



Altus Group



Office Needs and Policy Directions in the GTA

Office Needs and Policy Directions in the GTA

Prepared for:

NAIOP Greater Toronto

Prepared by:

Altus Group Economic Consulting

33 Yonge Street Toronto Ontario M5E 1G4

Phone: (416) 641-9500 Fax: (416) 641-9501

economics@altusgroup.com

altusgroup.com

May 19, 2023

EXECUTIVE SUMMARY

Planning for an adequate supply of office space in the market is critical for long-term economic development and good community and regional planning.

Planning for adequate space requires understanding conditions in the current market and forecasting the future need for office space going forward.

Warranted space at some point in the future, say 2041 or 2051, is based on the forecast for occupied space at that time across the whole of the market (and the allowance for a reasonable amount of functional vacancy) to ensure a well-functioning market.

Office demand is measured by the concept of absorption, which is the change in leased (or occupied) space. Prior to 2020, average annual absorption in the GTA was some 2.0 million square feet per year. It had accelerated somewhat in the six years prior to the pandemic, 2014-2019, to 2.8 million square feet per year.

But since the onset of the pandemic, the GTA has seen negative absorption (the loss in leased space) of over 5 million square feet. The performance of the office market, in terms of availability rates, is showing stress from this loss. The sustainability of the market will depend on future office needs.

Future office needs are modelled based on anticipated employment growth in the office sector and other factors affecting density. Prior to the pandemic there were expectations of a modest shift by businesses and governments using office space in the GTA toward activity-based work practices and other measures that would lead to modestly more efficient floor plates. Despite these moderating effects on the pace of absorption, the anticipated employment growth of about 17,000 net new office workers per year meant the GTA was on track for about 2.7 million square feet of absorption annually going forward. The close to 40 million square feet of office space which is currently in the new development pipeline means that there were several years of supply to meet demand.

The onset of the pandemic has had many effects on many sectors, but perhaps not more so than on the office sector. The pandemic accelerated and accentuated the shifts by most office users toward activity-based work practices and hybrid work, leading to a downshift in demand.

While it may be too early to tell for certain how far down demand will shift, this report presents three easy to understand scenarios that are framed around an average work week in the office for workers of either 2, 3, or 4 days a week, and assumes that ultimately most businesses and government departments will adjust space requirements to suit these new working realities.

In all of these scenarios there is a significant reduction in demand for office and only in the 4 day a week scenario is absorption even positive over a 25 year period. Given this, and also considering the overhang of the close to 40 million square feet in the new development pipeline, developers of office space are getting nervous about investing in new space, lenders are reluctant to make new loans related to office assets and owners of existing buildings are considering options for conversion in cases where demand falls too low to make operating those buildings feasible.

This report looks at the quantum of possible office conversions in the GTA and the provincial and municipal policy environment governing conversions. It does so from the perspective of modernizing policies to facilitate and even incentivize conversions where warranted.

This report highly recommended that policies are put in place to facilitate and even incentivize the conversion of emerging functionally obsolete office buildings, in order to bring the market back into balance and ensure a highly functioning office sector in the future.

Municipalities like the City of Toronto that have strong non-residential space (or office space) replacement requirements policies in Secondary Plans need to dismantle or soften those policies. They need to do so with some urgency. They need to do so in order to ensure the market has the proper means to react to current conditions and make effective decisions about where and how much office space it requires and to ensure a clear path to converting or redeveloping functionally obsolete buildings where need be.

This report sets out a review of an array of planning policies currently in place that have a bearing on the ability to convert functionally obsolete office uses into higher and better uses. The findings in this report include:

- The City of Toronto includes policies encouraging or requiring inclusion, retention and/or replacement of all non-residential GFA upon a site development or redevelopment. These

requirements significantly impact the feasibility of development projects. Where development projects can proceed, additional costs are passed on in the form of higher house prices, eroding affordability in these communities. These policies should be immediately softened or removed. This recommendation will assist in fostering an environment more conducive to bringing more housing to these communities and improving the affordability of the housing being built.

- The City of Mississauga, the City of Markham, and other municipalities have rigid job to population ratio policies in place for development or redevelopment areas. These policies have the effect of implicitly assuming that a significant amount of office or other employment space will be retained and/or built in tandem with new housing units. This has the effect of mandatory office inclusion, retention and/or replacement policies and have the same potential negative impacts on the community's ability to bring forward required housing units and to properly address housing affordability.
- These policies also have the effect of baking in a significant future pipeline of very localized office space across the GTA which effectively means planning for space that has no discernible demand or market need. A more coordinated approach to planning for office is more practical and responsive to office markets, needs of prospective businesses and can alleviate the pressure these policies may be putting on the ability to deliver new housing.
- Cities have had incentive programs in the past, and these may be retarding the ability to properly convert functionally obsolete space into higher and better uses. The City of Toronto, for example, has provided certain exceptions on development charges for new office developments as an incentive to attract and retain office space. These exemptions are applied to the developer, but the development fund is still made whole through non-DC funds. In facing a potential conversion, there may be an interpretation by the City that a converting developer is not owed DC credits on account of the original exemption. But because the funds were made whole by the policy originally, any conversion

should be fully eligible for DC Credits. Any other interpretation will simply add unnecessary costs to the conversion process and ultimately negatively impact housing affordability in the newly converted use.

- Cities have other incentive programs such as the IMET program in the City of Toronto, which, in the face of waning new office needs will be losing its effectiveness. These programs should be re-oriented toward existing buildings and promoting effective and adequate capital expenditure and upgrades to ensure the existing building stock is reused and revitalized to address modern office needs.
- That the City of Toronto's property tax ratio is substantially higher than other competitive municipalities places may be creating the wrong incentives in the City's ability to approve conversions. If the City were to seek to reduce the financial pressure to convert, it may want to extend the property tax ratio reduction policy to better align with other GTA municipalities rather than cease the reductions at a 2.5-times ratio.

In summary, there is a strong need to address an emerging long-term excess supply of office space with more streamlined policies to encourage and incentivise conversions. To facilitate this, there is immediate action required to address built in constraints to conversions that act only to delay conversions and slow down the pace of critical new housing. Broad policy moves that would be encouraging to see include:

- Enacting a regional approach to coordinating office space planning across the GTA and discouraging policies that take a hyper local approach;
- Rethinking the City of Toronto's highly polarized urban structure which lacks the flexibility needed to address urban growth priorities;
- Considering waiving or reducing municipal and provincial land transfer taxes for office conversions; and
- Providing full development charge credits for converted space.
- Considering accelerating and/or extending the commercial property tax ratio reductions.

Based on the research and analysis in this report into a broad sample of the current base of planning policies and municipal finance policies, it appears there are constraints creating significant impediments preventing, limiting or slowing the office sector from right-sizing and renewing itself in the coming years. Immediate action is required at the provincial level and across the GTA's major municipalities to address or even dismantle current policies and focus on creating the right policy approach to building in effective flexibility to deal with the impending office oversupply.

TABLE OF CONTENTS

	Page
EXECUTIVE SUMMARY	i
1 INTRODUCTION	1
1.1 Background	1
1.2 Approach	1
1.3 Caveat.....	2
2 CURRENT AND FUTURE OFFICE SPACE REQUIREMENTS	3
2.1 Current Conditions in the GTA Office Market	3
2.2 Office Needs Models and Methods	8
2.3 The Role of the Pandemic in Activity Based Work.....	12
2.4 The Pandemic, and A Refined Approach to Forecasting Office Needs	18
2.5 Supply and Demand Analysis	22
2.6 Conclusions	27
3 ANALYSIS OF MUNICIPAL PLANNING POLICIES FOR OFFICE USES	29
3.1 Office Inclusion, Retention and Replacement Policies.....	29
3.2 Job to Population Ratio Policies	34
3.3 Definition of “development”	37
3.4 Conclusions	38
4 OVERVIEW OF MUNICIPAL FINANCE POLICIES AND OFFICE DEVELOPMENT IN THE GTA.....	40
4.1 Existing / Past Office Incentive Programs.....	40
4.2 Development Charge Policies	46
4.3 Property Tax Policies	50
5 ANALYSIS OF POTENTIAL FOR OFFICE CONVERSIONS	52
5.1 Building Code Issues.....	54
5.2 Conclusions	56
6 RECOMMENDATIONS	57
6.1 Planning-Based Recommendations.....	57
6.2 Municipal Finance Recommendations.....	60
7 SUMMARY OF RECOMMENDATIONS.....	63

APPROACHES TO CONVERTING AND RE-PURPOSING OFFICE SPACE ELSEWHERE IN NORTH AMERICA.....	1
Canada.....	1
United States.....	5

1 INTRODUCTION

Altus Group Economic Consulting was retained by NAIOP Greater Toronto Chapter to review the need for office space in the Greater Toronto Area (GTA), as well as review existing and emerging issues driven by existing municipal planning and municipal finance policies affecting the existing stock of office buildings and affecting how and where new office space gets built.

1.1 BACKGROUND

After a robust period of positive growth conditions in the office market in the GTA, office absorption turned sharply negative during and since the pandemic, and availability rates are currently very elevated. Future need for office space will continue to be influenced by an acceleration in activity-based work and hybrid work among office users and these changes are clearly permanent.

