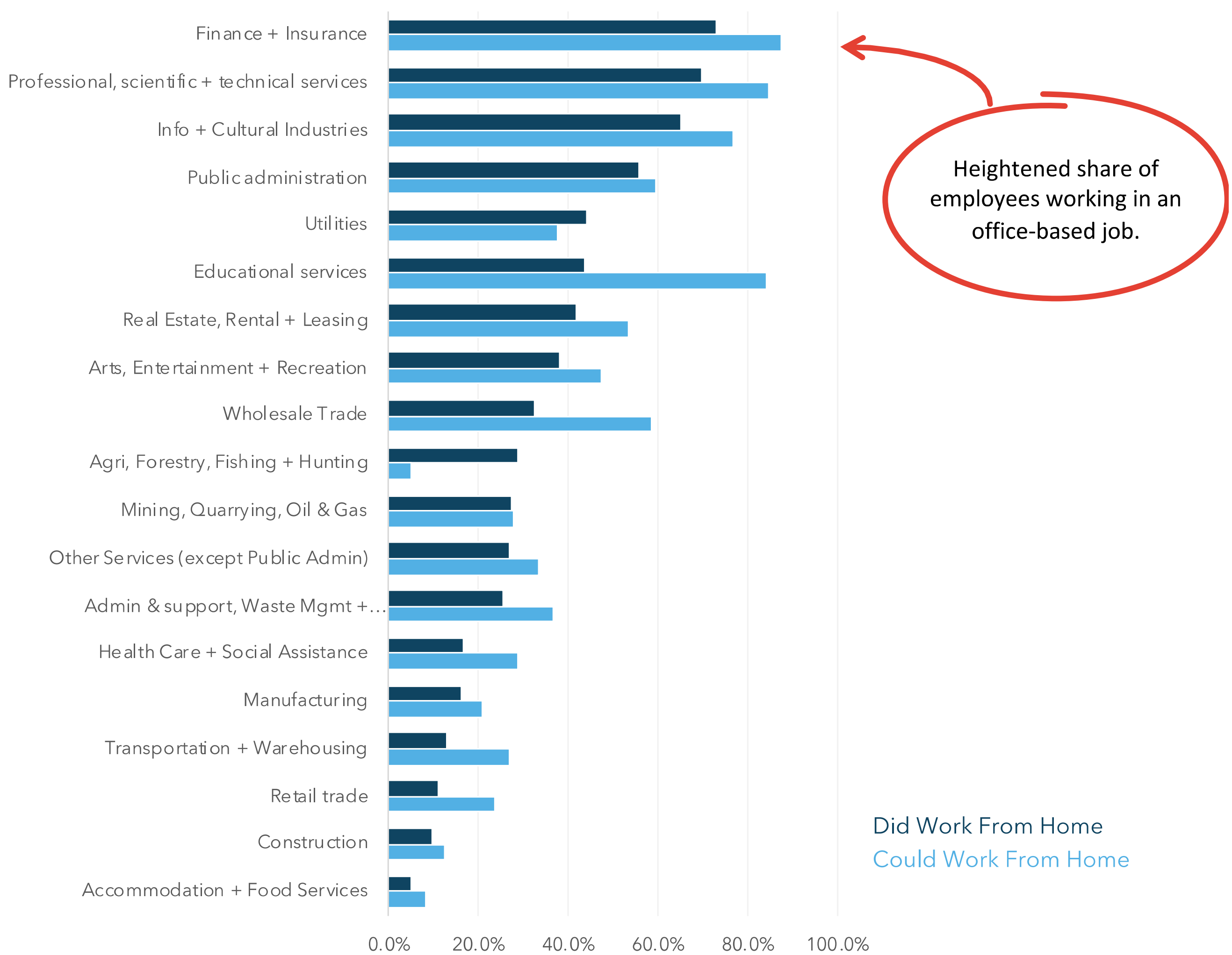


Source: Statistics Canada Labour Force Supplements (2022 & 2023), 2016 & 2021 Census data.

The capacity for people to work from home is largely tied to individuals' roles and the relative affordability for them to work from home. Figure 3.9 shows that the share of workers who ***could*** work from home is higher among industries with a greater porportion of office-based jobs. Figure 3.9 also shows that these estimates largely coincided with a heightened share of people who ultimately ***did*** work from home throughout COVID-19.

Relative to other industries, office-related jobs can be more easily replicated or transferred to home-based environments. The pandemic simply accelerated the adoption of work-from-home. It exposed employees and businesses to its potential benefits and related opportunities.

Figure 3.9 Work-From-Home Capacity Varies by Industry, Canada



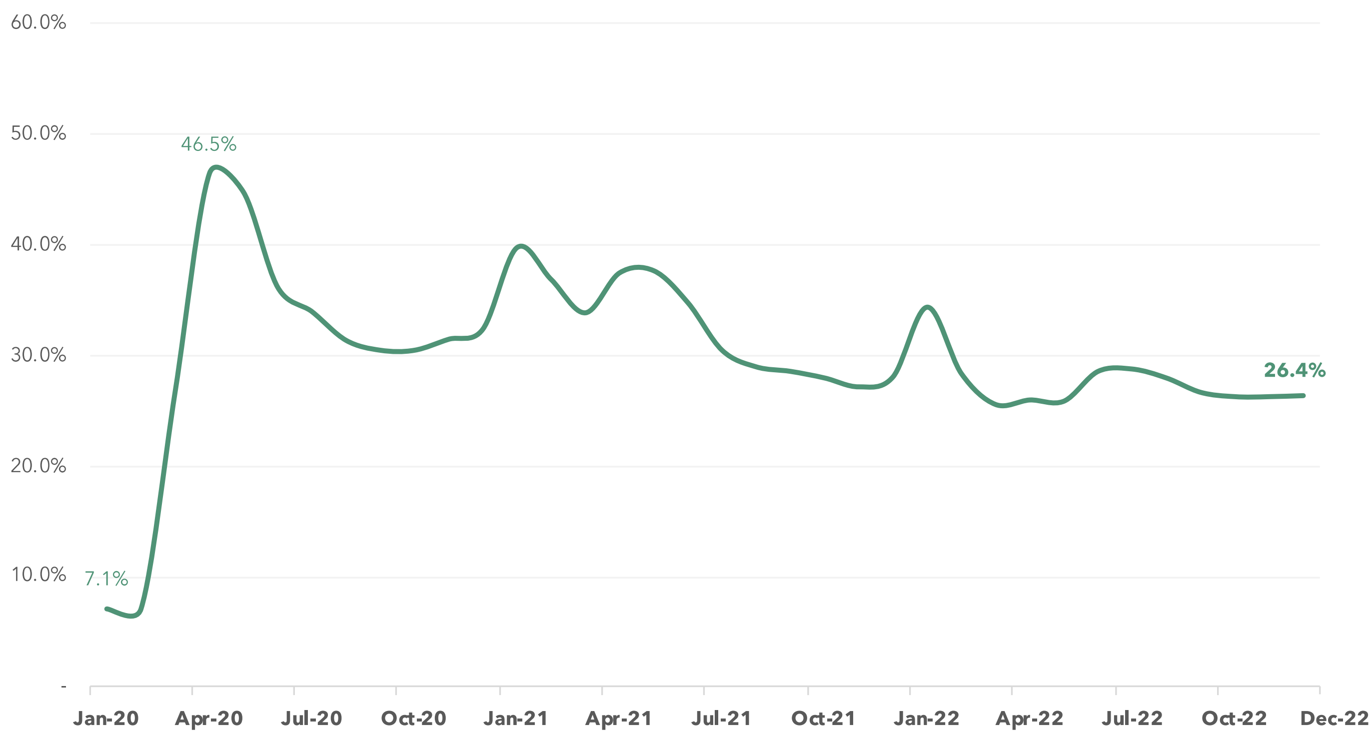
Source: Parcel based on Statistics Canada, Labour Force Survey (2019).

A relatively small share of Ontario employees are anticipated to work from home exclusively.

Consistent with the findings presented in Figure 3.8, Figure 3.10 highlights how the Ontario workforce has adapted throughout COVID-19. Since 2020, the onset of more stringent COVID-19 restrictions coincided with a heightened share of employees working from home. The propensity for Ontarians to work from home reached its peak in 2020, with 47% of Ontario employees reporting that most of their hours were worked at home. This reduced to approximately 26% by end of 2022.

This means that in 2022—when restrictions were removed and the height of the pandemic was in the rear view—some **74% of employees engaged in a hybrid or exclusively on-site work arrangement**.

Figure 3.10 COVID-19 has Increased the Share of Ontarians Working Mostly at Home



Source: Parcel based on Statistics Canada custom tabulation.

Hybrid work is anticipated to be an integral part of future workplaces. Per the above, the adoption of hybrid work is anticipated to be heightened across industries with a large share of office employees, whose role and positions are less fixated on location. The COVID-19 pandemic exposed people to the benefits of telework. It benefits employees by increasing individual autonomy, reducing commuting time and costs, while simultaneously increasing the capacity for individuals to adapt their schedules to better balance competing demands (e.g., family). It also benefits employers in some ways by enhancing opportunities to attract and retain talent while presenting an opportunity to reduce workplace needs and costs, without compromising their goals and objectives.

Notwithstanding the benefits associated with working from home, the pandemic also reenforced the importance of shared workplaces in fostering employee culture and collaboration. These considerations are at the forefront of future work. They help explain why—going forward—businesses and employees will likely continue to foster opportunities for their employees to operate **both on and off-site**.

To this end, Figure 3.11 shows that:

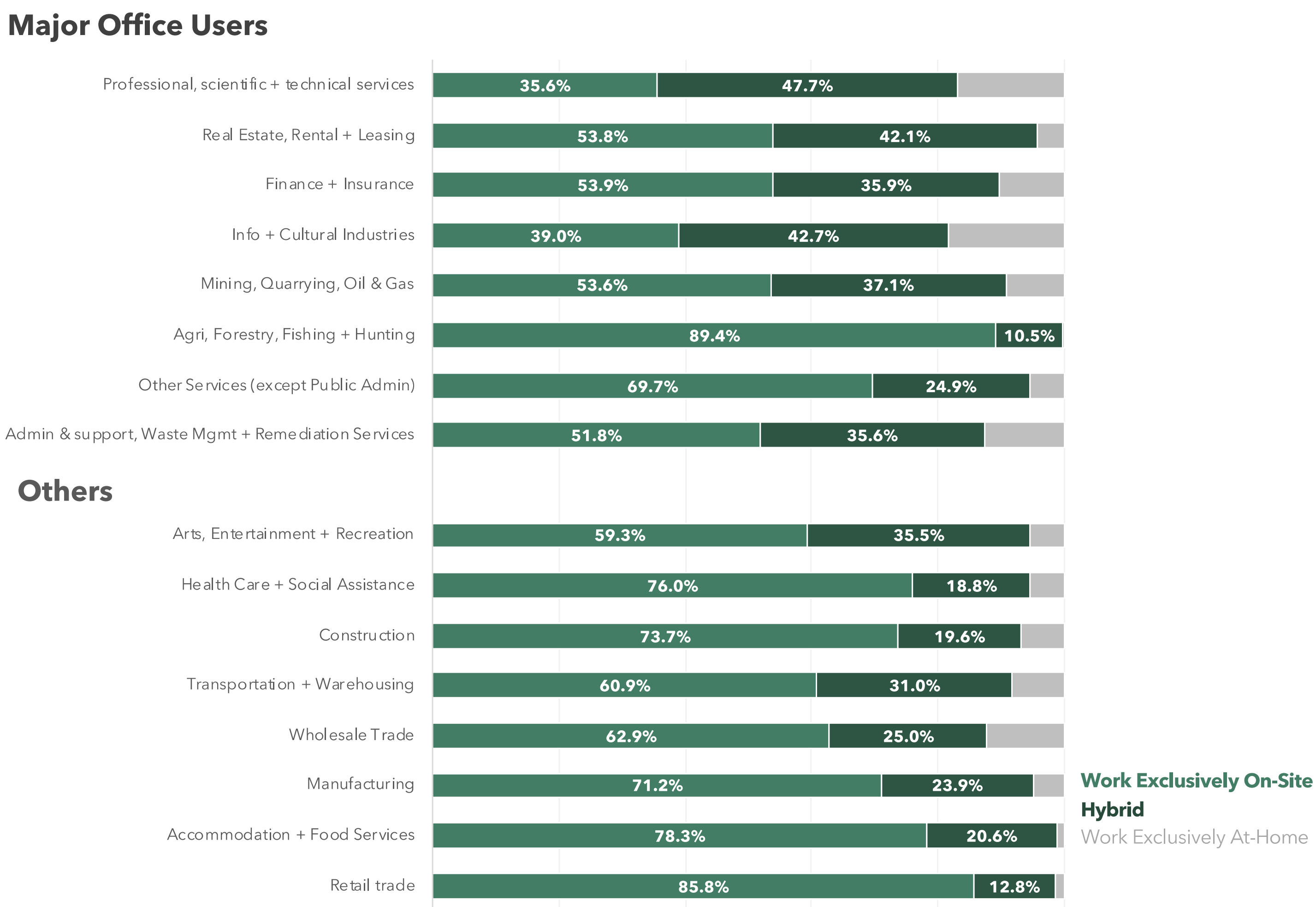
- Across all industries, the share of employees anticipated to **work *exclusively at home* represents a small share** of total employees. A larger share of employees are anticipated to work either exclusively on-site or adopt a hybrid approach.

- The adoption of a hybrid approach is anticipated to be most pronounced across industries that currently rely on office space (Figure 3.4) as these jobs are more transferable to off-site locations.

A push for hybrid work is anticipated to place downward pressure on office space demand as companies re-evaluate the amount of physical workspace required to accommodate employees. It is also expected to shift the type of office spaces people require, emphasizing environments that best foster collaboration and engaging employee experiences. This includes enhanced demand for services and amenities, lounges, physical meeting spaces, and break-out rooms. Features which distinguish the office from individuals' remote work locations and help draw people back to the office.

The widespread adoption of hybrid work is anticipated to influence the type and quantum of space required by many office-based businesses.

