

Office Space Needs Study

Background Report (Executive Summary)

March 5, 2024

Parcel

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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 from 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.

For the full report, please visit the following link: <https://www.parceleconomics.com/torontooffice> or contact the staff listed on the City of Toronto's [Office Space Needs Study](#) page.