A successful well-functioning office sector is critical for economic development and prosperity in the GTA and Ontario. The current oversupply, the significant pending new supply in the development pipeline, and the likely relatively weak demand for new office space in the years ahead raises significant concerns. Office supply is influenced by municipal and provincial planning policies and these policies are all geared to pre-pandemic conditions.

In light of all of this, NAIOP Greater Toronto Area approached Altus Group to provide an analysis of current and future conditions in the office market and current municipal and provincial planning policies and to recommend approaches to modifying policies to help strengthen the office sector.

It is highly recommended that policies be focused on facilitating and even incentivizing the conversion, to other uses, of functionally obsolete office buildings. This is in order to bring the market back into balance and to ensure a highly functioning office sector in the future.

1.2 APPROACH

This report is undertaken in two phases:

- Phase 1: provides an analysis of office market conditions and future need. This analysis sets out the magnitude of the current problem of

impending oversupply in the GTA office market and suggests a quantum of space to be considered functionally obsolete.

- Phase 2 undertakes a detailed municipal office analysis and provides a review of municipal policies and financial considerations that factor into the decision-making process in order to right-size the region's planning framework for office uses in the future. As well, this phase identifies what impediments may be in place and whether further analysis is required.

1.3 CAVEAT

The analysis has been prepared on the basis of the information and assumptions set forth in the text. However, it is not possible to fully document or account for all and any changes that may occur in the future. This report relies on information from a variety of primary and secondary sources. While every effort is made to ensure the accuracy of the data, we cannot guarantee the complete accuracy of the information used in this report from secondary sources.

2 CURRENT AND FUTURE OFFICE SPACE REQUIREMENTS

This chapter sets out the findings from the phase 1 analysis, including assessing current conditions in the office market of the Greater Toronto Area (GTA), the impact of the pandemic on future office demand and sets out a model of future warranted office space that is sensitive to the types of permanent changes currently underway in office demand.

2.1 CURRENT CONDITIONS IN THE GTA OFFICE MARKET

As of early 2023, some three years since the onset of the pandemic, the office market in the GTA is showing significant negative and long-term effects from shifts in demand.

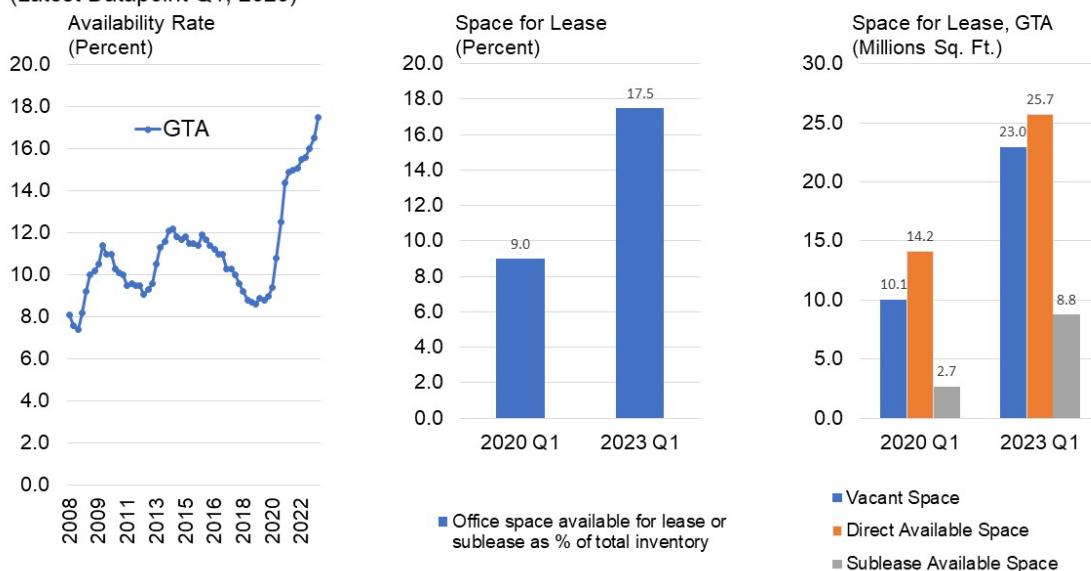
2.1.1 Available Space is Rising Fast

Figure 1 provides a summary of the effects on market vacancy statistics. The availability rate (vacant space, or space on the market and soon to be vacant) has risen from a market average of about 10.0% to 17.5% in the first quarter of 2023.

Figure 1

Office Availability Rate, Greater Toronto Area (GTA)

(Latest Datapoint Q1, 2023)



Note: Q1 2023 year to date as of March 2023
Source: Altus Group

Figure 1 in Altus Group Economic Consulting "Office Needs and Policy Directions in the GTA" (2023)

In all, some 35 million square feet of office space is currently available to lease in the GTA, more than double the amount in the first quarter of 2020

before these pandemic effects began their significant role in changing the market.

Moreover, the rise in the sublease component of available space, in particular, speaks to the current dynamics driving available space, which is heavily weighted toward current office tenants reducing desired office space.

The sharp rise in the availability rate in the past three years in the GTA has reflected increased space available on the market across buildings of different quality, different location and different ages.

Office buildings are typically classified into different categories based on several factors, such as location, age, size, design and amenities. This taxonomy is used to help investors, developers, and tenants understand the different types of office buildings and their characteristics.

The three primary classes of office buildings include Class A (typically the newest and most attractive buildings in prime locations with superior amenities, such as high-speed elevators, security and structured parking) Class B (older but still well-maintained and in desirable locations, offering fewer amenities but are still considered to be of high quality) and Class C (typically the oldest and least desirable of the three classes with outdated designs and amenities).

There is only minor variation in the GTA among the three different classes with respect to the elevated levels of availability that has emerged since the onset of the pandemic:

- Class A buildings account for a very large portion of the stock of office space in the GTA – about 40% of office buildings and 63% of office space. Class A buildings are also currently recording the highest availability rates – some 19% of Class A space across the GTA is currently available to lease – and a very large portion of that (about 29%, just less than one-third of the available space) is accounted for by sublease space.
- Class B space accounts for about 28% of all leasable office space in the GTA. Class B buildings are also showing elevated availability rates, at about 17% in Q1 2023, though a substantially smaller component of that is accounted for by sub-lease availability (only about 16% or about 1/6 of the available space is sublease).

- Class C buildings are a significantly smaller component of the office market, accounting for only 9% of all office space inventory. The availability rates are also elevated in Class C buildings, but not in relation to the rest of the stock. It sits at 15% in Q1 2023, modestly lower than both Class B and Class A. about 1/6 of the available space is composed of sublease offers.

There are also no significant variations in availability rates by location across the GTA market. Broadly speaking, the inventory of office space in the GTA is distributed with 42% of space in downtown Toronto, 24% in the GTA west (areas west of about Bathurst St. through to Peel and Halton regions), 17% GTA east (east of the Don River and through to Durham region) and 9% Midtown and a further 8% GTA north (north of Lawrence through to York region).

The availability rates by regional market are all very close to the average for the whole of the GTA (18%). It is lowest in GTA north at 17% and highest in Midtown at 20%. The largest market, downtown Toronto has 18% availability and the highest share accounted for by sublease offers – 31% of downtown available space.

By the above account, there are no significant quality-dependent trends accounting for the elevated availability rates, they are similarly high among all three classes of space, and generally consistent by geography/submarket. And in terms of sublease, although Class A space is significantly more likely to have sublease availability, in general, all qualities of space are seeing elevated levels of sub-lease space on the market.

However, it is common to hear from the industry that leasing trends have recently been showing a swing toward flight to quality and that the highest quality space is still in relatively strong demand.

This observation is confirmed by looking at performance by age of building. Availability rates in Q1 2023 are highest within buildings built in the 1980s and 1990s, both sitting at about 20%, and also in pre-war buildings, averaging 23%. The lowest availability rates are among the newest buildings.

About 12% of the total office space inventory in the GTA has been built since 2010 (some 177 buildings) and among this new modern high quality stock availability rates are also elevated but, at only 12%, are significantly better than across older buildings in the stock (19%). Almost half (48%) the

available space in these new modern high-quality buildings is composed of sublease offers.

There are nine buildings in downtown Toronto that could be considered modern trophy buildings (Class A, built since 2010 and tall with 30 or more storeys). The availability rate among these nine is at 11% and 73% of which is sublease, although most of that available space is found in two of the nine buildings.

2.1.2 Absorption has Turned Sharply Negative

Absorption is a sound measure of demand in the office sector and accounts for the change in leased space over time.