Figure 3.11 A Large Share of the Workforce is Forecast to Work—at Least Partly—On-Site



Source: Parcel based on custom tabulation (Table 33-10-0751-01) from Statistics Canada. Data unavailable for Public Administration, Management of Companies and Educational Services.

Employee Travel Patterns

To gain a better understanding of the continued function and draw of key office nodes in Toronto—and how this potentially changed through COVID-19—we have evaluated visitation patterns to six major office nodes.

Parcel has utilized mobile analytics data to better understand visitation patterns across multiple office nodes in Toronto. These nodes currently serve differentiated functions and were selected to help identify how employee traffic may be influenced by location, surrounding amenities, transit, the quantum of office space present and other macro factors, particularly as a function of the pandemic.

These patterns and nuances are important in informing the existing visitation and potential occupancy of various office nodes, and ultimately in understanding how the function of each node may change in response to these patterns. These dynamics will be especially important as the City continues to deal with heightened office vacancy and is further in the process of determining what the office market will look like in the future.

Note About Employee Origins

This research has involved partnering with a third-party data provider to determine the travel behaviours and estimated geographic origins of individuals that visited selected office nodes in Toronto over a full one-year period. For the purposes of this analysis, data was collected for: (i) full-year 2019; and (ii) the full-year period from May 2021 to April 2022 (based on data availability).

The analytics data employed for this analysis are based on the traffic volume of an average day in the defined study period, or average annual daily traffic (AADT) estimate, subsequently adjusted to represent real-world count data. Location based services from smartphones and global positioning points are collected and normalized through various algorithms to estimate AADT, which are comparable to real-world count data. Based on this process, our analysis below has been reported in percentage terms. Estimated trip counts have been interpreted to access the home location of visitors to existing office locations in Toronto.

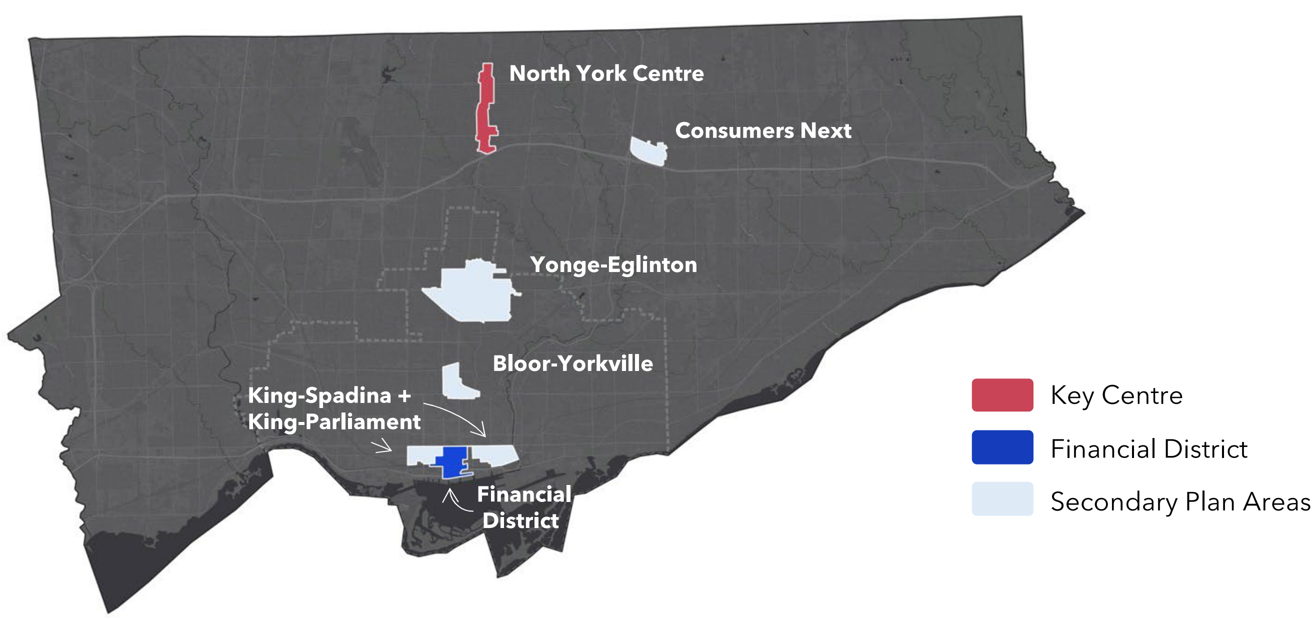
Key Office Nodes

For the purposes of this analysis, we have analyzed employee origins for six office nodes in Toronto. These nodes were chosen to assess how—in light of the COVID-19 pandemic—the amount, location, accessibility, and quality of office space correlates with worker activity. Collectively, they also represent a reasonable subset of office locations from which we can understand patterns and changes in the city.

Figure 3.12 shows the six nodes surveyed, including:

- The Financial District
- King-Spadina & King-Parliament Secondary Plan areas
- The Bloor-Yorkville Secondary Plan area
- The Yonge-Eglinton Secondary Plan area
- North York Centre
- The Consumers Next Secondary Plan area

Figure 3.12 Surveyed Office Nodes in Toronto



Source: Parcel.

Employee Origins Summary (Total Volume)

Figure 3.13 examines the volume of visitation to each office node. Specifically, Parcel has examined the number of workers that visit each zone on an average day, including only those workers who regularly stay or end their trip in each node (i.e. excluding “pass-through” trips).

Parcel has compared this data across two time-periods to understand how pedestrian traffic volumes have changed by location and in response to the COVID-19 pandemic. At a high-level, Parcel identified that prior to COVID-19, there was significant variation in the employee draw to each node. Differences in drawing power also meant that the pandemic ultimately had a variable impact on employee activity in each area. Specifically:

- Prior to COVID-19, the **Financial District drew the most significant volume of daily employee traffic**, over four times other nodes analyzed. After the onset of the Pandemic, the Financial District continued to draw a heightened share of employee traffic, albeit at a much lower scale.

- Consistently, the **COVID-19 Pandemic had the greatest impact on employee traffic to the Financial District** While it caused similar change to the daily employee traffic at the Consumers Next Secondary Plan area, the scale—or volume of impact—was vastly different scale.

- A different dynamic prevails in the North York Centre and the Yonge-Eglinton nodes, whereby total visits to these nodes increased after the onset of the COVID-19 Pandemic. This could be due to the type of office and/or complementary uses in these areas, their respective location, and the introduction of new developments. It could also be related to where employees of these locations reside, which are potentially less susceptible to the transit and travel impacts of the Pandemic.

Figure 3.13 COVID-19 Significantly Reduced Employee Traffic Across Most Office Nodes

	Pre-COVID (2019)	**COVID** (2021/2022)	**COVID Impact**
Financial District	238,200	75,300	-68%
King Spadina & King Parliament Secondary Plans	58,600	55,500	-5%
Bloor-Yorkville Secondary Plan	32,600	26,300	-19%
Yonge-Eglinton Secondary Plan	36,400	55,800	53%
North York Centre	53,700	56,000	4%
Consumers Next Secondary Plan	11,400	3,400	-70%

Source: Parcel based on mobile analytics pedestrian count data. For the purposes of this study, “COVID” reflects data from May 2021 to April 2022, the last full year of data available. Pre-COVID is consistent with full-year 2019 data, the earliest year of data provided.

Employee Origins Summary (Geography)

Figure 3.14 details the "capture" patterns of each node, including a summary of how far employees are travelling to visit each office area. This percentage breakdown is based on the grouped common evening locations of workers who have ended their trip within the identified node. It deliberately includes repeat visitation, to appropriately recognize differences in the volume of trips made by each employee and effectively highlights the propensity for employees living in certain locations to frequent a certain office node (e.g., employees who live further away are less likely to visit as regularly, particularly after the onset of the Pandemic). Like above, these trends include only persons who stayed in each node and excludes pass-through traffic. Evidently:

- Prior to COVID, larger office nodes—including those within or closer to the Downtown—drew a heightened share of visitation from employees living further afield. Conversely, employee traffic in more peripheral office nodes was driven by individuals who lived locally. These trends are likely tied to differences in the location of each node, variable accessibility characteristics and the scale and concentration of office space. Where Downtown nodes serve as primary hubs of office activity that can be easily frequented by employees from further afield, offices in more peripheral areas host a comparably small share of space that also caters to smaller businesses and/or businesses that require secondary office locations.

- This dynamic also helps explain why COVID had a more significant impact on overall employee traffic in more centrally located, Downtown nodes (e.g., Financial District, King-Parliament & King Spadina, Bloor-Yorkville). **COVID had a more pronounced shift on employees who lived further from their workplaces. It reduced their ability and desire to commute to the office.** This dynamic is shown in Figure 3.15 which demonstrates the comparably strong drawing power of the Financial District relative to the North York Centre.

- As these individuals consumed a greater share of traffic among Downtown nodes, it is understood why there was such a significant drop off in employee traffic.

- While offices in the Financial District still draw a heightened share of employee traffic from across the Region and beyond, the prominence of these employees is far less than historically.

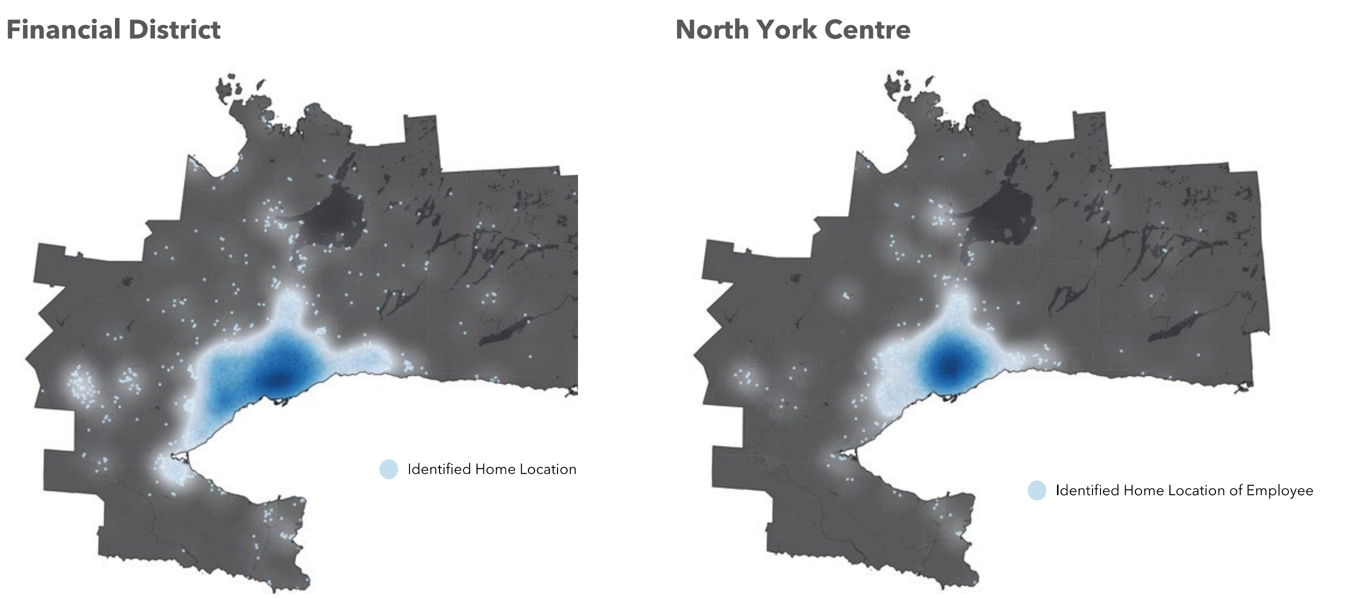
COVID-19 impacted the frequency at which employees—particularly those with long commutes—are willing and likely to visit the office.

Figure 3.14 After the Onset of COVID-19, Visitation was Tied to Employees who Lived Locally

	Financial District		King Spadina / King Parliament		Bloor-Yorkville		Yonge-Eglinton		North York Centre		Consumers Next	
	Pre-COVID	COVID	Pre-COVID	COVID	Pre-COVID	COVID	Pre-COVID	COVID	Pre-COVID	COVID	Pre-COVID	COVID
Within 1 km	17%	35%	39%	69%	37%	73%	60%	79%	58%	83%	18%	43%
1 to 10 km	23%	21%	26%	13%	27%	13%	22%	15%	18%	9%	33%	29%
10 to 50 km	53%	35%	29%	14%	31%	12%	15%	4%	21%	6%	44%	24%
50 to 100 km	4%	6%	4%	3%	3%	1%	2%	1%	2%	0%	3%	2%
Over 100 km	3%	3%	3%	2%	2%	2%	2%	2%	1%	1%	2%	1%

Source: Parcel based on mobile analytics pedestrian count data.

Figure 3.15 Throughout COVID-19, Core Office Nodes Maintained a More Significant Drawing Power than Peripheral Nodes, Albeit at a Lesser Scale than Previously



Source: Parcel based on mobile analytics pedestrian count data.

3.3 Competitive Positioning

Local Context: Toronto's Office Submarket Hierarchy

To compare the relative merits of the various submarkets and employment nodes identified within the City of Toronto, we have undertaken an evaluation based on a number of predefined criteria relating to the **key locational attributes and characteristics that make for successful office-based nodes**.

Figure 3.16 presents a summary of this evaluation. It has been provided for demonstration purposes only along with the following general observations:

The City's <u>Financial Core serves as the "gold standard" for office uses</u>, both municipally and across a much broader geographic area. It offers a full complement of critical infrastructure, supporting amenities and other positive locational characteristics that are effectively unmatched elsewhere in Canada.

- The underlying strength of the Financial Core—and by extension the Downtown more broadly—is not expected to change, thereby reinforcing its role as the primary employment centre (even under softened market conditions). Consequently, among the most expensive commercial real estate in the country will likely continue to be captured in this area and reserved primarily for the types of businesses willing to pay such a premium (e.g., top financial services, legal services, insurance and other corporate headquarters).

- Similarly, other central and core-adjacent office nodes within the Downtown boast a similar collection of attributes that continue to make them desirable locations for supporting existing and potentially new office development longer term, albeit at slightly discounted rental rates.