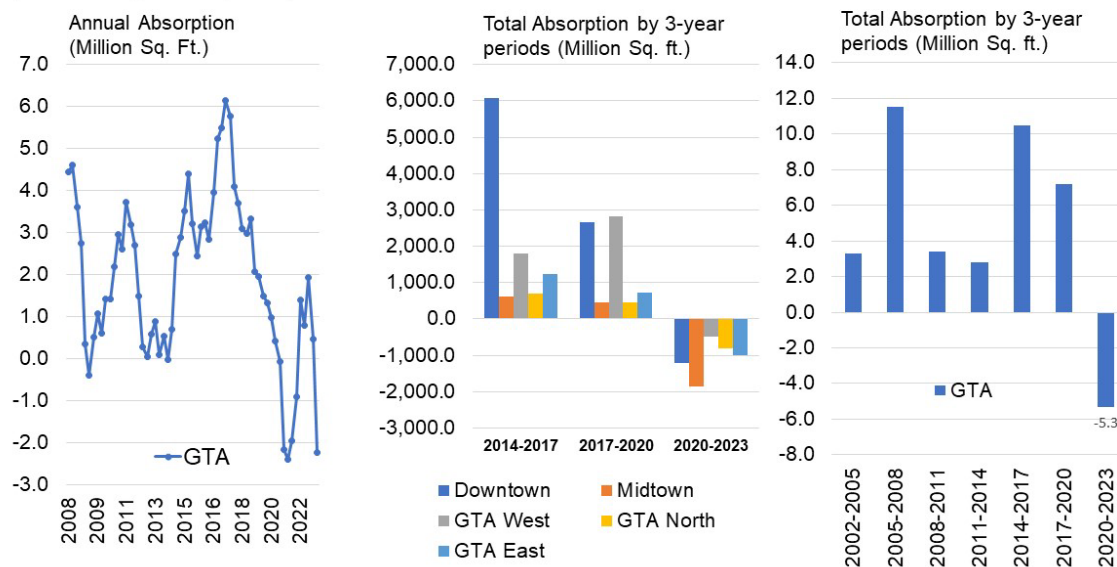
Figure 2 summarizes the long-term pace of absorption over the past decades, and shows that on average, prior to 2020, average annual absorption in the GTA was some 2.0 million square feet per year. It had accelerated somewhat in the six years prior to the pandemic, 2014-2019, to 2.8 million square feet per year.

In the three years since the onset of the pandemic, absorption has turned sharply negative and the quantum of total leased space in the market has declined by some 5.3 million square feet

Figure 2

Absorption, Office, GTA and Select Submarket

(Latest Datapoint Q1, 2023)



Note: Q1 2023 year to date as of March 2023
Source: Altus Group

Figure 2 in Altus Group Economic Consulting "Office Needs and Policy Directions in the GTA" (2023)

Office absorption refers to the change in the amount of occupied office space over a particular period in a specific market or location. It is a measure of the net change in the amount of office space that is leased or occupied by tenants or other office users. Absorption is measured from one period of time to the next period.

Positive office absorption means that the amount of occupied office space has increased, while negative office absorption indicates a decrease in occupied space.

Office absorption is a critical measure of market health in the commercial real estate industry. It provides a gauge of the supply and demand dynamics of the market. It is an indicator of the level of demand for office space.

Absorption rates are often used by investors and developers to make informed decisions regarding the development or acquisition of office properties.

Factors that can affect office absorption include economic conditions, job growth, population growth (demand side factors), and new office development (supply side). Typically, these demand and supply side factors can vary over a typical office market cycle.

Many typical factors that affect office demand leading to higher or lower absorption are considered to be short term factors that can ultimately reverse over the course of an office market cycle. For example weak demand can come from weak employment growth if the economy slows down, and might be offset by stronger employment growth later on. Another example is investment confidence. If office users are confident about business growth ahead, they may take on more space in anticipation of growth. This can lead to positive absorption across the market and be characterized as an expansionary point in the office market cycle. But at another time they may feel more uncertain about growth, and reduce their space usage to save on expenses, this could lead to reduced absorption or even negative absorption and would be considered a contractionary point in the office market cycle.

In general, these cyclical changes would be considered short term fluctuations in office demand.

In the past three years, there has been a dramatic period of negative absorption in the GTA market that is unprecedented in recent times.

Across the GTA the total quantum of leased space across all buildings of all classes in all locations has declined by some 5.3 million square feet in aggregate. The declines have been across the board geographically, with 1.9 million square feet in decline in midtown Toronto, followed by 1.2 million sq. ft downtown. Declines over the three-year pandemic period were also seen in the GTA east (1.0 million square feet), GTA north (0.8 million square feet) and GTA west (0.5 million square feet)

These declines are not just another example of a short-term demand factor that will reverse itself within short order. Although single quarters and even single years of negative absorption have been seen in the GTA during various office market cycles, it is unprecedented over the past 25 years to have negative absorption over a three-year period. That and the fact that it is consistent across all the major geographic markets in the GTA support the idea that a more fundamental demand shift has taken place, which may be more than a short-term fluctuation.

2.2 OFFICE NEEDS MODELS AND METHODS

Understanding current conditions and planning accurately for the future need for office space in a market such as the GTA is crucial for a good many reasons.

Real estate markets are dynamic and subject to change over time, so policy needs to be flexible enough to account for short term changes in conditions, and adaptable enough to change to meet longer-term trends. Monitoring trends in the local real estate market, such as vacancy rates, rental rates, and absorption rates, can provide insights into the demand for office space. This information can inform decision-making related to the development, renovation, or leasing of office space in the future.

Forecasting the future need for office space is critical for informed decision-making, strategic planning, and successful real estate development and investment. It also helps ensure that office space meets the evolving needs of businesses and workers in the future, and continues to help fuel economic development prospects in the GTA.

To accomplish this, policy makers rely on models of future office space need usually created and analysed by economists. These models have a long history in both the real estate investment world and the urban planning

world. These models generally take one of (or a combination) three general forms:

1. Models that relate office need to population;
2. Models that relate office need to employment; and
3. Models that relate office land need to employment density.

Professional modelling of office needs began in the 1960s and there was a significant amount of research on this topic through the 1970s to the early 2000s. Early models recognized that the size and growth in the population of an area will be related to the number and type of businesses, so that there is a correlation between the size of the occupied office stock and population. Jennings (1965), Messner, Boyce, Trimble, and Ward (1977), Del Casino (1985), Clapp (1989), and Fanning (2005) all used models of this sort to develop forecasts for office space.

Through the same period, researchers were relating employment measures with office need, in recognition that a strong relationship exists between office type employment and office space, but that accurate data on these measure of employment both historically and for a forecast can present challenges in certain circumstances. Detoy & Rabin (1972), Kelly (1983), Schloss (1984), Martin & English (1985), Birch (1988), Carn, Rabianski, Racster & Selden (1988), Hysom (1988), Clapp (1993), Howarth & Melizia (1998) and also the Fanning (2005) research all presented models of future office space modelled on employment estimates. These studies ranged from simple ratios to total employment, to more sophisticated estimates of office type employment, and even detailed sector by sector forecasts applied against sector specific coefficients or factors.

Both the population based and employment based (and those that used a combination) took the forms of either ratio type equations, or space factor type equations. Ratio type models (like Jennings (1965), Kelly (1983) and Clapp (1985)) used calculus to determine statistically significant coefficients relating the percent growth in the independent variable(s) (e.g., the employment or population variables) with future percent growth in occupied office space. Space factor type equation models (like Fanning, Grissom & Person (1994), Malizia & Howarth (1995) and others) would deal with the quantum of office space related to the quantum of growth in the independent variable.

The value of the body of literature developing these models in part lies with the findings around strengths and weaknesses of different approaches, which include for example, that the ratio method can be helpful in instances where there is insufficient data to forecast properly the number of jobs likely to emerge in the future (ie., these models can rely on such simple inputs as future GDP growth and productivity assumptions) but that their findings lack the transparency to be able to adjust and adopt to particular circumstances. Fanning (2005) for example related different space factors by NAICS subsectors in such a way that would allow for relatively fine-tuned adjustments to those forecasts as specific conditions within subsectors changed.

Another quite different approach is to use land density factors to turn future employment into land needs. While this approach is somewhat silent on the actual quantum of office space need, it has been recommended, especially in greenfield growth situations, as an approach to ensure enough land is planned for major office uses. In 1995 Altus Group (then called Clayton Research Associates) and Hemson Consulting jointly authored the Projection Methodology Guideline (PMG) jointly for the four Ontario Ministries of Municipal Affairs, Housing, Finance and Agriculture, Food and Rural Affairs. The purpose of that guideline document was to provide municipalities and other land use planning decision makers with a co-ordinated set of methods for making projections of population, housing need, employment and related land requirements to assist in compliance with provincial planning policy. The PMG uses the employment density on land approach, as it most closely aligned with the purpose of the policy document, to guide greenfield land planning.

There have been a number of local strategic or planning studies undertaken on behalf of municipalities in the GTA over recent years and generally these use some version of the space factor approach. In 2008 the Canadian Urban Institute undertook a study for the City of Mississauga known as the *City of Mississauga Office Strategy Study*. This study included forecasts of office need in the city through a 25 year future period. Employment by broad sector were obtained from Hemson Consulting and then sector specific space factors were applied to gain an understanding of office floorspace demand over the period.

In 2016 the City of Toronto published an important study of CBD office needs in its downtown area. This document, *Planning Downtown: The Outlook for Office and Institutional Employment to 2041* authored by Hemson Consulting reviews the long-term employment forecasts for Toronto's downtown and examined office and institutional space requirements to accommodate the projected employment growth. To forecast offices-space demand, floor space per workers ("FSW") is used to convert the number of jobs into gross floor area ("GFA"). This is a very modern and relevant example of a model using the space factor approach.