- Beyond this, there are a number of secondary or peripheral office nodes throughout the City—including the likes of Yonge-Eglinton and North York Centre—which offer direct subway access but do not necessarily present the same degree of merit or benefit as the other established nodes identified above.

Figure 3.16 The Locational Attributes & Amenities that Drive Office Demand in Toronto

Source: Parcel. *East Harbour includes consideration of both existing and planned infrastructure (e.g., planned GO Station / multi-modal hub).

Regional Context: GTHA's Office Submarket Hierarchy

To further examine the likely longer-term strength of Toronto as the focal point of employment activity across the Greater Toronto and Hamilton Area (GTHA), we have undertaken a second comparative analysis. This analysis evaluates the Financial Core against several other notable existing and/or fledgeling new office employment centres across the region. This analysis is based upon the same predefined criteria for the Toronto-specific nodes above.

With these characteristics in mind, and recognizing the anticipated future reinforcement of Toronto's Downtown as the GTHA's primary commercial centre, there is generally limited opportunity for other nodes to establish themselves as meaningful secondary / tertiary office nodes. If anything, these areas—particularly those with higher order transit access like the Vaughan Metropolitan Centre (VMC)—may compete more directly with Toronto's more peripheral, suburban office market contexts.

Figure 3.17 Toronto's Locational Attributes & Amenities are Unmatched Regionally

	Financial Core	Vaughan (VMC*)	Mississauga City Centre	Markham Downtown	Brampton Downtown
Transit Access: Regional Rail Access	●				●
Transit Access: Higher Order (Subway)	●	●			
Transit Access: Lower Order (Bus/LRT)	●	●	●	●	●
Highway Access	●	●	●	●	
Walkability	●				
Critical Mass: Existing Office Presence	●	●	●		
Critical Mass: Anchor Tenant Presence	●	●			
Residential Densities	●	●	●	●	●
Amenities: Retail/Service/Entertainment	●	●	●	●	●
High Quality Public Realm	●	●	●		
Affordability (Commercial)			●	●	●
Score:	**30**	14	14	10	10

● Low Relevance = 1 point ● Moderate Relevance = 2 points ● High Relevance = 3 points

Source: Parcel. *Vaughan Metropolitan Centre (VMC).

Global Context

Notwithstanding the anticipated resilience of Toronto—and in particular the Financial Core—on a domestic scale, it is also important for the City to be **mindful of its international positioning relative to other global cities**, both now and into the future. This includes competition for both “talent” (employees) and business investment from other major North American urban centres like New York, Boston and Chicago, but also equivalent financial centres elsewhere in the world like London.

In this regard, factors relating to quality of life, incomes / cost of living (e.g., housing affordability), effective transit infrastructure, safety and other factors like healthcare / education will continue to be major drivers of Toronto’s ability to maintain—and enhance—its reputation as a premier destination for office-based activities.

Staff Workshop: Economic Development Perspectives

Parcel participated in a dedicated workshop with selected staff from the City’s Economic Development and Culture Division. This meeting was coordinated by City Planning and centered on providing an opportunity for Economic Development and Culture staff to discuss their recent and ongoing experience with requests for office space conversions and potential options for alternative non-residential uses in the context of new mixed-use developments.

Themes emerging from this engagement that are relevant to this study include:

Alternative Non-Residential Use Options for Vacant Office Space

- Uses identified included coworking space, wet labs, light manufacturing uses, studio spaces, expansion area for schools and other education-based institutions and self-storage. Demand opportunities were also identified for data centres, creative industries and vertical agriculture. Many suggested there could also be interest from various health service operators.
- While many of these uses are prominent right now, it was further suggested that there will be a saturation point for each and supporting a diversity of users will be key.
- Economic development staff emphasized that there is a **disconnect between businesses looking for space and available non-residential space in the market**. There would be value to: (i) consolidating this information to better align existing supply with changing demand; and, (ii) increasing the **flexibility of existing zoning** (such as CRE Zoning) to support demand from a broader range of uses.

Barriers to Office Conversion:

- It was said to be challenging for office uses to compete against residential demand and development, which represents an "easy win" based on current market conditions.
- Furthermore, financial costs of new office development are high, mitigating landowner interest in taking risks.
- Many projects must go through the Community of Adjustment process, a time-consuming and somewhat uncertain process which can deter tenants and raise costs.

Preferred Non-Residential Alternatives:

- Priorities identified were life sciences, green sciences and health tech businesses (e.g., wet labs, green chemistry, research businesses etc.). There was also mention about the importance of data centres, not in providing substantial employment growth opportunities, but in supporting other related industries.
- There was recognition that it could be valuable to revise the existing approach in the zoning by-law to focus on non-permitted uses, rather than listing all permitted uses. This would essentially **refocus on "enabling" new development, not "restricting" it.**

Guiding Residential Conversion Permissions:

- There is a general need for more support, particularly in guiding property reinvestment and modernization. Many tenants also require more support in understanding existing legislation and their capacity to make change. This disconnect creates delays in decisions and change.
- Emphasis was placed on the importance of having an automatic stop, such that residential development does not preclude new office development and to ensure the flexibility is there if the office market "bounces back" longer-term. There was a sentiment among participants that the **conversion of non-residential space to residential space should not become the status quo**. Rather, the City needs to specify conditions and make them consistent across applicants.

3.4 Non-Office Uses

In conjunction with office-specific research, it is also important to consider the current state of the real estate market more generally in Toronto, including: (i) pre-existing supply/demand imbalances; and (ii) the inter-relationship among / between different use types.

To this end, the following provides a brief introduction to some of the key dynamics at play in relation to office uses, which will be further explored as part of subsequent phases of the study.

Residential Uses

- As a common experience to most communities across Canada and beyond, Toronto continues to find itself in a housing crisis, with demand far outpacing the delivery of new supply. This **need for new residential development spans the full spectrum of housing**, from the deepest levels of affordability to full market-rate units.

- As a function of this demand, housing continues to represent the **“highest and best use”** of many—or most—sites across the City from the perspective of financial feasibility. This further presents unique circumstances in the context of competition for development land with office and other employment-based uses.

- At a more macro level, however, **housing can serve as an amenity to office developments** (and vice versa). Specifically, the co-dependence of these two uses can help support a more balanced “live / work / play” dynamic, reduce commute times, and ensure that there is an adequate supply of skilled workers available near major employment centres.

Other Non-Residential Uses

- Similar to the interdependence between housing and office uses, **retail/service commercial uses can represent a key driver of urban vibrancy, placemaking and grade-related activation**, which effectively improves the appeal of nearby office spaces. Specifically, these types of commercial functions act as an important amenity to office-based workers both during and before/after traditional “working hours”.

- **Recreational, cultural and entertainment-based activities can serve as an equally important amenity to office uses**. In the context of major employment centres like Toronto’s Financial Core, this can include major event venues and/or other cultural attractions that function as key locations for networking and off-site business activities, but also a full range of smaller scale and/or temporary formats (e.g., events / festivals, etc.).

- As opportunities for growth in traditional manufacturing and warehousing spaces continue to be limited across the City’s main employment areas (i.e., as a function of competition from other forms of mixed use development, being predominantly built out among larger space-users / existing building footprints, growth in logistics-based demand, etc.), selected **light industrial, production and research/laboratory-based uses may also represent alternative non-residential uses** capable of co-locating in what have historically been more office-centric nodes. As market conditions within this subsegment tighten more broadly, there could be an increase in interest among “light” industrial space users, research / laboratory facilities and other similar tenants for what have traditionally been classified as “office” spaces in selected locations.

- Other uses that may be considered in the following stages of this Study include, but are not limited to: **hotels**, **institutional uses**, **storage and warehousing**, and **life sciences**.

4.0 Policy Context

Key Findings

- A desire to sustain office buildings across Toronto is directed by the City's Official Plan. Office availability is key to support long-term economic growth and prosperity and in promoting and sustaining a balance of housing and jobs across the City.
- The Toronto Official Plan supports and enforces the provincial planning policy framework, which similarly centres on balancing the provision of complete and liveable communities with a strong and growing economy long-term.
- Many municipalities are facing the same issues as Toronto. In comparing New York City, Boston, London and Ottawa, it is clear that each is facing pressures to protect a healthy supply of office space while simultaneously converting underutilized office space for other uses.
- New York City, Boston, and Ottawa have introduced financial incentive programs to promote office conversions (e.g., cash-in-lieu, tax incentives etc.).
- Ottawa and New York City have also implemented policy changes that reduce legislative barriers to office conversion (e.g., flexibility in zoning, qualifying standards etc.).
- London's experience represents a more cautionary example of what can happen when conversion projects are exempt from local-level planning processes and development regulation. In turn, London has more recently shifted its focus to more structural, process-based improvements that aim to solidify the City's vibrancy.

4.1 Current Policy Framework

Office uses in Toronto are prioritized and promoted within areas where mixed-use development is desirable and where significant economic growth is anticipated, often in proximity to transit.

As office buildings accommodate a large portion of the City's jobs, policies in the Official Plan aim to secure the long-term availability of office spaces within Toronto in order to support long-term economic growth and prosperity in Toronto and the region, as well as to promote and sustain balanced growth of housing and jobs across the City.

The Official Plan, including Secondary Plans, includes various policies that protect existing office and non-residential uses from replacement by residential uses, either by conversion or redevelopment. Chapter 3 of the Official Plan includes an office/non-residential replacement policy (currently under appeal and not in-force) that applies to specific parts of the City: the Downtown and Central Waterfront, Centres and within 500 metres of an existing or an approved and funded subway, light rapid transit or GO train station. Other Secondary Plans, such as the Downtown Plan, Yonge-Eglinton Secondary Plan and North York Centre Secondary Plan contain additional policies establishing minimum office requirements and/or stipulating the replacement of office and non-residential GFA in select geographies. Implicit in these policies is that outside of the areas identified, the conversion or demolition and replacement of office uses is permitted, where the other policies of the Official Plan are satisfied.

These policies and vision **support and enforce the provincial planning policy framework**, which aim to promote complete and liveable communities while facilitating a strong and growing economy long-term.

See **Appendix B** for details of **Current Policy Framework**.

4.2 Policy Precedents

Four additional municipalities have been considered as part of a jurisdiction scan intended to provide insights from other municipalities: New York City, Boston, London and Ottawa. Details on how each of the respective jurisdictions are approaching office uses amid changing market trends can be found in **Appendix C**, whereas the following provides a high-level summary and comparison of the common issues, opportunities / constraints, and approaches each jurisdiction is using to **balance the pressure to convert underutilized office space to other uses and the need to protect office uses in order to maintain a healthy stock of office buildings**.

New York City United States	Boston United States	London England	Ottawa Canada
Premier North American office market / employment centre.	Focus on affordable housing and specific to a Downtown area.	Mixed use focus and potential example of a "cautionary tale".	Canadian precedent, sharing equivalent Ontario policy context.

In the Spotlight: Calgary's Downtown Office Conversion Program

As the subject of extensive media coverage lately, our study also considers the experience of another Canadian municipality—**Calgary, Alberta**—that recently introduced a new office space conversion program in their Downtown. That said, it is our opinion that the relative success of this program has potentially been overstated in the context of its replicability for Toronto and other peer communities. This is because Calgary continues to exhibit extremely different underlying market conditions relative to Toronto, which were a symptom of broader macroeconomic changes and sector-specific challenges that began far before the COVID-19 pandemic. As just one indicator of demand, office vacancies in Calgary have been trending:

(a) much higher than Toronto; and,

(b) for an extended period of time.

Notwithstanding these market differences, there are relevant insights that can be gleaned from this program. These takeaways are consistent with the findings of both our parallel research interview process and the evaluation of peer jurisdictions and their policy approaches, as outlined herein:

Prioritization

Speed-to-market and an overall sense of urgency for conversion projects—largely as an immediate response to a parallel housing crisis—have yielded tangible results for the municipality, including a pipeline of 17 distinct projects expected to deliver more than 2,300 new residential units. This has specifically enabled a relatively quick "uptake" of preliminary funding allocated to the program and is anticipated to generate material fiscal benefits to the City by way of growth in the local property tax assessment base.

Need for Incentivization

Given prevailing market conditions—both for the occupancy of office space and the challenges now facing new construction projects of all types—the response received by the City's program would not have been possible without the direct financial supports and incentivization provided. The "start-up" fund associated with this program amounts to some $200 million.

Source: CoStar.

Context

Issues

- In all four of the jurisdictions there has been a decline in use and demand for office space, with office vacancy rates trending higher than what is typical. Ottawa and London have office vacancy rates that are only a couple of points higher than what is considered healthy, whereas both Boston and New York City have office vacancy rates that are substantially higher than what is considered healthy.

- There is a high prevalence of hybrid and remote work in all four jurisdictions. The long-term prevalence of hybrid and remote work remains unknown, however, trends in employee preference data in New York, London and Ottawa have strongly indicated that employees continue to prefer remote and hybrid work.

- The supply of housing, particularly of affordable housing, is also an issue across all four of the jurisdictions. Of note, in New York City, approaches to office conversions consider demand not only for housing, but also for childcare facilities.

- Regulatory and procedural barriers have impacted the ease at which offices can convert to other uses in Ottawa, Boston and New York City. However, London has had the opposite challenge where office-to-residential conversions are permitted as-of-right nation-wide through Permitted Development Rights (PDR). The lack of regulations for conversions within the United Kingdom has negatively impacted the quality and availability of office buildings within London (see **Appendix C** for more details).

Opportunities

- Despite the overall decline in office demand in all of the municipalities, in New York City, Ottawa, and Boston there is a larger year-over-year increase in occupancy in office buildings that are in proximity to amenities and located on high-frequency transit. This trend is referred to as a "flight to quality".

- The adaptive reuse of underutilized office buildings is being promoted as a way to lower embodied carbon and contribute to carbon reduction within Boston, Ottawa, and London.

- New York City, Ottawa, and Boston have indicated that the conversion of underutilized office buildings for residential uses, particularly buildings that have small floorplates built in the early 20th century, is a means of creating more housing. Notably, only New York City is promoting the conversion of office buildings as way to increase the amount of space for much-needed non-residential uses, such as childcare facilities.