Bibliography of academic studies of office space modelling

- Birch, D.L. Forecasting Overbuilt Office Markets. SIOREF/Perspective. 1988, January/February, 2–7.
- Carn, N., J. Rabianski, R. Racster, and M. Selden. Real Estate Market Analysis. Englewood Cliffs, NJ: Prentice-Hall, 1988.
- Clapp, J.M. Handbook for Real Estate Market Analysis. Englewood Cliffs, NJ: Prentice Hall, 1987
- Clapp, J.M. Dynamics of Office Markets. AREUEA Monograph Series No. 1. Washington, DC: Urban Institute Press, 1993.
- Detoy, C.J. and S.J. Rabin. Office Space: Calculating the Demand. Urban Land, 1972, June, 4–13.
- Fanning, S.F., T.V. Grissom, and T.D. Pearson. Market Analysis for Valuation Appraisals. Chicago, IL: Appraisal Institute, 1994.
- Fanning (2005)
- Howarth, R.A. and E.E. Malizia. Office Market Analysis: Improving Best-Practice Techniques. Journal of Real Estate Research, 1998, 16:1, 15–34.
- Hysom, J. Office Market Analysis: A Solution to Overbuilding? Commercial Investment Real Estate Journal, 1988, 7:3, 9–13.
- Jennings, C. Predicting Demand for Office Space. Appraisal Journal, 1965, July, 377–82.
- Kelly, H. Forecasting Office Space Demand in Urban Areas. Real Estate Review, 1983, 13:3, 83–95.
- Malizia, E.E. and R.A. Howarth. Clarifying the Structure and Advancing the Practice of Real Estate Market Analysis. Appraisal Journal, 1995, January, 60–8.
- Martin, W.B. and W.D. English. Forecasting Demand for Multitenant Office Space. Commercial Investment Journal, 1985, 4:1, 7–9.
- Schloss, N. Technical Note: Use of Employment Data to Estimate Office Demand. Monthly Labor Review, 1984, 107:12, 40–44.

2.3 THE ROLE OF THE PANDEMIC IN ACTIVITY BASED WORK

As offices have reopened after the disruptive work at home measures during the pandemic, many companies have been providing increased flexibility for employees to continue to work remotely, at least part time. Across various sectors, many employers are reporting that they will be adopting some form of flexible work strategy, one that takes into consideration the success of the digital workspace tested during the pandemic. This transformation to remote or hybrid working has resulted in a behavioural change that is likely to remain throughout many industries. The forced experiment proved to be successful for many workers and offered businesses a tutorial on the limitations and benefits of remote working.

The behavioural change in business operation bring to light two trends related to future office space.

- An increase in expected hybrid working in the future, resulting in an estimated reduction in office space requirements as employees are spending less time in the office; and
- An adjustment to office floorplates and building layouts to allow for additional space within the office to maintain physical distancing ratios and recognize new and emerging work and collaboration trends.

All told these types of trends are part of activity-based work practices. Activity based work practices were present prior to the pandemic, but accelerated significantly and became more widespread across a broader array of industries and companies during the pandemic.

2.3.1 Accelerating Activity Based Work Practices

Activity-based work practices are a modern approach to workplace design and management that prioritize flexibility, collaboration, and employee empowerment. Rather than adhering to traditional, fixed workstations or cubicles, activity-based work practices recognize that employees have different tasks and workstyles, and provide a variety of spaces designed to support different activities and needs.

Proponents of activity based work have traditionally pointed to its benefits including flexibility (employees can work in a variety of settings), increased opportunities for collaboration (activity-based work practices foster

collaboration among employees by providing spaces that are conducive to team discussions, brainstorming, and idea sharing), employee empowerment (employees take ownership of their work environment and choose the spaces that best suit their needs), mobility (provide the tools and tech to work from different locations within the workplace or remotely), and wellness (take into consideration the well-being of employees).

The COVID-19 pandemic has had a significant impact on the adoption of activity-based work practices. While these practices were gaining momentum prior to the pandemic, the widespread shift to remote work during the pandemic has accelerated and reshaped how organizations implement and approach activity-based work practices. The success of activity-based practices during the pandemic period, and as they have emerged in a more balanced manner with work happening both at workers home and at the office in many cases (i.e. hybrid work), suggests that the sort of hybrid balanced practices we are seeing emerging today are here to stay.

The shifts toward balanced hybrid work in most cases have clearly demonstrated that work can happen effectively outside of the traditional office environment, challenging the notion of a centralized workplace. Activity-based work practices that support remote work and flexible work arrangements have become more mainstream, with organizations recognizing the need to provide employees with the tools, technology, and support to work from anywhere.

Other benefits to workers and organizations from activity based work that have come about during the pandemic in such a manner that they are likely to remain include the increased focus on employee well-being, the adaptation of physical spaces within offices to accommodate different working activities with different types of spaces, and increased reliance on technology. All of this has led both employee and employer to focus on employee empowerment and trust: The shift to remote work during the pandemic has emphasized the importance of trust and autonomy in the workplace. Organizations that have successfully implemented activity-based work practices have recognized the need to empower employees to make choices about where and how they work, trusting them to deliver results regardless of their physical location. This has fostered a culture of trust, accountability, and autonomy among employees, which may continue to shape how organizations approach activity-based work practices in the future.

2.3.2 New Urban Realities

Elevated rates of remote work (at least part of the time) are being reported across the country, but rates in large cities, such as Toronto, are more elevated than in smaller centres, even when adjusting for the mix of office workers in the workforce. In part, the realities of large urban centres are that employers and employees alike can benefit from urban amenities, but that the costs of commuting to work is borne disproportionately by employees, both in terms of time and in money.

Commuting times have been rising in Toronto for some time. Prior to the pandemic, a Forum Research study found that at 42 minutes each way, average commuting times were up 44% from six years before. Rising commuting times relate to rising traffic congestion and capacity constraints on existing public transit. Since the depths of the lockdowns during the pandemic, both congestion and commuting times have continued to deteriorate, with a recent study by Moovit, an urban mobility data company reporting in its Global Public Transport Report in 2022 that Toronto had among the longest commutes (in terms of time) among the 100 or so cities in 24 countries surveyed.

Commuting times and costs, including the cost of transit and parking, are generally borne by employees. Remote work options for those office employees that are able, provide an opportunity to reduce these costs and clearly lead to improved wellbeing.

Remote working existed before the pandemic and was an option for some office workers, but the pandemic provided a catalyst for office workers to realize the value proposition of reducing the amount of time spent on commuting and cost spent on driving, transit and parking, and it will remain a prevalent requirement of a large component of the office based workforce, indefinitely. In dense urban areas like Toronto, plagued by traffic congestion and transit capacity issues this is even more true.

2.3.3 Impact on Real Estate

Overall, the COVID-19 pandemic has accelerated the adoption of activity-based work practices by highlighting the importance of flexibility, remote work, employee well-being, technology enablement, and trust in the workplace. Organizations have had to adapt and rethink how work is organized and performed, and activity-based work practices have emerged

as a viable approach to support the changing needs and preferences of employees in the new normal.

In addition, it is becoming apparent that these trends are having a sharp influence on the quality of office space being demanded in the market. High quality A class or better space in downtowns and highly-transit supported locations across Canada are continuing to perform well in terms of vacancy and lease rates despite generally higher vacancy and softer lease rates across the market.

Many of Canada's prime office users (businesses, institutions and government agencies) are now finding that they require less space for their operations, as employees spend more time within a hybrid working environment.

Due to these factors, there is an inevitable reduction in occupier demand, although the degree of reduction will vary from sector to sector. The timing of this reduction may be gradual. Already after three years there is demonstrable reduction in office demand in Toronto and most other markets across the country. As longer-term leases roll over in the next 5-10 years, more and more of this reduction is likely to be seen in the market. Some sectors will require less corporate space while many professional services may be able to continue as normal with altered working practices and office layouts.

To assess the potential impacts the COVID-19 pandemic has had on office demand, a theoretical framework is employed, showing how the demand for office space will likely evolve given the identified behavioural change in business operations during the COVID-19 pandemic (Figure 3).

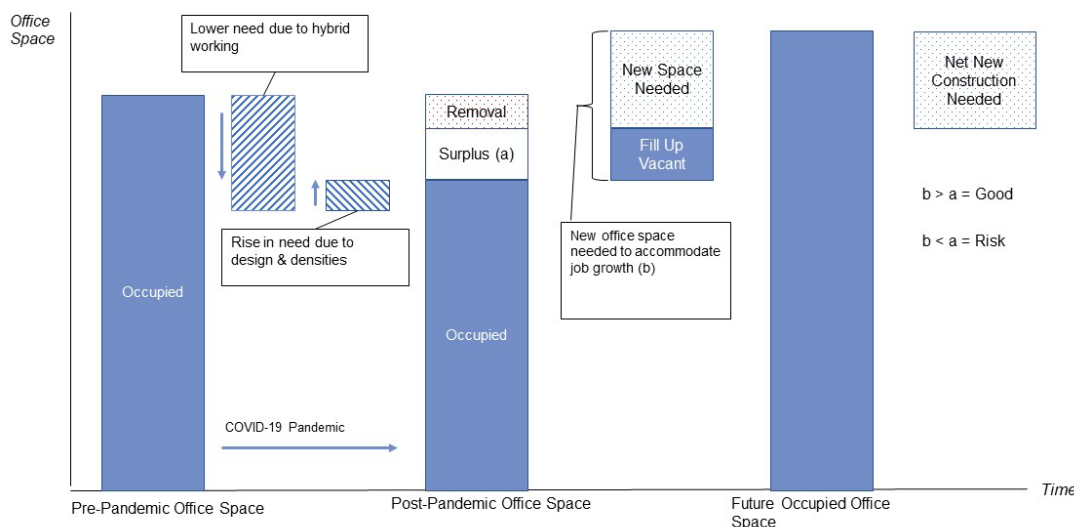
The pandemic will lead to a net surplus of office space resulting from the reduction in office space requirements due to an increase in hybrid working. A portion of the surplus office space will be potentially demolished or converted to new uses, with the remaining surplus contributing to the a longer term lingering elevated vacancy. In the longer term, employment growth will continue to drive the need for new office space as companies expand and as new companies require office space.

Ultimately, if the long-term new office space needed to accommodate growth (b) is larger than the surplus medium-term vacant office space (a) there will be net new additional office space needed. If the new office space needed to

accommodate growth (b) is less than the surplus medium term office space (a) than there will be a sustained surplus of office space remaining on the market.

Figure 3

Hybrid Workforce Office Demand Framework



Source: Altus Group

Figure 3 in Altus Group Economic Consulting "Office Needs and Policy Directions in the GTA" (2023)

2.3.4 Example Organizations

In addition to the current trends and practices outlined above pointing to a one time significant downtrend in demand for office space due to the pandemic and its lasting impacts, there is direct evidence from some large space users that these practices are already in place and affecting the long-term need for space

Federal Government

Only a minor amount of the federal government's office-based workforce is addressed to GTA locations, but space utilization plans underway by the federal government provide good insight into the type of planning being done by a wide array of public sector and business office users who are in the GTA.

Workplace 2.0 was a government wide strategy to create and maintain a modern workplace for Federal employees that has guided trends over the

past 20 years¹. Workplace 2.0 set out to create a modern workplace and to reduce the amount of space the federal government uses by efficiently reducing the floor space per worker (“FSW”).

Workplace 2.0 and GCworkplace, its successor plan, have evolved over time, with its initial reference manual created in 2009 introducing the initial concepts of space requirements based on different types of workers and time spent in the office with a national average FSW of approximately 172 square feet. Since the initial document, this concept has evolved with and more ambitious targets for new office space have been set, reducing the national average allocation for office accommodation from 172 square feet to 151 square feet. This trend is expected to continue, with Workplace 2.0 anticipating reductions down to 100 square feet ultimately, and more updated configurations under GCworkplace significantly lower than that as the Federal Government continues to utilize space in a more efficient manner.

City of Toronto

The City’s efforts at reducing its worker office footprint provides an example of the existing trend towards work from home that pre-dated the pandemic and the aftermath effects.

In September 2019, the City initiated the Office Optimization Plan (“ModernTO”) to reduce the total number of office locations, owned or leased, from 52 to 20 over a 5-year period. This would result in a reduction of 750,000 SF or 25% of the City’s total office portfolio, affecting 15,000 of its employees. Additionally, this footprint reduction would provide an estimated annual savings of \$30 million on capital and operating across the City’s office portfolio.²

In November 2020, staff reported to the executive committee of Toronto City Council that:

The COVID-19 pandemic has had a significant impact on the Program, acting as a catalyst for change and accelerating the transition toward remote working. This resulted in further optimization of the office

¹ Public Works and Government Services Canada, *Government of Canada Workplace 2.0 Fit-Up Standards*, April 2012.

² ModernTO: City-Wide Real Estate Strategy and Office Portfolio Optimization RA8.1

portfolio and reduction in the City's office footprint from what was presented to City Council in October 2019.³

Staff reported that due to the effect from the pandemic on work patterns, an additional 250,000 SF or a total of 1 million SF of office space formerly used by the City's employees could be consolidated, with the total number of office hubs reduced from 20 to 15. The office consolidation efforts represented a savings of \$2,100 per employee. It was also noted in the November 2020 staff report that:

The Program is aligned with the City's efforts to modernize government and will bring additional benefits to the City including smaller environmental impacts and reduction in the City's greenhouse gas emissions ("GHG"), improved talent attraction and retention, better employee engagement and opportunities to provide additional accessible public and community space on the ground floor of the Civic Centres. The focus on employee mobility and the redistribution of office capacity outside of the downtown core, and in particular to Etobicoke and Scarborough, will also reduce commute times and frequency, contributing to the reduction in GHG emissions as well as improved work-life balance for employees.

As the staff report noted, providing work from home options are integral to efforts for both talent attraction/retention and the reuse of space for other needs, such as community space.

2.4 THE PANDEMIC, AND A REFINED APPROACH TO FORECASTING OFFICE NEEDS

To forecast offices-space demand, the concept of floor space per worker ("FSW") is used to convert the number of jobs into gross floor area ("GFA").

Prior to the disruptive outcomes from the pandemic, a typical needs forecast for office space in the GTA took the following form:

- Major office employment growth for the GTA totals 428,000 new jobs over the 25-year forecast period (2016-2041);
- Market-wide FSW in 2016 was running at about 250 square feet per worker on average across the GTA. This factor relates workers addressed to organizations using an office building to its gross floor area (GFA) and the factor considers the industry standard for

³ ModernTO - Workplace Modernization Program Business Case and Implementation Plan Update RA19.4

employee workspace usage and then takes into account a number of adjusting factors such as a vacancy allowance (assumed to be 7%) a GLA efficiency ratio (85%) and a GFA efficiency ratio of 90%. These factors are all considered industry standards.

- Trends toward more efficient workspace layouts, and the modest introduction of “hotelling” or other work sharing models in the past few decades has led to a downward trend in the FSW factor. Prior to the pandemic interruptions, best estimates for future estimates for FSWs in modern newly configured spaces were as low as 215 square feet per employee (on average across various sectors).
- The forecast for space needs in 2041 is inclusive of the existing space factor and two adjustments. For all future growth space, including fully repurposed surplus space, it is assumed that these will be fitted out to the standard of 215 square feet (GFA) per employee. For existing employment/office users, it is assumed that many will roll over and reconfigure to modern standards by 2041, but some will not. A “mid point” is applied to existing employment of 226 square feet per employee.
- This model is a standard approach to projecting office space needs on a GFA basis.
- Based on existing FSW of 250, future FSW of 215 and an adapted average FSW for existing companies of 226, and given the growth in the economy and in the number of office type workers by 428,000 persons by 2041, the GTA, under this pre-pandemic scenario, would have required some 70 million square feet of net new space by 2041. This amounts to some 2.8 million square feet of absorption per year (in line with the general rate of absorption prior to the pandemic).

2.4.1 Scenarios of Office Need Post Pandemic

It is important to note that the counts of existing employment in the GTA, and the forecast for net new jobs are jobs that are considered "addressed" to office locations. Traditionally, a reasonable assumption would be for an addressed employee to require the use of a desk and a certain amount of space on a full-time basis, but within a hybrid work model, those assumptions are changed. This will have important impacts on the FSW assumptions required in the calculations of future office need.

A hybrid workforce results in a decrease in FSW metrics. It is particularly important to take into consideration that the effects of the transition to a permanent hybrid workforce will affect many businesses currently occupying space, as well as the metrics around the accommodation of net new growth. It is expected that the current existing stock will be updated towards a more modern space per employee averages over the forecast period as well as new buildings and newly fitted out spaces within existing buildings with new leases will be developed at modern space per employee averages. Prior to the pandemic, the office needs model already contemplated a gradual shift in existing uses toward lower FSWs, the effects of the pandemic and widespread adoption of hybrid work is accelerating this trend.

Figure 4

Hybrid Work Demand Model, GTA, 2016-2041

	Base Pre-Pandemic Conditions	Hybrid Work Scenario 1 "Two days a week" Hybrid Hoteling Model	Hybrid Work Scenario 2 "Three days a week" Hybrid Hoteling Model	Hybrid Work Scenario 3 "Four days a week" Hybrid Hoteling Model	
Total Office Space 2016	233,250,000	233,250,000	233,250,000	233,250,000	Sq. Ft.
2016 Existing Employment	933,000	933,000	933,000	933,000	Jobs
Major Office Employment Growth 2016-2041	428,000	428,000	428,000	428,000	Jobs
2016 FSW ¹	250	250	250	250	FSW
2041 FSW (2016 base occupiers, new density) ²	226	158	181	203	FSW
FSW new growth space 2016-2041	215	86	129	172	FSW
2016 Office Space	233,250,000	233,250,000	233,250,000	233,250,000	
2041 Office Space	302,878,000	184,408,600	223,898,400	263,388,200	
Total sq.ft. of new space requirements	69,628,000	(48,841,400)	(9,351,600)	30,138,200	Sq. Ft.
Annual sq.ft. of new space requirements	2,785,120	(1,953,656)	(374,064)	1,205,528	Sq. Ft.