- Additionally, both Ottawa and New York City have observed that conversion from office to market-rate housing has been successful without any kind of incentive.

Constraints

- In all of the jurisdictions, only a portion of the office building stock would be suitable to convert to residential uses due to the physical alterations that would be required.

- In New York, Boston, and Ottawa, the conversion of office space to affordable housing is rarely financially feasible, especially without government subsidies. Additionally, in New York City, interest from developers to convert office buildings to residential is varied and largely dependent on a number of factors including risk aversion, access to financing, existing debt, and ability to vacate existing office tenants. New York City, Boston and Ottawa are also constrained by regulations and policies that often make it challenging for a conversion to be physically or financially feasible. For example, amenity requirements and green buildings standards can be costly and difficult to accommodate based on existing floorplans of buildings.

- London is constrained differently than New York City, Boston and Ottawa. As-of-right office to residential conversions through PDR has led to the loss of needed office space and has also not created enough residential units to address housing supply shortages.

Existing Approaches to Office Conversions

- Conversion projects within Boston and Ottawa are subject to the same development review process and regulations as other development projects in their respective jurisdictions. Prior to the recent introduction new policy and program approaches to conversions, there was no targeted incentive program or distinct policy framework to manage office conversions in either Ottawa or Boston.

- Conversely, New York City permits office conversion through flexible regulations found in the Zoning Resolution and the New York State Multiple Dwelling Law (MDL) in many of the City's office districts. However, the ability and ease for an office building to convert in New York City is primarily dependent on the year the building was constructed and if the building is either located in a zoning district that allows residential uses or an area that has been identified as suitable in the MDL.

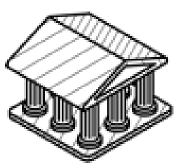
- As previously stated, Permitted Development Rights were introduced in 2011 by the UK National Government in order to enable conversions of commercial buildings to residential uses as-of-right. PDR has led to several negative impacts and is a cautionary example of what can happen when conversion projects are exempt from local-level planning processes and development regulation. Details on PDR and the negative impacts of the approach can be found in Appendix C.

New Directions

Financial Incentives

New York City, Boston, and Ottawa have all introduced a **financial incentive program to promote office conversions**.

- New York and Boston have both proposed tax incentives to encourage the creation of affordable housing units within conversion projects. New York City has also introduced a tax incentive to support office to childcare conversions.
- Ottawa's incentive program provides a reduction in the parkland Cash-in-Lieu cap, with the caveat that the vacancy rate downtown must be higher than 10% to be eligible.



Policy Incentives

Ottawa and New York City have both **introduced policy changes to create fewer regulatory / legislative barriers** to conversion.

- New York will expand the range of buildings and range of areas that are eligible for flexible conversion regulations, and will update the existing conversion regulations to allow conversion to all housing types.
- Alternatively, Ottawa plans to amend the Zoning By-law to provide flexibility for office-to-residential conversions in terms of the performance standards of the existing building, and how amenity space is provided on the site.

Process Improvements

Although there is no new London-wide approach to conversions given the permissions that already exists through PDR, the municipally has instead focused on **enabling activity through more structural, process-based improvements:**

- There are some local authorities within the London area that are exempt from PDR and have more control over office conversions, such as the City of London Corporation.
- To encourage people to return to office and promote more vibrancy and activation of the financial core, the City of London Corporation introduced some high-level objectives and strategies. These include permitting a greater mix of uses, accelerating active transportation and pedestrian infrastructure, and promoting flexibility and adaptability of newly constructed buildings.

See **Appendix C** for details of **Policy Precedents**

Appendix A: Research Interview Background

Parcel conducted informal, virtual research interviews with relevant stakeholders throughout December 2023 and January 2024. Details included below represent the combined opinions and perspectives of those interviewed.

Topic #1: Market Opportunity

Theme 1A: There is Still Demand for Office Space

- **The office market is cyclical**. Toronto is currently experiencing a more structural change tied to how people are using office space.
- Notwithstanding these changes, Toronto remains an attractive office environment and is a great, innovative place for people to do business. Many voiced that the office market will adapt as it always has. Core office markets (i.e., existing hubs, the downtown etc.) will return and bad spaces or office stock are most likely to be eliminated.
- New office supply will also continue to enter the market due to the growing appreciation of high-quality spaces. While this will drive vacancy across other, more obsolete buildings it will also perpetuate and sustain key market areas. In fact, it was estimated that the best office spaces in Toronto could be absorbed in the next 3-5 years.

Theme 1B: Hybrid Work is the New Normal

- Business owners do not know what they—or their employees—want, making it difficult to forecast how much space they need.
- Hybrid work has always existed, particularly as the digitization of work enabled people to work from anywhere. COVID-19 simply accelerated its adoption, exposing people to the opportunity and/or its potential benefits.
- Mirroring the indecision among business owners above, there was some disconnect in how interviewees felt hybrid work would develop over time. Most agreed that hybrid work was the way forward, emphasizing that certain aspects of their workforce have gone fully remote, mainly as a

function of role or position within the company (e.g., call centre employees, etc.). By comparison, others suggested the concept of hybrid work was overstated, suggesting most people in offices came in at least four days a week.

- Many agreed the push for hybrid work was tied to the opinions of their senior members or leadership teams, some of which held extreme opinions (i.e., most / least apprehensive to go to the office regularly). This dynamic also challenges the ability for businesses to develop a policy or mandate which stipulates when—or how often—their employees should come in. It also creates uncertainty. To this end, many agreed that it will take time—likely an economic cycle— for businesses to figure out their space needs.

- It was also vocalized that uncertainty is among the worst things for cities as it inhibits their ability to plan and charge a way forward.

- Interviewees suggested that employees have a significant amount of control right now. **Working from home used to be a luxury but has since become an expectation.** While this trend is beginning to recede and rebalance to some extent, employees continue to seek choice in how—and where—they conduct their work.

Impact on Space: Change in Company Footprint(s)

- Many interviewees indicated that companies are generally reducing their office space needs. A pursuit of less space is tied to many businesses re-evaluating their needs now and in the future. It is also influenced by internal pressures to reset or cut costs, motivating many to consolidate their footprint in the interim could be a 20-30% reduction in space. A pursuit for smaller spaces will also be driven by continued reductions in demand for private offices and workplaces in favour of more collective workspaces.

- Alternatively, it was suggested that desires for more informal, amenity and/or shared spaces will increase space requirements overall, due to the typical size and footprints associated with these areas. It was emphasized that people can no longer be “jammed” into mundane office spaces or they will not come in at all.

- In Toronto, many companies were sustained in spaces that provided between 175 and 200 square feet per employee.
- More recently, spaces were averaging 125 to 150 square feet per employee, notwithstanding additional space provided across common areas.

Theme 1C: Tenants are Seeking Flexibility While They Determine Their Needs

- Softened market conditions have enabled the private sector to dictate what they want or expect from landlords and the office spaces they lease (i.e., type of space, rental rates and lease terms). This is bolstered by the availability of lower quality, vacant stock in the market. Tenants can leverage this space—and its impact on the market—against space they are interested in when negotiating new leases. Market conditions have become so “soft” that landlords are poorly positioned to negotiate.
- Length of leases are much shorter than they have been historically. It is common for companies to request 5-year deals, with many also requesting the option to terminate after just three years.
- Most companies are seeking to maintain the same rents and fit out costs for office space but are **prioritizing quality over quantity**.

Theme 1D: The Type of Office Space in Demand is Changing, with Quality at the Forefront

- The ongoing pursuit of quality space—or flight to quality—requires a reconciliation of existing office space in the City. Older, **lower quality or obsolete office space needs to be reconciled to enable quality spaces to better profit and succeed**. The removal of redundant stock will enable the market to bounce back.
- In Toronto, there is strong demand for some, but not all office space. As businesses seek to bring their employees back to the office, they are increasingly drawn to more modern, unique and high-

quality spaces. There is also some demand—albeit at a reduced scale—for affordable, lower quality spaces. This demand is driven by companies who simply need a workspace and continue to prioritize affordability over quality.

- Tenants have never been so sophisticated in their expectations. Lower quality, Class B and Class C buildings, are increasingly unable to meet tenant expectations.

- Lower quality spaces in the market are reducing the value of all office assets. This inferior stock becomes leverage against the space tenants actually want (e.g., drive down rents, negotiate lease terms, etc.).

- There is also no incentive for owners of Class B and C space to upgrade their buildings. This is particularly pronounced across Class C buildings. Upgrading a Class C building to Class B exposes the asset to increased competition and inferior market characteristics (e.g., heightened vacancy). Landlords are better off sustaining Class C spaces where there is less market competition and some demand from people who simply need a basic workspace.

- To this end, many landlords are just holding onto obsolete Class B and C buildings in the absence of other investment alternatives or options. There was widespread agreement among interviewees that the City needs to do something to help this dynamic – specifically preventing vacant office stock from "just sitting and contributing no value".

- Office spaces in Toronto also need to be adaptable. Flexibility enables spaces to be useable by a range of end users (i.e., community uses, research centres, etc.). This is critical as the City, tenants and businesses adapt to changing preferences.

Theme 1E: Experience, Socialization and Collaboration are Defining Office-Based Work and Dictating the Type of Space Tenants are Seeking

- Amenity spaces are key to drawing employees back to the office. This includes spaces which offer unique features (e.g., conference centres, phone booths, fitness areas, lounges, patios, bookable / non-bookable spaces, prayer rooms, cafes, etc.). Many tenants have begun requesting these features from landlords. To attract and retain talents, many are also seeking office environments that boost unique services (e.g., free coffee, snacks etc.), among other features that will enhance and drive employee interaction.

- Amenity space is attractive because people want places to go and spaces to collaborate. This includes places to host clients or industry colleagues, huddle with teammates and spots to host ad-hoc events.

- Many believe that business owners and their employees are looking for something different and flexible. Successful work is no longer contingent on peoples commute to the office, meaning people will only do it if it is useful. There is increasing pressure for employees to think of office space as a valuable and impactful investment.

- A push for flexibility has enhanced demand for adaptive, coworking spaces—particularly across smaller tenants—which better support quick turnover and adoption. These spaces also provide an important interim solution for many companies that need time to evaluate and adapt to their changing needs.

- Informal, amenity and/or shared spaces impact the capacity of office buildings.

Theme 1F: Demand for Office Space is Driven by Location (Downtown Proximity) and Access to Transit

Transit

- Transit connectivity was highlighted by most interviewees as a key factor in determining office demand. It eases people's ability to get places, attract employees, minimize commute times and provides access to other amenities and features. This idea has been reenforced based on recent trends, with many noting that office space in accessible locations are leasing.

- This concept extends to less desirable buildings. Transit connectivity may help maintain demand for older, Class C offices that would otherwise be obsolete.

- If the City were able to reduce pain points associated with transit—as they did in providing for GO / Transit cost sharing recently—they would support their office assets.

- The potential for certain hubs—or new office nodes—will be dictated by transportation access. This is the new reality; office needs to be tied or encouraged at these key locations rather than through a generic policy. Yonge-Eglinton for example, may increase in appeal as the area expands its transit infrastructure.

- Outside the core, the only offices that can compete are those that have ample parking and excellent arterial access.

- Though transit may be increasingly critical, some interviewees were less sympathetic to its importance. They suggested that transit has become something for employees to leverage in explaining why they choose to come in or not. That said, most of these people were hired prior to the Pandemic, meaning that the office's location and/or its proximity to transit was already part of their decision.

- Transit-oriented lands comprise the most attractive office spaces in Toronto. That said, they also make the most attractive sites for residential development. Many interviewees flagged that this dynamic is key in determining the highest and best use of their lands.

Location

- In-line with transit access, there is heightened demand in core office areas and established office nodes. Many emphasized that there must be something to draw people to an area, something that incentivizes their attendance. This will be the problem for office nodes in suburban or peripheral locations, there is nothing to incentivize people to go in.

- Similarly, interviewees emphasized the enhanced appeal of offices in mixed-use environments. These places or nodes are attractive in providing complementary benefits, including amenities and services, food and shopping. These "hubs of activity" help people distinguish their office from their remote work environment, seeking heightened interest by office users.

- Office spaces are increasingly defined or chosen based on the human needs of employees, not just on their work needs.

- Location was also identified as a factor that impacts employers' ability to attract and retain talent. This dynamic influences the likelihood that companies will consider office space outside core areas of the city.

- Location also drives the type of office demand in a given area. Major office assets outside the core are no longer realistic because not enough people will travel there.

Topic #2: Office Conversions

Theme 2A: Current Policies Needs to Change

- Office conversions were identified as necessary if the City wants to avoid longer-term deterioration in the office market, which can have unwanted spin-off impacts as well (e.g., erosion of property tax base, etc.).

- There was agreement that builders and investors in Toronto are not interested in acquiring or attaining properties that have a high concentration of commercial (office) space. It is not a valuable asset and is not profitable. It was also emphasized that there is no reason or incentive to increase the supply of commercial space in Toronto, the vacancy rate is higher than it ever has been and there is much greater need for other assets (e.g., housing).

- If office replacement policies are sustained, those who are able (e.g., Pension Funds) will just hold their buildings and wait until the market improves or they are approved to do something different. This will reduce the assessment value of other properties, which does not benefit the City, nor the public.

- The City needs to unlock developer capacity to achieve anything meaningful. It may not be perfect, but doing nothing is not an option. The City should focus more on finding ways to make Toronto resilient, rather than constraining everything through policy that is outdated and no longer relevant.

- There was consensus that "we are never going to go back to what we were". The focus needs to be on what a "vibrant" Toronto looks like in the future and how we proactively plan to get there. A plan denotes stability which is favourable to everyone.

- The City needs an **overarching vision and direction**. Right now, there are too many policies that no longer make sense (such as the replacement policies). A lot of existing policies were developed on the idea that a city needs pre-determined centres of employment to flourish. This is not the case anymore. The city cannot be looked at as a campus, every area and node has developed differently and ultimately serve different functions.

- Overall, existing land use policy is **directionally right, but specifically wrong**. It has good intention but is not always applicable.