¹ FSW relates employment to total GFA assuming 7% vacancy allowance, 85% GLA efficiency ratio and 90% GFA efficiency ratio

² Assumption is half the effect of the new growth space assuming not all existing office users in the market will renovate space to modern standards over the time horizon

Source: Altus Group Economic Consulting

To account for these changes in FSW based on a hybrid workforce, Altus Group has developed 3 post-pandemic hybrid work scenarios which illustrate the estimated change in the total forecast office space requirements by 2041 based on a range of reductions in FSW due to the changes in office demand through the increase in hybrid working. While the full extent to which hybrid work becomes a long-term standard across a wide array of office users is still hard to tell with certainty. These three scenarios provide an opportunity to understand the range of possible outcomes, given that it is certain there will be some amount of hybrid work through this forecast period.

Adjustments to both the FSW used for the expected employment accommodated in existing office space and the FSW used for the development of new office space have been estimated across the 3 scenarios

based on the average number of days employees spend in the office as part of a hybrid working arrangement. The 3 scenarios included models of the differences in future office demand should on average employees return to the office 2 days a week, 3 days a week and 4 days a week, and assuming ultimately companies will ultimately value engineer their space requirements to be a tightly scoped to these needs as possible.

- The Hybrid Work Scenario 1 assumes on average employees will return to the office 2 days a week, resulting in a reduction in FSW for new office space of 60% from 215 square feet to 86 square feet, as well as existing space will be updated to modern standards, in turn reducing FSW metrics by 30% from 226 square feet to 158 square feet. Hybrid Work Scenario 1 results in an estimated surplus of approximately 49 million square feet of office space over the forecast period (before any removals and not accounting for new supply).
- Hybrid Work Scenario 2 assumes that on average employees throughout the downtown will return to the office 3 days a week, reducing FSW metrics for new office space by 40% from 215 square feet to 129 square feet as well as existing space will be updated to modern standards, reducing the FSW by 20% from 226 square feet to 181 square feet. Hybrid Work Scenario 2 results in a surplus of approximately 9.4 million square feet of office space by 2041.
- In Hybrid Work Scenario 3, the assumption that on average across the downtown employees will return to the office 4 days a week results in a reduction of FSW for new office space by 20% from 215 square feet to 172 square feet, as well as existing space will be updated to modern standards, reducing the FSW by 10% for existing space from 226 square feet to 203 square feet. Hybrid Work Scenario 3 results in a forecast need of approximately 15 million square feet by 2041 or approximately half of the forecast demand in the baseline pre-pandemic office needs norm (Figure 4).

2.4.2 Significant New Supply is Pending

There is a significant amount of pending new supply in the development pipeline in the Greater Toronto Area office market:

- Under Construction. In Q1 2023 there is some 6.1 million square feet of office space under construction in some 26 buildings across the

GTA. About half of the office GLA that is under construction is pre-leased (3.4 million square feet leased) which does mitigate against risk in those projects.

- Pre-Leasing. In addition to buildings under construction, there are some 63 projects in Toronto that are actively pre-leasing accounting for some 16.1 million square feet 3.1 million of this space is pre-leased.

All together, the development pipeline in the Greater Toronto market includes 22.1 million square feet of office space.

Based on the pace of absorption observed prior to the pandemic, that would have been about 11 years of supply.

2.5 SUPPLY AND DEMAND ANALYSIS

Regional and local economies require an adequate supply of office space in order to meet economic development objectives. Office space provides the spaces in which jobs operate and planning for new job growth requires ensuing the planning for the adequacy of the space.

Successful economic development also depends on having a healthy and functioning office market. A healthy market includes both adequate space, but also a market for the office asset that provides investors with the incentive to invest adequately in the office stock and provide a competitive workplace environment that allows local markets like the GTA to compete internationally for the types of employers critical for the realization of the economic development objectives.

A market with inadequate space most obviously leads to an unhealthy market, as a shortage of space will create unhealthy asset price fluctuations and will impede the pace of economic development.

However, an oversupply of space also brings about significant risks. A systemic oversupply of commercial real estate in a market will cause stress in the asset market, as high vacancy rates impede investment in new and existing buildings causing a loss of underlying value with significant negative downstream implications.

It is incumbent on economic development and planning authorities who are charged with the important task of understanding the right pace of new

supply of office space to guard equally against either an undersupply or oversupply situation.

Given the significant changes in office demand demonstrated in this report so far, it is clear that the greatest economic development risk currently facing the GTA regional economy is from oversupply of office space.

The industry is clearly responding to this risk by curtailing pending investments. It is becoming progressively more common for developers of mixed-use projects to be pivoting away from office uses in pending developments. Developers of office projects are either considering delaying going to market or redesigning for alternative uses. To the extent that planning authorities may also be seeing more of these intentions from the private sector, they should be considering that those intentions are signs that a pending long-term slump and oversupply situation is very likely emerging across the Greater Toronto Area.

Figure 5

Office Market Supply and Demand Outcomes

	Hybrid Work Scenario 1 "Two days a week" Hybrid Hoteling Model	Hybrid Work Scenario 2 "Three days a week" Hybrid Hoteling Model	Hybrid Work Scenario 3 "Four days a week" Hybrid Hoteling Model
	<i>Sq. Ft.</i>		
Office Inventory 2016	233,250,000	233,250,000	233,250,000
Occupied Space 2016	214,357,000	214,357,000	214,357,000
Vacancy Rate 2016	8.1	8.1	8.1
New Supply 2016-2023	14,666,000	14,666,000	14,666,000
Under Construction Q1 2023	6,056,000	6,056,000	6,056,000
Pre-Leasing Projects Q1 2023	16,070,000	16,070,000	16,070,000
Total New Supply 2016-2041	36,792,000	36,792,000	36,792,000
Office Inventory 2041*	270,042,000	270,042,000	270,042,000
Office Absorption 2016-2041	(48,841,000)	(9,352,000)	30,138,000
Occupied Space 2041	165,515,000	205,005,000	244,495,000
Surplus Space 2041**	104,526,000	65,036,000	25,547,000
Vacancy Rate 2041***	45.7	31.1	16.5

Notes: * Does not account for potential demolitions or conversions

** Over and above the 7% vacancy rate factor embedded in the demand estimates

*** Surplus space plus the 7% vacancy rate factor

All square footage data are rounded to nearest 1,000

Source: Altus Group

Lenders also get nervous as over supply looms, and there is evidence that they are doing so now. Lenders are increasingly reluctant to lend on new office projects across the US and Canada in light of elevated vacancy rates

and looming oversupply. The recent banking crisis in the US is also exacerbating the situation. Lenders can be an important check and balance on an office market from a finance perspective, and current caution toward office is another indicator that a longer-term adjustment in office need is underway.

Figure 5 provides an analysis based on the potential absorption scenarios presented earlier.

Given the quantum of potential new supply that is already in the development pipeline, and these scenarios for demand, the GTA faces an array of potential outcomes that range from a modestly oversupplied market in 2041 (16.5% vacancy rate in 2041) to extremely oversupplied (31.1% or 45.7% respectively) for scenarios 2 and 1 respectively.

The analysis in Figure 5 is absent an estimate for office space demolitions or conversions to other uses, which will moderate those potential outcomes somewhat (as will the possibility that some of the pre-leasing space will fail to come to market during the forecast time horizon). But in many parts of the GTA, current planning policies either strongly encourage or require demolished or converted space to be replaced with new office space in re-development projects. In key parts of the City of Toronto, including areas covered by its Downtown Plan, conversions of space are not allowed and when non-residential space is demolished during a redevelopment policies require its full replacement either on site or elsewhere (and concurrent or in advance) somewhere else in the Downtown.

While these policies will need to be reformed and removed by the City of Toronto and other municipalities, the outcomes illustrated in Figure 5 provide an analysis of potential outcomes if these policies remain in place and enforced through the forecast period.

2.5.1 Opportunities for Space Conversion

A likely range of vacancy rates by 2041 between about 16% and 45% provides a vision for an office market with long-term dysfunctionality. In reality, two very distinct markets will evolve, with high performing buildings providing the workspaces for our economy, and a growing stock of functionally obsolete buildings that are simply unsuitable for those needs.

Functionally obsolete office buildings are no longer suitable or efficient for modern business needs due to outdated design, features or technology. These properties may have limitations or deficiencies that make them less desirable or less competitive in the current and emerging commercial real estate market.

Traditionally, functional obsolescence can arise from factors such as changes in workplace trends, advancements in technology, or shifts in tenant preferences, and all of these factors have played an accelerating role in the transformation in office work and demand during and since the pandemic.

Older office buildings, for example, with limited natural lighting, inadequate parking facilities, or outdated HVAC systems may be considered functionally obsolescent as it does not meet the needs of modern businesses that prioritize energy efficiency, sustainability, and employee comfort.

The rise in functionally obsolete buildings in Toronto may be being exacerbated at this time by tighter standards and greater awareness of ESG practices and reporting needs. ESG (Environmental, Social, and Governance) standards are becoming increasingly important for companies and investors, and they are having a significant impact on the real estate industry. ESG standards focus on promoting sustainable and responsible practices, reducing the environmental footprint of buildings, and enhancing the well-being of occupants.

As a result, many older office buildings that do not meet ESG standards may become functionally obsolete in the coming years. Buildings that do not meet the standards may have higher operating costs, lower energy efficiency, and may not be able to attract or retain tenants who value sustainability and responsible practices.

The rise of activity-based work and workspaces, which accelerated during the pandemic, has also led to a rise in functionally obsolete space. Office buildings with inefficient floor plans, lack of communal areas for collaboration, or inadequate IT infrastructure may struggle to attract and retain tenants in today's fast-paced, tech-driven business environment.

Owners of functionally obsolete office space may need to invest in renovations or upgrades to modernize the property and make it more appealing to potential tenants, but in a market with a current availability rate close to 20% and prospects of a worsening market over the next 20 years, the

incentives to invest heavily in older buildings are reduced. Alternatively, they may choose to repurpose the property for alternative uses, such as converting it into mixed-use developments, co-working spaces, or residential units, to adapt to changing market demands, and it is incumbent on municipal planning policies to keep pace with these needs, in order to preserve the important functional role that office buildings play in our urban structure.

Figure 6 provides estimates around the potential magnitude of functionally obsolescent space in the GTA in a 2041 context. To be clear, much of the space in these estimates may already be functionally obsolescent, or heading that way. But over the next 20 years, the dynamics in the market for office space, as described earlier in this section will provide a natural sorting of required vs. obsolete space in the market and estimates of surplus space identified in Figure 6 provide the context for how much office space we should be planning on removing from office inventory over the next 20 years, in order to bring the market back into balance and provide the GTA economy the proper conditions for success.

Figure 6

Functionally Obsolescent Space Estimates

	Hybrid Work Scenario 1 "Two days a week" Hybrid Hoteling Model	Hybrid Work Scenario 2 "Three days a week" Hybrid Hoteling Model	Hybrid Work Scenario 3 "Four days a week" Hybrid Hoteling Model
	<i>Sq. Ft.</i>		
Warranted Office Space 2041	165,515,000	205,005,000	244,495,000
Office Inventory (with no removals)	270,042,000	270,042,000	270,042,000
Surplus Space Beyond Needs	(104,527,000)	(65,037,000)	(25,547,000)

Notes: All square footage data are rounded to nearest 1,000

Source: Altus Group

Figure 6 shows that depending on where we end up in terms of the hybrid work scenarios ranging from a 2-day a week model (planning for 4 desks for every 10 addressed employees) to a 4 day a week model (planning on 8 desks for every 10 addressed employees) the magnitude of surplus space in the market in a 2041 context ranges from a high of over 100 million square feet, to a low of just over 25 million square feet.

The most likely scenario of a 3-day a week fit out standard (6 desks for every 10 addressed employees) suggests the emergence of about 65 million square

feet of functionally obsolescent space in the GTA market over the next 20 years.

To provide some context on that estimate, there is currently about 20 million square feet of Class C buildings in the GTA and just over 60 million square feet of Class B. Assuming there is some correlation between the Classes as currently assigned and the attributes that will ultimately see some buildings becoming obsolete and others not, there will likely be an opportunity to focus primarily on these Class C and Class B buildings as prime candidates for conversion or redevelopment at least for Scenarios 2 and 3. In the case of Scenario 1, which is the most extreme Scenario in terms of reduced office space demand, this analysis suggests that some quantum of Class A buildings will also find their way into the surplus space category over the next two decades.

2.6 CONCLUSIONS

This chapter set out the findings from the phase 1 analysis, including assessing current conditions in the office market of the Greater Toronto Area (GTA), the impact of the pandemic on future office demand and sets out a model of future warranted office space that is sensitive to the types of permanent changes currently underway in office demand.

Findings include that after a robust period of positive office demand, office absorption turned sharply negative during the pandemic, and availability rates are currently very elevated. Future need for office space will continue to be influenced by an acceleration in activity-based work and hybrid work among office users and these changes are clearly permanent.

Given the current oversupply, the pending new supply in the development pipeline, and the relatively weak demand for new office space in the years ahead, it is highly recommended that policies are put in place to facilitate and even incentivize the conversion of emerging functionally obsolete office buildings, in order to bring the market back into balance and ensure a highly functioning office sector in the future.

Municipalities like the City of Toronto that have strong non-residential space (or office space) replacement requirements policies in Secondary Plans need to dismantle or soften those policies with some urgency in order to ensure the market has the proper means to react to current conditions and make effective decisions about where and how much office space it requires and

ensure a clear path to converting or redeveloping functionally obsolete buildings where need be.

The remainder of this report provides an analysis of current planning policies governing the process of conversions or redevelopment of functionally obsolescent space, and potential roles that government can play in ensuring that future policies align closely with the future office needs in the GTA.

3 ANALYSIS OF MUNICIPAL PLANNING POLICIES FOR OFFICE USES

The Official Plans (and associated Secondary Plans) in the Greater Toronto Area (GTA) have numerous policies that focus on the inclusion of office space within prospective developments or the retention or replacement of existing office space on prospective redevelopment sites. Another type of policy includes job-to-population ratio targets, which can implicitly result in a glut of permitted office space relative to any practical expectation of future office demand.

This section reviews examples of each of these types of policies, though there are likely numerous additional instances of each that are not covered here. A key theme of many of the policies is their rigidity in allowing the development sector to react and respond to changing market conditions, either through onerous requirements, that at a minimum, slow the ability to feasibly develop, or when put into terms that define the practicability of development, are not scaled appropriately to what a reasonable expectation of office market demand may be.

3.1 OFFICE INCLUSION, RETENTION AND REPLACEMENT POLICIES

3.1.1 Office Inclusion Policies

There are numerous Secondary Plans in the GTA that have site-specific requirements for the inclusion of office space within a development. Given the likely hundreds of site-specific policies in the GTA, it would take a substantial effort to comprehensively catalogue these policies to quantify how much office is required for prospective new or recent developments in the GTA. However, as two examples:

- The **Scarborough Centre Secondary Plan** includes a minimum office Gross Floor Area ('GFA') requirement for any residential development at 675 Progress Avenue:
 - 8. a) Development of lands for residential use will incorporate employment uses including a minimum of 13,000 square metres of office floor area which will be provided within Phase 1 of the development.

- The **Garrison Common North Secondary Plan** has a minimum office requirement of 12,000 square metres for any mixed-use redevelopment on a portion of 171 East Liberty Street.

Given the on-going changes in the office sector, and the uncertainty regarding how much future office uses may be required, these requirements will create impediments to the development of residential uses in mixed-use areas. Further, in instances where these office inclusion requirements are in areas without adequate transit or transportation access, they would divert office supply away from other areas of the GTA that may provide more suitable locations for office uses.

3.1.2 Office Retention and Replacement Policies

There are numerous policies within Official Plans and Secondary Plans that in the event of a development proposal, require some or all existing office/non-residential gross floor area to be retained or replaced, while other policies ‘encourage’ the replacement or retention of office space.

The following section summarizes a few examples of these retention policies.

3.1.2.1 City of Toronto Downtown Secondary Plan

The Downtown Secondary Plan states that the replacement of all existing non-residential gross floor area will be ‘encouraged’:

6.9 Development in the King-Spadina and King-Parliament Secondary Plan Areas will:

6.9.1. be encouraged 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.

3.1.2.2 ConsumersNext Secondary Plan

The ConsumersNext Secondary Plan was adopted by City of Toronto Council in March 2018 as Official Plan Amendment 393 (“OPA 393”), but has since been appealed to the Ontario Land Tribunal.

Policy 3.13 of OPA 393 speaks to encouraging the maintenance and modernization of the existing stock of Class B and Class C office space and adding Class A office space through the use of incentives:

3.13 The renewal of the office building stock in the business park will occur through the modernization and maintenance of existing Class B and Class C office buildings as well as through the addition of Class A office space. The City will encourage this renewal through its support of office incentives such as the Imagination, Manufacturing, Innovation and Technology (IMIT) incentive program. This renewal, along with the public realm and transportation improvements provided for by this Secondary Plan, will support investment in the employment base within the business park.

Policy 3.3 of the Secondary Plan would require development on sites designated Mixed Use Areas that include residential units to increase the non-residential gross floor area:

3.3 Development on sites designated Mixed Use Areas on Map 38-6 that includes residential units, is required to increase the non-residential gross floor area.

In the public comments to the Council meeting when OPA 393 was adopted, clarification was sought regarding what constitutes a Class B and Class C office building⁴.

3.1.2.3 Yonge-Eglinton Secondary Plan

The Yonge-Eglinton Secondary Plan states that all existing office GFA within Mixed Use Areas “A” and “B” will be fully replaced within tall buildings and large redevelopment sites capable of accommodating multiple buildings:

2.5.4. Tall buildings and large redevelopment sites capable of accommodating multiple buildings will provide 100 per cent replacement of any existing office gross floor area located on the site.

Additionally, policy 2.5.5. says that all or a portion of the above required office GFA ‘may’ be transferred to a site within the Secondary Plan area. When a transfer is proposed, the GFA may only be transferred under the following conditions:

- a. development of the required office floor area on the site would result in a built form that would not meet the policies of this 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.