Theme 2B: Conversions are a "Win" for the City

- Conversions will introduce new housing units, providing significant benefit to the city in the midst of a housing crisis. Interviewees continually referenced the potential for these conversions across older, obsolete Class B and C buildings. Introducing the flexibility to convert these buildings to residential would be a **quick win** for the current housing crisis and would simultaneously enhance the vibrancy of Toronto.

- Allowing for the conversion of buildings would also help improve the safety of the city by replacing vacant space with new housing supply. This is particularly important around the edge of the Financial District, or other less densified office nodes in ensuring there are "eyes on the street".

Theme 2C: The Potential for Office Conversion is Tied to a Range of Factors Specific to Each Property and Building

Land Value

- It was indicated that land value is a key factor in determining the viability of an office conversion. More simply, the value of the land needs to be low enough to make redevelopment profitable. There was disconnect in what interviewees found to be a sufficient or attractive land value.

- Many indicated that properties in Toronto are too expensive, inhibiting people from redeveloping office properties. These individuals suggested that the City would be better to incentivise or support developers in keeping and retrofitting existing buildings. The dynamic becomes increasingly apparent across buildings that currently have surface parking. The land value is so high that the value of the existing building is negligible.

- Conversely, it was suggested that there are parcels in Toronto primed for conversion and redevelopment. Smaller land parcels were flagged as prime candidates for conversion, such that their land value is low enough and other uses represent a more viable use of the space.

Potential for Alternate Use

- According to interviewees, the potential or appeal of a conversion is tied to the site's viability as an office space, relative to its potential viability as alternate uses (e.g., residential, etc.). It was emphasized that certain locations do not lend themselves for other non-office type uses, impeding their desirability for conversion.

Scale

- **Existing Building Size:** Furthermore, it was mentioned that many existing office building floorplates —including mainly those in suburban areas would not be realistic as feasible redevelopment sites even if they were operating as obsolete or unsuccessful office properties. They are simply too big. Conversely, mid-range development with limited parking present much greater redevelopment opportunities in the near term.

- **Existing Building Height:** Smaller buildings (e.g., those ranging from 6-12 storeys in the core and those under 4-storeys in the suburbs) are more likely to come down, as they no longer represent the highest and best use of the land and are easier to deconstruct. Many interviewees suggested that a lot of the obsolete stock consumes valuable land.

Costs

- **Economic Output Drives Decisions:** Many in the industry reported that their process depends on breaking down their assets. Comparing the economic output of the building as an office, compared to an alternate use, to see which performs better. In considering the conversion of a site, the decision becomes what the building would cost or would need to cost to make it work.

- There was agreement that smaller buildings typically make more sense to retrofit. Once a building gets too big it becomes easier and more viable to start from scratch.

- **Financing Often Impedes Opportunity:** Costs often preclude development and make conversions less viable. Pure hard costs are now much higher, while taxes and fees are comprising an increasing percentage of all new development. Development costs in Toronto are "shocking", making development of almost any kind infeasible.

- Among other things, heightened development costs are tied to supply issues, inflation, construction costs, the price of trades and contractors, heightened cap rates and lack of labour. This coincides with the overarching implications of reduced demand, driving the value of commercial real estate below historical rates.

- Some interviewees indicated that retrofitting office buildings is challenging because of the costs. It only makes sense if there is another reason to preserve the building in its current form (e.g., heritage value, etc.). Similarly, retrofitting was described as an extreme renovation, with many noting that unexpected challenges inevitably reveal themselves and the viability or available profit is never as strong as expected. As a result, many are apprehensive to go this route.

Theme 2D: Stipulating Affordable Housing through Office Conversions is Timely but Not Straight-Forward

- Many interviewees were skeptical of the idea of affordable housing requirements being a component of converted office buildings, suggesting that affordable housing can be the new "black hole" on projects instead of office. Relative to office, however, many recognized that requiring affordable housing would at least give owners something to show or highlight in their space. Many also felt that rents for affordable units would be more competitive or attractive than vacant office space.

- There was disconnect on the viability of affordable housing development in the City right now in the context of conversions. Some suggested that construction lending is so expensive that you cannot build a condominium, let alone a residential product that integrates affordable housing units. Conversely, other interviewees suggested that affordable housing was ideal relative to office replacement because of CMHC and the ability to acquire capital funding that would not otherwise be available.

- If the City integrated an affordable housing requirement this would challenge many projects financially. Many voiced that buildings will never be able to make 50% of residential development affordable, the share needs to be lower if it is going to happen. Furthermore, it was suggested that the percentage will have to be adjusted based on location and the scale of the building, which can be difficult to dictate from a policy perspective. To this end, some interviewees suggested they had investigated options to include 20-25% of replacement gross floor area being affordable, which translates into roughly 5% of units. This was already appearing challenging from a cost perspective because of building and other project costs.

- Affordable housing requirements would require some sort of subsidy, something that would "make the math work".

- Requirements for affordable housing should be GFA-based, not unit-based. The incentive for the developer becomes their ability to turn a profit. Enabling developers to dictate the number of units, allows them to maintain control in the format and type of housing they provide. Giving developers more control in their delivery of affordable housing units will better support them in actually doing it. In turn, the City will benefit from the provision of more affordable housing units, making it a win for both parties. It was highlighted that when the City dictates the size or mix of housing units, it is a disincentive for developers.

Topic #3: Potential Solutions

Theme 3A: Stipulate a Time Frame

- To promote action but maintain control, opportunities for conversion of office buildings could be based on a pre-determined timeframe, or “sunset clause” of sorts.
- People—including developers and owners—are very **price sensitive**. If there is no pressure to do something and the existing options are not attractive, they will wait.
- Timeframes on policy also enables flexibility when it is needed. This is a better approach than a hard shift in policy, which depends on a full reversal when it stops being relevant.
- This would necessitate a commitment to faster approvals and consistency in which City staff are dealing with an application.

Theme 3B: Create an Application-Based Framework

- The potential for a universal approach or policy is “scary”. It was mentioned that universal policies inherently apply to no one.
- There was suggestion that buildings could be considered based on a range of factors, including: size, quality (class) or building age. Something that clearly justifies why certain locations are included or excluded. Specific metrics like vacancy could also be used to include or exclude buildings, with the suggestion that highly occupied buildings would not get converted.
- Conversely, it was suggested this process would be ineffective because it would be too subjective. Even something like building age would become complicated because older well-maintained buildings have a legacy role and will always be competitive as a result.

Theme 3C: Replacement Should Not be Driven by Policy

- Individuals articulated that office is often a "purely a commercial play" and something that cannot be dictated through policy. When its value is there, it will get built. The market will correct itself based on demand, economic factors and location.
- Developers and landowners need to the flexibility to be creative.
- Further to above, it was suggested that the focus should be about balance. For example, rather than requiring office replacement on each site, there could be a specified amount required in an area or other pre-determined factor. This is also more beneficial from a municipal perspective, with interviewees suggesting office and residential uses have less value together, than either would individually.

Theme 3D: The City Should Not Make Decisions Solely on Tax Implications

- Many interviewees believe the main reason there is apprehension to convert office buildings is because of the tax implications. Commercial properties garner more tax money than alternate uses. While some recognized that the City would need to determine how to make up lost revenues (such as by raising residential taxes) others suggested that this argument is irrelevant when offices are vacant. The City would be better to allow conversions and accept a tax reduction, than maintain vacant office spaces that do nothing and risk longer-term fiscal impacts.

Theme 3E: Policy to Inhibit the Development of the City's Iconic Office Building

- There is going to be minimal opposition to these policies as no one wants to convert these buildings anyways. The restrictions, size, location and costs of these buildings naturally protect them, a policy would just provide comfort and guarantee.

Theme 3F: Physical Conversions should be Financially Supported

- A range of supports were mentioned as attractive or beneficial, including: tax rebates or property tax incentives, development charge savings, cash-in-lieu, deferral of land transfer tax, CMHC partnerships, reduced Community Benefits Charges. These incentives are valuable, they push people to address or do something because there is opportunity for monetary gain.

- Similarly, it was suggested that there should be financial benefit (reduced taxes or fees) on converted space in an existing building or on new buildings that have an existing structure built into them. These approaches represent creative solutions that avoid demolishing buildings unnecessarily.

- That said, some recognized that given the current market conditions and undeniable budget constraints of the municipality, financial incentives may not be realistic. The solution may instead be expedited approvals, at minimum. Expediting timing on approvals benefits the industry by reducing the time constrained assets need to be carried. Expedited approvals are very attractive as holding assets is costly. It would also benefit the City, as action and tangible benefits will be delivered sooner.

Parallel Engagements: Toronto Business Improvement Areas (BIAs)

A few themes emerged from this process led by City Planning staff that are immediately relevant to this study:

- Local residential communities have an increased role in supporting businesses. By contrast, they also increase demand for other community uses, including dog parks, libraries, language schools, fitness facilities etc. Providing a **mix of uses** throughout Toronto is key to enhancing the vibrancy of specific buildings and larger neighbourhoods.
- Office occupancy is heightened across larger, higher quality, A-Class buildings. While these buildings have a lot of potential for leasing they may still need to further reduce rents to draw tenants.
- **Medical office** uses continue to seek office space across Toronto.
- There is a need to look at the reassessment of commercial properties as their value has come down 30% from their pre-pandemic level. Existing values are not conducive to newer, smaller businesses.
- The adoption of hybrid work is associated with office-workers, whose jobs are transferable to remote locations. Mandates have helped drive the return to office, particularly across the private sector. Conversely, government workers continue to work primarily at home.
- Integrating amenities in office buildings creates a broader business issue as it limits employee engagement with local businesses and amenities. Conversely, these amenities (e.g., comfort, quality, amenities, collaboration) help draw employees back to the office.
- There must be a **focus on initiatives that will bring the City's vibrancy** (e.g., affordable/faster transit, parking, less traffic, improved safety). Mitigating construction, enhancing transportation and improving safety are key to bringing people back downtown.
- Obsolete office space that is unable to convert could be repurposed for other non-residential uses, including **day care or school space, community uses, libraries and public spaces.**
- Currently, the primary barrier to conversion is **zoning and planning policy**. It can also face difficult technical factors and be quite costly.

Parallel Engagements: BILD

Similar to above, a number of relevant themes emerged from City Planning's parallel engagement efforts with BILD:

- The Official Plan (OP) speaks to market issues, meaning if the OP does not meet the market demands then it requires a review of the OP.
- Having **flexibility** is key, requirements for office space should be determined by market demand as there are many office nodes that are not working. We need to stop sprinkling our focus everywhere and instead **be strategic** by focusing policy and interventions on key locations.
- Focus should be on providing **quality** office space in the downtown and key nodes, instead of providing office. Additional space can be used to provide amenities and other community benefits.
- The industry does not foresee any construction of new office space as viable for the foreseeable future. It is projected to be worse than what was experienced in the 1990's recession.
- Viability of office conversion is marketed as the magic bullet, but it's not. There is no one size fits all solution. Not all buildings are suitable for conversion, in some cases the floor plate or location does not permit it. That said, they do provide a key to delivering more housing. However, office replacement in a mix-use scenario will not be successful. This is not the type of location where office tenants are flocking towards.
- Those in the real estate industry are struggling to revise their portfolio to address the needs of their tenants, largely due to existing zoning by laws. Some of the prescriptiveness of what is allowed in the office space are prohibitive.
- **Need to focus on expansion of employment uses** to include community-oriented non-residential uses.
- Policies are not meeting demand from the market, with a lot of concerns stemming from things that are not realistic. The industry is not asking to convert buildings like the TD building or prime offices in the Financial Core.
- It is in the public interest to protect value. The city has the **power to make change**, to support the supply and demand imbalance.

Parallel Engagements: REALPAC

Furthermore, several themes emerged from City Planning's engagement with REALPAC:

- Newer, quality office-stock in Toronto continues to be absorbed.
- There are multiple factors influencing the viability of office space in Toronto. This includes new development, construction costs and decreasing rents. Capturing office tenants is also impacted by **reduced access to housing**, tenants are interested but recognize their employees will struggle to find appropriate housing options.
- The biggest trend is the "**flight to quality**". Tenants are still using space the same way, they are just being pickier about amenities, location, proximity to retail and transit access. These factors are key to attracting employees back to the office.
- **Hybrid work is here to stay.** We need to make decisions that recognize and accept this. This includes greater focus and support for struggling retail businesses.
- Rent has flatlined, but there has been an increase in the use of other incentives particularly among Class A buildings. These incentives help draw tenants without compromising face rents.
- **Transit is defining office demand** and influencing employee behaviour. Now more than ever, people's willingness to go to the office is determined by their commute experience.
- Employees generally require less space. However, this is generally due to the continued adoption of technology rather than an outcome of the pandemic. Conversely, it was acknowledged that increased requirements for amenity and shared spaces in offices may simultaneously increase the total aggregate space required by office users.
- Development in the Downtown needs the support of the IMIT Grant. The **IMIT Grant is important** in improving buildings, encouraging the redevelopment of obsolete buildings with thing that work and are needed.

Appendix B: Policy Background

Overview

This policy review includes a review of the evolving provincial and municipal planning framework for office uses. It outlines the **current policy context in which office space is provided with the City of Toronto**. It considers where office uses are permitted, how they are planned to contribute to the urban structure, how they are protected, how they can be converted, and how they can support growth targets within the City of Toronto.

The following provincial and municipal policies have been reviewed:

- The Planning Act
- The Provincial Policy Statement (PPS 2020)
- The Growth Plan (2020 Consolidation)
- The City of Toronto Official Plan (June 2023 Consolidation)
- City of Toronto OPA 668 and OPA 680

This review **reflects the planning policies in force at the time of writing.** On April 6, 2023, the Government of Ontario announced the proposed Provincial Planning Statement 2023 (proposed PPS 2023), which integrates the Provincial Policy Statement 2020 (PPS 2020) and A Place to Grow: Growth Plan for the Greater Golden Horseshoe (Growth Plan) into a single, province-wide policy document. The proposed PPS 2023 is not yet in force, with consultation on the proposed changes concluding on August 5, 2023. Therefore, this analysis reflects the PPS 2020 and the Growth Plan.

Provincial Policy Context

The Planning Act

The Planning Act is the provincial legislation which provides the basis for the land use planning system within Ontario. The Planning Act describes how land uses may be controlled and the roles of who may control them.

Part 1, Section 2 of the Planning Act outlines matters of provincial interest. Those relevant to this study include:

(k) the adequate provision of employment opportunities;

(l) the protection of the financial and economic well-being of the Province and its municipalities;

(n) the resolution of planning conflicts involving public and private interests;

(p) the appropriate location of growth and development;

(s) the mitigation of greenhouse gas emissions and adaptation to a changing climate.

Bill 97: "Helping Homebuyers, Protecting Tenants Act, 2023

Of consequence to this study, Bill 97 amended the definition of "area of employment" in the Planning Act to **exclude institutional and commercial uses**. This directly impacts office uses that are not associated with manufacturing, warehousing, and research and development (Section 1.1). It scopes "areas of employment" to refer to lands that are not suitable for a mix of uses.

Note: While the legislative changes have received royal assent, the changes have yet to be proclaimed by the provincial government.

Many municipalities' existing employment areas currently allow for a range of uses (e.g., office, retail, industrial, warehousing, and other uses. Once the proposed legislation and policy changes take effect, employment areas that do not meet the adjusted definition (e.g., have a range of uses including office, retail, industrial, warehousing, and other uses) would no longer be subject to policy requirements for "conversions" to non-employment uses. Consequently, this change would **inhibit the City of Toronto's ability to protect and manage *General Employment Areas* and *Core Employment Areas*, of which office uses are a part**.

The changes to the Planning Act concerning "areas of employment" included a transition provision that allow an area of employment with institutional or non-associated commercial uses to be deemed an "area of employment" for the purposes of the Planning Act if the municipality has Official Plan policies that authorize the continuation of the use and the use was lawfully established on the land before the day the Bill 97 modified "area of employment" definition comes into force (Section 1.1).

This legislative change impacts all of the policy documents in the remainder of this review. A "" denotes a planning direction or policy that is specifically impacted by the legislative changes to the Planning Act through Bill 97, and may not necessarily conform with these changes.*

The Provincial Policy Statement (2020)

Overview

- The Provincial Policy Statement (2020) is a planning document that provides policy directions on provincial planning matters outlined in the Planning Act. It provides a policy framework that guides land use planning and development in Ontario. The policies in the PPS reinforce the Province's long-term planning objectives for healthy and safe communities for people of all ages and abilities, sustainability and resiliency, and a strong and competitive economy.
- Policies in the PPS aim to promote complete and liveable communities, and facilitate a strong and growing economy for Ontario's long-term economic prosperity.

Key Policy Directions

- Promoting efficient land use and development patterns (1.1.1a)
- Accommodating a mix and range of employment (including commercial and industrial) and institutional uses to meet the long-terms needs of the Province (1.1.1b, 1.3.1a)
- Promoting development standards that facilitate intensification, redevelopment and compact form (1.1.3.4)
- Maintaining a range and choice of suitable sites for employment uses to support a wide range of economic activities and ancillary uses (1.3.1b)
- Facilitating the conditions for economic investment through monitoring the availability and suitability of employment sites and addressing potential barriers for investment (1.3.1c)
- Encouraging compact mixed-use development that incorporates compatible employment uses to support liveable and resilient communities (1.3.1d)

- Ensuring necessary infrastructure is provided to support current and projected employment needs (1.3.1e)

- Allowing for densities and a mix of uses that will support existing and future transit and minimize car trips (1.6.7.4)

- Encouraging economic development and community investment-readiness (1.7.1a),

- Locating major employment and commercial land uses on sites well served by transit (1.8.1c)

- Encouraging a compact form and mix of employment and housing uses to reduce commutes and traffic congestion, and promote complete communities (1.8.1a,e)

- Support energy conservation and efficiency, improve air quality and reduce greenhouse gas emissions through the strategic location of employment and commercial uses and building design, and encouraging a compact built form that permits of mix of uses. (1.8.1a-f).

Employment Area Policies

Section 1.3.2 of the PPS focuses on *employment areas*** and provides policies specific to the planning and protection of employment areas in Ontario. These include:

- Assessing employment areas in official plans during an official plan review to ensure that designation is appropriate (1.3.2.2)

- Permitting conversions of lands within employment area when it has been demonstrated that the land is not required for employment purposes in the long run (1.3.2.4)

- Allowing for lands within employments areas to be converted to a designation that permits non-employment uses, so long as it has not been identified as provincially or regionally significant and satisfies criteria outlined in the policy (1.3.2.5.)

A Place to Grow: Growth Plan for the Greater Golden Horseshoe (2020)

Overview

A Place to Grow: Growth Plan for the Greater Golden Horseshoe (Growth Plan) is a long-term plan to manage growth and development in the region in a way that supports economic prosperity, protects the environment, and helps communities achieve a high quality of life. The Growth Plan provides a framework for managing growth through to 2051 across the Greater Golden Horseshoe with the goal of creating complete communities.

Guiding Principles (1.2.1)

- Prioritizing intensification and higher densities in strategic growth areas to make efficient use of land and infrastructure to support transit viability.
- Promoting flexibility to accommodate new economic and employment opportunities while protecting traditional industries.
- Supporting the achievement of complete communities to meet people's daily needs.

Policy Directions

- Ensuring the sufficient availability of appropriate lands to accommodate employment growth (2.2.5.1b)
- Aligning land use planning and economic development goals and strategies to retain and attract investment and employment (2.2.5.1d)
- Directing major office development to urban growth centres, major transit station areas, or other strategic growth areas with existing or planned frequent transit service (2.2.5.2); and directing office uses more generally to locations that support active transportation or are well served by transit (2.2.5.3).

- Permitting the conversion of lands within *employment areas** to non-employment uses only through the municipal comprehensive review process. Proposed conversions must be able to demonstrate that the conversion is needed, the lands are not required to satisfy employment purposes or forecasts, and there is existing infrastructure and public service facilities to accommodate the proposed uses (2.2.5.9).

- Establishing development criteria to ensure that the redevelopment of employment lands outside of employment areas will retain space for a similar number of jobs to remain onsite (2.2.5.14).

- Supporting office parks by ensuring that the introduction of any non-employment uses is limited and does not negatively impact the primary function of the area (2.2.5.16d).

The Growth Plan projects that the City of Toronto in 2051 to have a total population of 3,650,000 and provide 1,980,000 jobs (Schedule 3). Additionally, the Growth Plan identifies five *Urban Growth Centres* within the City of Toronto (Schedule 4).

- Downtown Toronto
- Etobicoke Centre
- Yonge-Eglington Centre
- North York Centre
- Scarborough Centre

By 2031 a minimum density target of 400 residents and jobs combined per hectare is planned for *Urban Growth Centres* within the City of Toronto (2.2.3.2a). Urban Growth Centres are planned to be focal areas for regional investment, connect regional and local transit systems, and serve as high-density major employment centres (2.2.3.1a-d).

City of Toronto Official Plan (June 2023 Consolidation)

Overview

The Official Plan is the primary planning tool used to guide development in the City of Toronto. Adopted by City Council in November 2002, the majority of the new Official Plan for the amalgamated City of Toronto was brought into effect on issuance of an order by the Ontario Municipal Board on July 6, 2006. The most recent consolidation of policies is in effect as of June 2023. Policies relevant to office uses within the City of Toronto have been summarized below.

Principles and Vision

The City of Toronto is envisioned to be a place that is complete, attractive and safe, offering a high quality of life to people of all ages and abilities (1.1). The Official Plan articulates planning principles that will contribute to the City's vision. Principles relevant to this study include:

- Sustain an internationally significant and competitive economy with a diversity of well-paying, stable, safe and fulfilling employment opportunities that accommodate Torontonians with a range of education and ability;
- Maintain a diversity of employment areas that can adapt to changing economic trends and attract new business opportunities;
- Satisfy the needs of Torontonians today without compromising the ability of future to meet their needs; and
- Promote a mix of uses (1.2).

Locating Office Uses

The Official Plan prioritizes and promotes office uses within areas of Toronto where mixed-use development is desirable and where significant economic growth is anticipated, often in close proximity to transit:

- Downtown Toronto (including Central Waterfront) (2.2.1)
- Centres (2.2.2)
- Avenues (2.2.3)
- Employment Areas* (2.2.4)

Additionally, the following land use designations permit office uses (Map 13-23 inclusive) (4.5, 4.6, 4.7, 4.8):

- Mixed Use Areas
- Employment Areas*
- Regeneration Areas
- Institutional Areas

Some small-scale office uses that support daily life are permitted within Neighbourhoods and Apartment Neighbourhoods so long as there will be minimal adverse impacts on the surrounding area, are physically compatible with the surrounding area, and serve the needs of local residents (4.1, 4.2).

Protecting and Planning for Office Space

The Official Plan recognizes that offices accommodate a large portion of the City's jobs and emphasizes that, given existing road congestion, it is essential to promote office growth on rapid transit lines. It directs new office growth to transit-rich areas and protects existing office uses within the Downtown and Central Waterfront, the Centres, and within 500 metres of rapid transit stations in other Mixed Use Areas, Regeneration Areas and Employment Areas. (3.5.1, 3.5.1.2.a, 3.5.1.6)

Large office developments (major freestanding office buildings with 10,000 square metres or more of gross floor area, or the capacity for 500 jobs or more), should be located in Mixed Use Areas, Regeneration Areas and Employment Areas within the Downtown and Central Waterfront and the Centres, and/or within 500 metres of an existing or an approved and funded subway, light rapid transit or GO station. (3.5.1.7)

The Official Plan protects existing office uses from replacement by residential uses, through conversion or demolition and redevelopment, within certain areas of the city. 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) a 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. (3.5.1.9)

Note that the above policies are subject to appeals to the Ontario Land Tribunal (O.L.T) and are not in-force.

Implicit in these policies is that outside of the areas identified, the conversion or demolition and replacement of office uses is permitted, where the other policies of the Official Plan are satisfied.

Secondary Plans

Secondary Plans establish a further level of policy focused on guiding growth and change in defined areas of the City. Secondary Plans for the Downtown and Central Waterfront and Centres were reviewed for additional policy approaches to office uses. Some contain additional policies establishing minimum office requirements and stipulating the replacement of office and non-residential GFA.

Downtown Plan (Secondary Plan 41)

Among the goals established by the Secondary plan is that the Downtown will continue to be an economic driver for the city, region and province. 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 will allow for long-term employment growth. (3.11)

Within the Financial District:

- Opportunities to increase non-residential uses within the Financial District will be protected. (6.1)
- Development within the Financial District will be encouraged to provide a net gain of gross floor area for office uses; and ensure no net loss of office and overall non-residential gross floor area. (6.2.1 and 6.2.2). The latter requirement can be fulfilled on another site within the Downtown. (6.3)

Within the Bloor-Bay Office Corridor:

The same kinds of policies pertain as for the Financial District, with the encouragement to provide a net gain of gross floor area for office uses; a requirement for no net loss of office and overall non-residential gross floor area to be fulfilled on-site or elsewhere in the Downtown. (6.7.1, 6.7.2, 6.8)

Within King-Spadina and King-Parliament:

A less stringent policy, relative to those for the Financial District and Bloor-Bay Office Corridor, which encourages development to provide the replacement of all existing non-residential gross floor area, including the potential replacement of cultural spaces as a community benefit, either on the same site or on another site within the applicable Secondary Plan Area. (6.9.1)

The King-Spadina Secondary Plan provides further direction that non-residential floor space associated with cultural industries in these areas will be preserved or expanded for cultural industry uses.

Health Sciences District:

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

Central Waterfront (Secondary Plan 31)

No specific replacement policies or office protections are included in the plan.

North York Centre (Secondary Plan 8)

Policies describe generally which areas will contain office and commercial uses. (2.1.1.b, 2.2.1.a, 2.2.1.b) The only policy that establishes a minimum requirement for non-residential uses pertains to Mixed Use Area B in North York Centre South. The policy states that within this area the total of all residential uses on a site will not exceed 50 per cent of the maximum permitted gross floor area on the site or portion of the site designated Mixed Use Area B. (2.1.2.b)

Site specific policies exist in the plan which establish minimum amounts of office GFA that will be built prior to the construction of residential uses. (12.2.c, 12.19.a)

Yonge-Eglinton (Secondary Plan 21)

Office replacement policies pertain to the Mixed Use Area A and Mixed Use Area B designations within the Yonge-Eglinton Secondary Plan. They establish that tall buildings and large redevelopment sites capable of accommodating multiple buildings will provide 100 per cent replacement of any existing office GFA located on the site. (2.5.4, 2.5.6) All or a portion of the required office GFA may be transferred to another site within the Midtown Secondary Plan area if:

a) development of the required office floor area on the site would result in a built form that would not meet the policies of the Plan;

b) the built form on the receiving site meets the policies of this Plan; and

c) the non-residential gross floor area on the receiving site is secured prior to, or concurrent with, any residential gross floor area on the donor site. (2.5.5, 2.5.8)

Scarborough Centre (Secondary Plan 5)

No specific replacement policies or office protections are included in the plan. One site specific policy establishes a minimum amounts of office GFA to be included in a development which includes residential uses. (8.8.a)

Etobicoke Centre (Secondary Plan 12)

No specific replacement policies or office protections are included in the plan.

Official Plan Amendments

Prior to Bill 97, office uses were included within the City's *Employment Areas* and were therefore subject to the policies for *Employment Areas*, which includes policies for conversion (2.2.4.14-18), within the Official Plan. In response to the legislative changes made to the Planning Act through Bill 97, the City of Toronto has undertaken 2 Official Plan amendments, OPA 668 and 680.

OPA 668

On July 20, 2023 OPA 668 was considered and adopted by City Council. OPA 668 is intended to come into effect after the amended definition of “area of employment” comes into force. OPA 668 authorizes the continuation of commercial and institutional uses in *Core and General Employment Areas* as long as the commercial or institutional use was established prior to the date Bill 97 came into force. OPA 668 ensures that that applications to remove or convert lands in *Core and General Employment Areas* to non-employment uses would remain subject to Official Plan policies regarding removal and conversion of Employment plans.

OPA 680

OPA 680 is intended to bring the Official Plan into alignment with the amended definition of “area of employment” introduced in Bill 97, while maintaining the integrity if the City’s *Core and General Employment Areas*. OPA 680 proposed various amendments to Chapter 2, 3 and 4. The amendment would limit permissions for office uses in Employment Areas to only those associated with primary employment uses in *Core and General Employment Areas*.

On November 30, 2023 draft policy directions for OPA 680 were considered and adopted with amendments by the Planning and Housing Committee. Next Steps include staff conducting a local-based analysis of existing uses and continuing consultation on the draft policy directions with Councillors, industry, other stakeholders, and the general public. Staff will report back with recommended Official Plan amendments before the amended definition of “area of employment” is proclaimed by the Province.

Although draft policy direction proposes to remove office use permissions from Employment Areas, it is the intention of OPA 668 and the Bill 97 transition provisions to ensure that existing office uses would continue to be permitted under the Official Plan.

Appendix C: Jurisdictional Scan Background

Profile #1: New York City, United States

New York City wants to permit a broader scope of conversions than in the past to provide greater flexibility to respond to market conditions, while preserving business districts.

Source: Architectural Digest.

Context

Issues

- There has been a **decline in use and demand for office space**. The vacancy rate increased from 10% pre-pandemic to 18% in 2022, remaining elevated but stable[6].

- The **long-term prevalence of hybrid and remote work is still unknown**. Hybrid and remote work continue to be preferred by many workers, keeping the rates of each at significantly higher levels than pre-pandemic. Some 77% of office-based employers indicated that hybrid working policies will remain in place. Many office employees indicated that they go into the office less than half as frequently as they did prior to the pandemic[7].

- The current economic conditions, including high interest rates and construction costs, have created some uncertainty and are contributing to a **challenging investment environment** for those who may be considering conversion or redevelopment projects.

- There is significant **demand for space for other uses, such as housing and childcare**. Securing affordable housing at scale continues to be a challenge and there is a documented lack of access to childcare across New York City, some 60% of children are living in areas considered 'childcare deserts'[8].

Opportunities

- **Not all properties and office spaces have been impacted** in the same way. Office spaces located on high-frequency transit, and in amenity rich and mixed-use areas have benefitted from heightened return-to-office. Research interviews indicated that tenants are primarily interested in high quality, amenity rich, and 'commute worthy' office space that will incentivize employees to come into the office.

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[6] "New York City: Office Adaptive Reuse Study". Office Adaptive Reuse Task Force. January 2023. P.10 https://www.nyc.gov/assets/planning/download/pdf/plans-studies/office-reuse-task-force/office-adaptive-reuse-study.pdf

[7] "New York City: Office Adaptive Reuse Study". Office Adaptive Reuse Task Force. January 2023. P.11 https://www.nyc.gov/assets/planning/download/pdf/plans-studies/office-reuse-task-force/office-adaptive-reuse-study.pdf

[8] "Accessible, Equitable, High-quality, Affordable: A Blueprint for Child Care and Early Childhood Education in New York City." The City of New York. June 2022. P.14 https://www.nyc.gov/assets/home/downloads/pdf/office-of-the-mayor/2022/Childcare-Plan.pdf#:~:text=The%20Blueprint%20for%20Child%20Care%20and%20Early%20Childhood%20Education%20cuts,City's%20most%20in%20need%20families.

- **Buildings constructed in the early 20th century are good candidates for office-to-residential conversion**. They often have shallow floor plates and individual operable windows which allow for more efficient design of residential space and less physical alteration.

- With changes to regulations, there are a significant number of buildings that could be available for conversion. A large percentage of the City's building stock was built after the 1960s and is currently subject to regulations in the Zoning Resolution that have prevented or made it infeasible to undergo office-to-residential conversion.

- **Conversion from office to residential space is possible without government subsidy.** Between 2010 and 2020, approximately seven million square feet of office space was successfully converted into market-rate residential units without government subsidy[9].

Constraints

- The **current policy framework is outdated**. Current conversion regulations in New York City are described as piecemeal and not reflective of the current context and needs of residents. There are complex and geographically inconsistent regulations that have not been considered comprehensively in decades.

- **Building owners may not be financially motivated to convert from office to residential.** Conversion often results in a notable decline in rentable square footage and the net effect on revenue is only sometimes positive. Other factors that may dissuade building owners from conversion include risk aversion, access to financing, existing debt and their ability to vacate existing office tenants.

- While conversions to market-rate housing has been successful, the **conversion of office space to affordable housing is less financially feasible** without government subsidies**.**

- Buildings constructed after 1960 typically require more physical alterations to successfully convert them from office to residential. This is due to development factors, including larger floorplates and glass curtain-wall facades. Alterations increase constructions costs and can reduce the revenue per square foot because of inefficient unit layouts.

[9] "New York City: Office Adaptive Reuse Study". Office Adaptive Reuse Task Force. January 2023. P.22 https://www.nyc.gov/assets/planning/download/pdf/plans-studies/office-reuse-task-force/office-adaptive-reuse-study.pdf

Existing Approach to Office Conversions

Many of New York's office districts permit reuse and office conversion through flexible regulations found in the *Zoning Resolution* and the *New York State Multiple Dwelling Law (MDL).* The ability and ease for an office building to convert is primarily dependent on the **year the building was constructed** and if the building is either located in a **zoning district** that allows residential uses or an area that has been identified as suitable in the MDL.

If the appropriate criteria are satisfied, conversion is supported through an alternate set of flexible zoning regulations that are specifically tailored to support the reuse of older buildings. These regulations are related to light, air, and outdoor space.

New Directions

The New York City Planning Department convened a Task Force compromised of 12 members to discuss opportunities to expand permissions for office conversions. In January 2023, the *Office Adaptive Reuse Study* was released which included key findings and a set of recommendations. The goal was to **permit the adaptive reuse and conversion of outdated and/or underutilized buildings to suitable and productive uses**, while also solidifying the City's business districts as centres of commerce.

The report recommended a 3-pronged approach:

1. Expand the **range of buildings eligible** for the most flexible conversion regulations (policy).
2. **Update the existing conversion regulations** to better respond to the current context and needs of people living in New York (policy).
3. Provide **financial incentive** to convert office space into affordable housing or childcare facilities (program).

The proposed interventions are not intended to prescribe the balance of office and residential. Rather, these interventions aim to better enable market-driven investment such that the balance of office and residential is determined in response to changing market conditions.

Policy Approach

- Change the *New York State Multiple Dwelling Law* and the *New York City Zoning Resolution* to provide office buildings constructed before December 31, 1990 permission to access the most flexible regulations for conversion to residential use. This will allow 120 million square feet of office space to more easily convert. These flexible regulations can be found in *section 277 of the New York State Multiple Dwelling Law* and primarily relate to light, air, and yard space.

- Expand the most flexible conversion regulations in the *Zoning Resolution* to all high-intensity commercial districts. This will provide 16 million square feet of older office space in areas like Downtown Flushing and the South Bronx with an easier path to conversion.

- Evaluate the appropriateness of lands zoned as Manufacturing Districts to determine if there are opportunities to permit new residential buildings through conversion or ground-up construction.

- Expand conversion regulations to allow for the conversion to all housing types, including supportive housing. Current permission only allows office buildings to convert to a selection of residential uses.

Programmatic Approach

- Develop a tax incentive program to support mixed-income housing (includes affordable housing), through conversion.

- Create a property tax abatement incentive program to support office-to-childcare conversions.

Sources:
"New York City: Office Adaptive Reuse Study". Office Adaptive Reuse Task Force. January 2023. https://www.nyc.gov/assets/planning/download/pdf/plans-studies/office-reuse-task-force/office-adaptive-reuse-study.pdf
"New York State Multiple Dwelling Law". The City of New York. https://www.nyc.gov/assets/buildings/pdf/MultipleDwellingLaw.pdf
"Zoning Resolution". The City of New York and City Planning Commission. December 2023. https://zr.planning.nyc.gov/
"Accessible, Equitable, High-quality, Affordable: A Blueprint for Child Care and Early Childhood Education in New York City." The City of New York. June 2022. https://www.nyc.gov/assets/home/downloads/pdf/office-of-the-mayor/2022/Childcare-Plan.pdf#:~:text=The%20Blueprint%20for%20Child%20Care%20and%20Early%20Childhood%20Education%20cuts,City's%20most%20in%20need%20families.

Profile #2: Boston, United States

Boston will financially incentivize conversion of office-to-residential spaces to encourage a broader mix of uses in the downtown while also encouraging the creation of more affordable housing.

Source: Travel + Leisure.

Context

Issues

- The **demand for office space in Downtown Boston has been decreasing**. Low office rent has plagued the Downtown Area and vacancy rates have been increasing since 2019. In October 2022, the vacancy rate reached a high of 20% and has remained elevated but stable[10].

- Some areas in Downtown Boston, particularly in the Financial District, **lack the desired mix of uses or quality of office spaces to compete with other sub-markets**. The North Station area has the greatest mix of residential and office uses and is also the strongest performing office market within Downtown Boston. Conversely, the Financial District has seen the most fluctuation in terms of office performance with 91% of its building stock designed for office uses[11].

- The prevalence of hybrid and remote working environments remains high within Boston.

- The current economic conditions, including **high interest rates and construction costs**, has impacted the financial feasibility of conversion within Downtown Boston.

- The pandemic has **impacted the vibrancy of Downtown** streetscapes and the urban core due to less foot traffic from office workers.

- There is a desire to increase the **supply of affordable housing**.

Opportunities

- An increase in economic activity in Downtown Boston can be promoted by **encouraging a mix of uses**, particularly in areas like the Financial District that lack diversity. A market analysis of the area revealed a "**flight to quality**", both in terms of neighbourhood quality and amenity. Office performance is greatest in areas that are amenity rich and where there is a greater diversity of uses.

- There are opportunities for **partnerships between the City and the private sector**. A feasibility analysis on office conversion in Downtown Boston revealed that the most financially feasible option for conversion was for the City to work with the private sector by providing **financial incentives** and offering **fast-tracking options for conversion applications**.

[10] "Office to Residential Conversion Program". Boston Planning and Development Agency. 2023. https://www.bostonplans.org/projects/office-to-residential-conversion-program
[11] "Downtown Office Conversion Study: Summary Report". Boston Planning and Development Agency. July 2023. P.10 https://bpda.app.box.com/s/12nyl15m7hkgccqdp0rqdfrx4na8c72w

- The adaptive re-use of buildings is part of the Boston Planning and Development Agency's Downtown revitalization and sustainability plans. The City can contribute to the achievement of its sustainability goals by lowering embodied carbon through adaptive reuse opportunities.

- Buildings with floor plates that range between **50 and 100 feet, are suitable for both residential and hotel conversions** due to their physical structure and financial feasibility[12].

- There is interest and support for creating mixed used areas, as opposed to areas where uses are segregated. There is an updated plan for Boston's downtown area, PLAN: Downtown, that promotes a greater mix and diversity of uses in areas that were previously planned to be areas for predominately office uses. The PLAN: Downtown report also contains high-level directions to update the zoning regulations to create easier pathways for conversion to residential uses.

- **Expand housing options in the Downtown** by supporting the conversion of class B/C office space into residential uses, including affordable and student housing. This will contribute to city-wide effort to improve housing affordability and encouraging more residential uses within the downtown.

Constraints

- Office buildings that were **built after 1970 are more challenging to convert.** This is due to their large floor plates which necessitate a greater amount of physical alteration. Most of the office buildings within Downtown Boston were built either pre-1940 or post-1970[13].

- Buildings with a floorplate between 30 and 50 feet, while physically suitable for conversion, cannot generate enough revenue within the Boston market to justify conversion. Buildings with a floorplate that is greater than 100 feet are also not suitable for residential or hotel conversions as they would require significant physical alteration and have floor plan inefficiencies that would negatively impact their profitability[14].

- Current **green buildings standards, affordability requirements and linkage fees make conversion projects less feasible** due to the costs that private developers incur to accommodate these regulations.

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[12] "Downtown Office Conversion Study: Summary Report". Boston Planning and Development Agency. July 2023. P.16-20 https://bpda.app.box.com/s/12nyl15m7hkgccqdp0rqdfrx4na8c72w
[13] Ibid.
[14] Ibid.

Existing Approach to Office Conversions

Prior to the introduction of the Office-to-Residential Conversion Program (discussed below) the Boston Planning and Development Agency did not have a distinct policy framework or incentive program that supported office-to-residential conversions. Conversion projects are not permitted as-of-right, are subject to the same development standards (Article 80) as other projects and are often considered on a case-by-case basis.

New Directions

In 2023, in light of planning initiatives such as the *Downtown Revitalization Report* and *PLAN: Downtown*, the Boston Planning and Development Agency announced the Downtown Residential Conversion Incentive Program. The program aims to **support owners and developers of older commercial buildings through the conversion to residential uses**, ultimately repopulating and reactivating underutilized spaces and creating more vibrancy in Downtown Boston. The program is a result of the findings that emerged from the Downtown Office Conversion Study, completed in July 2023.

Office-to-residential conversion in Boston is primarily encouraged through the implementation of this program. *PLAN: Downtown* includes a high-level direction to create zoning pathways to easily allow for office-to-residential conversions, particularly for affordable housing, however no specific zoning regulation related to conversion or conversion policies have been recently proposed or adopted (as of January 2024).

Programmatic Approach

- Implement an office-to-residential conversion program to financially incentivize developers and landowners to convert underutilized office space into residential units. Developers will be incentivized with a tax abatement for a length of up to 29 years. Conversion projects accepted into this program will also be fast-tracked through the development review and permitting process. Program components include:
  - Application must be complete by June 2024 and begin construction by October 2025.
  - Projects in the 121B Demonstration Project area will be prioritized, however, projects across the entire City will be considered.

- All projects will be considered on a case-by case basis.

- Subject to inclusionary zoning standards which require 17% of all newly created units to be reserved for households earning up to 60% of the average median income, the other 3% of newly constructed units must be available for Fair Market Rent or reserved for voucher holders.

- Projects much be compliant with the Stretch Energy Code.

Sources:
"Office to Residential Conversion Program". Boston Planning and Development Agency. 2023. https://www.bostonplans.org/projects/office-to-residential-conversion-program
"Downtown Revitalization Report". City of Boston. October 2022.
https://www.boston.gov/sites/default/files/file/2022/10/Revive%20and%20Reimagine%20-%20a%20Strategy%20to%20Revitalize%20Boston%27s%20Downtown%20-%20Oct%202022.pdf
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Profile #3: London, England

Office-to-residential conversions are allowed as-of-right through Permitted Development Rights (PDR) nation-wide in the United Kingdom.

Source: BNP Paribus Real Estate.

Context

Permitted Development Rights (PDR) have resulted in a loss of needed office space in London and are a <u>cautionary example</u> of what can happen when conversion projects are exempt from local-level planning processes and development regulation.

Strategic planning within the London area is the shared responsibility of the Greater London Authority (GLA) and local authorities, which includes 32 London boroughs and the Corporation of the City of London. The Corporation of the City of London—or Square Mile—is the financial district of London and is the historical core from which the rest of London developed. The United Kingdom (UK) National Government has jurisdiction over the GLA and local authorities and provides strategic planning guidance to both groups.

In 2011—as part of broader planning for office space—the UK National Government introduced Permitted Development Rights (PDR). **PDR authorize as-of-right permissions for office-to-residential conversions nation-wide**. This is the primary tool to manage office-to-residential conversions within the UK, including London.

Note: City of London + Greater London Area

The following overview focuses on the role of PDR in the context of the Greater London Area (GLA). The term London is used to refer to the entire GLA. The City of London is used to refer to the City of London Corporation and the historic financial centre.

Issues

- PDR had a **negative impact** on office space in London. It eliminated many procedural and regulatory requirements in order to streamline office-to-residential conversions. This amounted to many negative outcomes, including: the creation of poor-quality housing, the loss of desirable office space, and significant increases in office rents[15] (see details below under *Existing Approach to Office Conversions*).

Despite PDR, market and industry trends have also impacted the London area.

- There remains to be an **insufficient supply of housing within London**. There is an estimated shortfall of 90,000 residential units over the last decade.[16] The number of applications to build new housing for residential units has dropped significantly over the last decade, reaching its lowest level in 2023. The shortfall of homes between 2012 and 2025 is expected to be more than 150,000.[17]

- The **prevalence of hybrid and remote work has changed the dynamics of office space** within London. A UK-wide survey indicated that almost two-thirds of workers prefer a hybrid working environment.[18]

- There is **less demand for office space in London**. The office vacancy rate for all of London was 8.5% in 2023, compared to the long-term average of 5.1%.[19]

Opportunities

- The retention and repurposing of older office structures presents an opportunity **to lower embodied carbon**. Recognizing that the UK has a target to be net zero by 2050, projects that will contribute to the reduction of the UK's carbon footprint are viewed as more likely to qualify for sustainability funding opportunities and to garner more interest from future investors.[20]

- **Regulations that provide some limitations to PDR** could be considered. This could include minimum space and quality standards for residential units that are created through conversion or the establishment of a minimum office vacancy rate to ensure that there is a competitive amount of office space available.

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[15] "The Case for Conversions". Canadian Urban Institute. April 2023. P.36 https://canurb.org/wp-content/uploads/The-Case-for-Conversions-FINAL.pdf

[16] "Office to Residential Conversion in London: The Opportunity & Challenge". CBRE. October 2023. P.4-6 https://mktgdocs.cbre.com/2299/0b2dbd74-18dd-44e1-807e-28c10c91c2ee-1097495592.pdf

[17] Ibid.

[18] Ibid.

[19] Ibid.

[20] Ibid.

- Despite a London-wide trend of higher office vacancy rates, the *Future of Office Use* report prepared for The City of London indicated that City-based office jobs and office attendance are expected to grow in the future. Additionally, **demand for high quality and "best in class" office space is higher in the City of London than pre-pandemic levels**, with some expectation that this will soften in the next few years.[21]

- A proportion of the City of London's **office stock will require refurbishment or investment** to comply with new energy performance regulations.

Constraints

- Often **entire buildings need to be vacant** to convert an office space to a residential use.

- The City of London's reputation as a **pre-eminent hub for financial services, professional services and technology** in the UK and internationally should be maintained. City-led strategic planning initiatives, such as the *Square Mile: Future City*, include objectives and high-level policy directions that seek to protect and expand office space to encourage a vibrant and flourishing central business area.

- Utilizing office conversion to meet housing targets and contribute to post-pandemic revitalization and recovery is **not a central policy objective being advanced** by the City of London Corporation. Unlike other international cities, the GLA is not promoting office-to-residential conversions through updates to their policy framework or through the provision of an incentive program.

- Conversion of Grade B office stock to Grade A or "best-in-class" stock in the City of London, while possible, may be constrained and **costly due to heritage regulations** that aim to conserve and protect the historical significance of buildings.

Existing Approach to Office Conversions

As previously stated, PDR's were introduced in 2011 by the UK National Government to enable conversions of commercial buildings to residential uses as-of-right. Projects under PDR are only required to provide a "*prior approval*" notification and materials that demonstrate the conversions potential transportation or environmental impact. Under PDR, local authorities are prohibited from imposing additional policies as part of the approval process for conversion projects, with some limited exceptions.

[21] "City of London Corporation: Future of Office Use Final Report". ARUP and Knight Frank. July 2023. P 4-5 https://www.cityoflondon.gov.uk/assets/Services-Environment/city-of-london-future-of-office-use-city-plan-2040.pdf

Despite significantly reducing barriers to conversion and enabling a more streamlined process there were several negative impacts from PDR. These include:

- High and skewed office rents;
- Poor quality housing;
- Loss of office space;
- Loss of more than 30,000 jobs in London[22].

PDR remains in effect in the United Kingdom. However, the City of London Corporation and some of the boroughs have been able to leverage a tool called *Article 4 Direction* to prohibit the use of PDR in certain geographical areas. In these areas, planning permissions must be obtained for conversion and are required to abide by the same processes and regulations as other development projects within the GLA.

New Directions

In light of the current market conditions and changes in industry trends, the City of London Corporation introduced various high-level objectives and strategies in *The Square Mile: Future City*, to encourage people to return to office and promote more vibrancy and activation of the financial core. These include:

- Focusing on creating more mixed-use areas and accelerating plans for active transportation and pedestrian activity to create areas where people want to return to work.
- Promoting flexibility and adaptability of newly constructed buildings so that they can be easily repurposed in the future to respond to changing needs.
- Exploring new ways to use vacant space and aiming for at least 1,500 new residential units by 2030.

[22] "The Case for Conversions". Canadian Urban Institute. April 2023. P.36 https://canurb.org/wp-content/uploads/The-Case-for-Conversions-FINAL.pdf

In addition to these high-level objectives and strategies, planning policy recommendations were proposed in the *Future of Office Use* report prepared for The City of London Corporation by ARUP and Knight Frank. These recommendations include:

- Increasing the supply of "best-in-class" or Grade A office spaces and office spaces that are better suited to the changing preferences for different office typologies and hybrid work spaces.

- Encouraging the conversion of Grade B stock to high quality office spaces ("best-in-class" or Grade A). Where conversion is not possible, encouraging alternate uses for Grade B stock.

- Investing in and improving amenity within the City of London, for example public transport, active transportation infrastructure, retail, and arts and culture programming.

The City of London Corporation has **not put forth additional policies or incentive programs** to advance office-to-residential conversions.

Sources:

"The Case for Conversions". Canadian Urban Institute. April 2023. https://canurb.org/wp-content/uploads/The-Case-for-Conversions-FINAL.pdf
Rankl, Felicia. "Overview of the Planning System (England)". House of Commons Library. August 2023. https://commonslibrary.parliament.uk/planning-in-england/
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Profile #4: Ottawa, Canada

Ottawa will incentivize the conversion of office to residential spaces through financial, regulatory and procedural changes in order create more housing, while maintaining a healthy stock of office buildings.

Source: Ottawa Business Journal.

Context

Issues

- The Canadian Urbanism Institute (CUI) has stated that 10% is a healthy office vacancy rate for Canadian cities. The **office vacancy rate in Ottawa currently exceeds this rate**, with vacancy estimated at some 12.6% for the city and some 14.2% for the downtown area[23].

- Ottawa is in the midst of a **housing crisis**. There is a desire to create more affordable housing, as well as increase the overall supply of housing. Ottawa's housing target is to 151,000 new homes by 2031[24].

- Despite return-to-office mandates, **remote and hybrid work continues to be preferred by Ottawa's workforce.** The return-to-office rate is 57%, lagging behind other Canadian cities that have seen higher return-to-work rates[25].

Opportunities

- A market analysis which considered the potential for office-to-residential conversions in Ottawa, found that transitioning **vacant or underused commercial properties to rental housing is increasingly viable.**

- Office-to-residential **conversions projects have been possible and successful without any financial incentives** or targeted streamlining efforts from the City. Between 2013 and 2022 there were over 700 new residential units created through office-to-residential conversions, and over 900 units created from other non-residential-to-residential conversions (including places of worship and hotels)[26].

- The **Federal Government will be increasing their government office space reduction target**. In May 2023, the deputy minister of Public Services and Procurement Canada indicated that given the

[23] "Report to Planning and Housing Committee on 1 November 2023 and Council 8 November 2023". Planning, Real Estate and Economic Development Department, City of Ottawa. October 2023. P.8 https://pub-ottawa.escribemeetings.com/filestream.ashx?DocumentId=158752

[24] "Report to Planning and Housing Committee on 1 November 2023 and Council 8 November 2023". Planning, Real Estate and Economic Development Department, City of Ottawa. October 2023. P.4 https://pub-ottawa.escribemeetings.com/filestream.ashx?DocumentId=158752

[25] "Ottawa Office Market Report Q3 2023". Colliers. October 2023. P.1

[26] "Report to Planning and Housing Committee on 1 November 2023 and Council 8 November 2023". Planning, Real Estate and Economic Development Department, City of Ottawa. October 2023. P.8 https://pub-ottawa.escribemeetings.com/filestream.ashx?DocumentId=158752

prevalence of hybrid work models, office space reduction targets will be increased from 40 to 50 percent[27].

- Office spaces in close **proximity to amenities have seen larger year-over-year increases in occupancy**.

- The reuse or repurposing of existing buildings can contribute to a **reduction in the City-wide carbon footprint**. Research conducted by the CUI concluded that office-to-residential conversions can provide near-term carbon emissions benefits compared to new construction. There are also additional benefits to the net reduction in total emissions over the building's lifespan.

Constraints

- There are **regulatory and procedural barriers to office-to-residential conversion**. Research interviews conducted by the City of Ottawa with the development industry revealed that obtaining a Minor Variance or Zoning By-law amendment for a building that already exists is financially burdensome and creates significant timing delays. Additionally, amenity space requirements in the Zoning By-law (e.g., private, public, indoors, outdoors) are challenging to satisfy given difficulties that can exist when altering the floorplan of an office building to create residential units.

- **The network's water and wastewater infrastructure capacity can impact the financial feasibility** of an office-to-residential conversion project. Where there is no system capacity, upgrading existing infrastructure to support a conversion to residential can be cost prohibitive.

- There is currently **no municipal mechanism in place to financially support affordable housing in private, for-profit developments**. Ottawa City Council will be considering an *Affordable Housing Community Improvement Plan ("CIP")* in Q1 2024 . This CIP could offer incentives to include affordable housing in private, for-profit projects. Non-profit housing developers already have access to funds through the City-funded program, *Action Ottawa,* however, adding office-to-residential conversions as a qualifying project to access this fund may strain an already stretched and limited resource.

Existing Approach to Office Conversions

Prior to the introduction of the new policy and program approaches for office to residential conversions (see below), conversion projects within Ottawa were subjected to the same development review process

[27] Ibid.

and regulations as other development projects. There was no targeted incentive program or distinct policy framework to manage office conversions.

New Directions

In an effort to contribute to Ottawa's pledge to create 151,00 new homes by 2031, Ottawa City Council directed a cross-departmental team to **explore financial, regulatory and procedural opportunities** to promote office-to-residential conversion. In November 2023, a staff report was considered by Council that included a multi-pronged approach to support and incentivize office-to-residential conversions. The report was informed by an office market analysis and research interviews with industry personnel. Council adopted these recommendations (with amendment).

The adopted approach includes:

- Financial Incentive Pilot Program for office-to-residential conversions (Programmatic Approach)
- Fee waivers (Programmatic Approach)
- Changes to the zoning by-law. See details below. (Policy Approach)
- Reducing requirements during the Site Plan Control process (Policy Approach)
- Advocacy with the Province (Policy Approach)

Ongoing work at the City of Ottawa as it relates to office-to-residential conversions includes **implementing the adopted approaches**, examining how conversions could be supported through an **Affordable Housing CIP**, conducting a study on options for **site servicing** for conversions, and continuing **conversations with landowners and developers** to explore the impacts of the new incentives and regulatory changes.

Programmatic Approach

- Waive the Official Plan Amendment portion of the Planning Application Fee for office-to-residential conversions where both an OPA and ZBLA is required.

- Implement a Financial Incentive Pilot Program for office-to-residential conversions. Program elements include:
    - An incentive limited to office-to-residential conversions within Ward 14 (Somerset).
    - Reduction in the parkland Cash-in-Lieu cap to 8% on the condition that the Building Permit for the project is issued within six months of Site Plan Approval.
    - For applicants to be eligible for the program, the downtown **vacancy rate must be above 10%**.
    - The pilot program will be reconsidered by Council in **2 years**.

Policy Approach

- Amend the zoning by-law to provide flexibility for office-to-residential conversions by:
    - Allowing the performance standards of the existing portion of the buildings to be carried forward if no new storeys or additions are proposed, and
    - Providing flexibility on how amenity space is provided on the site.
- Update the Site Plan Control process for office-to-residential conversions such that if no new storeys or additions are proposed, a conversion project will benefit from a scoped material and information list and would only be charged a "Standard Site Plan Control" fee.
- Express support for the Province to re-examine and expand the exemption requirement for a Record of Site Condition in order to support office-to-residential conversions.