⁴ Item No. PG.27.2, *Draft Official Plan Amendment 393, ConsumersNext Secondary Plan*. Weston Consulting. February 2018.
<https://www.toronto.ca/legdocs/mmis/2018/pg/comm/communicationfile-78895.pdf>

3.1.2.4 Keele-Finch Secondary Plan

The Keele-Finch Secondary Plan provides guidance on how additional building height may be permitted on select sites around the intersection of Keele Street and Finch Avenue West (or specifically within a *Potential Additional Height Zone B* area on Map 9 of the Secondary Plan), without an amendment to the Secondary Plan.

A criterion for this permission involves the provision and replacement of office floor area as such:

Within a Potential Additional Height Zone B area on Map 9, additional building height on sites identified in policy 7.3.6 may be permitted provided the following criteria are met:

- a. 15 per cent of the total gross floor area of a building or total gross floor area of the comprehensive redevelopment is provided as office, institutional and/or cultural uses or existing office uses are replaced in buildings proposing residential uses in the Keele Finch Node, whichever is greater, to ensure a significant number of jobs;

The provision states that existing office space is to be fully replaced within a mixed-use redevelopment based on the greater of:

- 15% of the gross floor area in the proposed development; or
- Full replacement of the existing office use.

To measure the implications of this policy, we have put together a hypothetical scenario where the parcel size is 65,000 square feet (0.60 hectares) and the existing building is improved with a 50,000 square foot office building.

- If the development needed to reach 170,000 square feet of residential GFA to be feasible, the applicant would need to include 30,000 square feet of office space to reach the 15% office share, but this would not fully replace the 50,000 square feet of office space. In this scenario, the Floor Space Index (FSI) would be 3.08.
- In a second scenario, if the same residential building envelope of 170,000 square feet was used, and the full 50,000 square feet was used, the share of office space would equate to 23% of the prospective new building. In total, the building would be developed at 3.38 FSI.

- If the replacement needs to be the full 50,000 square feet, to minimize the effect of that replacement requirement on the pro-forma, an applicant may seek to reduce that 50,000 square feet to just 15% of the overall development. In that case, the development would need to be scaled-up to be 333,333 square feet, including 283,333 square feet of residential GFA, or an FSI of 5.13.

The requirement and similar requirements in other planning policies would, appear to significantly impact the feasibility of development projects, or require them to add additional residential density to offset the impacts to feasibility.

Figure 7

Hypothetical Development Yields, Office Replacement Policies in Keele-Finch Secondary Plan				
Parcel Size	65,000 sf			
Parcel Size	6,039 m ²			
Parcel Size	0.60 ha			
Existing Office Area	50,000 sf			
	Existing	Required for Proposal (15%)	Required for Proposal (Full Replacement)	Required for Proposal (Full Replacement and 15%)
	Square Feet			
Parcel Size (sf)	65,000	65,000	65,000	65,000
Office Area (sf)	50,000	30,000	50,000	50,000
Residential Area (sf)	n.a.	170,000	170,000	283,333
Total GFA (sf)	50,000	200,000	220,000	333,333
	Percent			
Office Area as % of Total	100%	15%	23%	15%
FSI	0.77	3.08	3.38	5.13
Source: Altus Group Economic Consulting				

3.1.2.5 City of Mississauga OPA 146

Under OPA 146, which was adopted by Mississauga City Council in August 2022, the City sets out its office conversion policy for the Downtown Fairview Character area in policy 12.3.4.3. 1 by stating:

Redevelopment of existing office buildings that results in the loss of office floor space will not be permitted, unless the same amount of office space is retained or replaced through new development.

As of the timing of this report, the Region of Peel has not yet approved the City of Mississauga's OPA 146.

3.1.3 Conclusions re: Office Inclusion, Retention and Replacement Policies

The usage of office inclusion, retention and/or replacement policies can act as a significant financial constraint to developing new housing where existing office or commercial buildings exist and are required to be replaced. In particular, in areas with significant existing or planned public transit amenities, the often rigid requirements to replace, retain or include office space in a development at a minimum slow the production of new housing in areas where intensification should be encouraged and promoted, or at worst, unnecessarily constrain the development of new housing in key areas of the region, and as a result miss opportunities to leverage public sector investments in public service facilities and infrastructure.

The development of office space creates substantial financial feasibility issues for landowners and prospective developers often attribute little to no value to the inclusion of office space in a development. Given the significant shift in demand for office space in recent years, the frequent use of these policies in municipal plans may need to be examined to assess whether the amount of office to be retained, and the locations in which they are to be retained, included or replaced, are the most suitable for promoting the economic development of the GTA, and do not create obstacles to the creation of housing supply, or cannibalize the finite amount of demand for office space in less than desirable locations for office users.

3.2 JOB TO POPULATION RATIO POLICIES

3.2.1 City of Mississauga Official Plan – Downtown Mississauga

Policy 5.3.1.6 of the Mississauga Official Plan seeks a population to employment ratio of 1:1 in the City's Downtown:

The Downtown will achieve an average population to employment ratio of 1:1, measured as an average across the entire Downtown.

The City's Official Plan also sets out a 'density range' of 200 residents and jobs per hectare by 2031, and to 'strive' for 300 to 400 residents and jobs per hectare. When put into practical context, the policy would implicitly be planning for a vast amount of office space that is unlikely to materialize in a timely manner.

Based on the City's 2022 Development Charges Background Study ("2022 DC Study")⁵, every residential apartment unit has an occupancy rate of 2.12 persons per unit (PPU), and major offices have a Floor Space per Worker (FSW) Factor of 23 square metres per employee.

The City forecasts that the population in the Downtown Core will grow from 34,000 persons in 2016 to 70,500 persons in 2041, equating to growth of 36,500 persons.⁶ The City's ratio of 1 job for every 1 resident would mean that the City would need to plan enough office space for 70,500 jobs by 2041.

The required 70,500 jobs would equate to implicitly planning for an impractically large amount of office space (or other non-residential space). Using a range of density factors of 14 to 23 square metres per job, and assuming that half of the jobs to 2041 will be office space (or 35,250 jobs), it would equate to a need for 493,500 to 810,750 square metres (or 5.3 million to 8.7 million square feet) of office space. The other 35,250 jobs, aside from the work from home jobs and those with no fixed place of work, would have to be accommodated in other non-residential uses, which tend to have lower densities and therefore would require more space than office space would.

By contrast, the City's 2022 DC Study forecasts 715,530 square metres (or 7.7 million square feet) of major office space across the City to 2041. This means that the targets for Downtown Mississauga would, even in the more conservative scenario detailed above, be implicitly planning for more office space than the City is forecasting will be built to 2041 across the entire City. Assuming an average office building size of 150,000 square feet, the 7.7 million square feet that may be incorporated into the plans for Downtown Mississauga would equate to 51 stand-alone large office buildings.

The City also uses population to employment ratios in Major Nodes and Community Nodes, ranging from 2 residents per job to 1 resident per 2 jobs. These policy targets, as within the 1:1 target used in Downtown Mississauga, do not appear to reflect the likely reality of office absorption over the next 20 years.

3.2.2 Markham Official Plan

Policy 2.5.1.3 of the City of Markham Official Plan states that:

⁵ Hemson Consulting, City of Mississauga Development Charges Background Study, March 4, 2022

⁶ http://www7.mississauga.ca/documents/business/2017/Population_Demographics_Housing.pdf

To support a long-term resident-to-employee target ratio of 1:1 in Markham Centre and the combined Richmond Hill/Langstaff Gateway Centre.

The Markham 2022 Development Charges Study shows that every single-detached unit (SDU) has an occupancy rate of 3.73 persons per unit, and offices have a FSW Factor of 25 square metres per employee.

The Growth Plan forecasts that the Markham Centre Urban Growth Centre will grow from 9,984 persons and jobs in 2006 to 76,800 person and jobs in 2031, resulting in a growth of 66,816 persons/jobs to achieve the minimum density target of 200 persons and jobs per hectare.

The resident-to-employee target ratio of 1:1 would mean that, the City would need to accommodate enough non-residential space for 33,408 jobs in Markham Centre by 2031.

Similar to the above scenarios ran for Downtown Mississauga, the number of jobs being planned for in the Markham Centre UGC, depending on the proportion that would be accommodated in new office space, would be a quantity of office space unlikely to be absorbed at any point in the near-term or long-term.

If half of the required jobs to 2031 are assumed to be office (so 16,704 jobs), this would create a need for 233,900 to 417,600 square metres of office space (or 2.5 million to 4.5 million square feet). The remaining 16,704 jobs would have to be accommodated in other non-residential uses, which tend to have lower densities and would therefore require more space than office. Assuming an average office building size of 150,000 square feet, the 4.5 million square feet that may be incorporated into the plans for Markham Centre would equate to 30 stand-alone large office buildings.

3.2.3 Markham – Langstaff Gateway Secondary Plan

Policy 6.1.3 of the Langstaff Gateway Secondary Plan states that:

Sufficient lands are designated within the Planning District to accommodate a mix of retail, office and institutional uses generating 15,000 employment opportunities.

Employment opportunities in the Langstaff Gateway are intended to contribute to an overall long term Region of York resident-to-employee ratio of 1:1 for the Richmond Hill/Langstaff Gateway Regional Centre. The minimum employment target for this Secondary Plan shall be based on a resident to employee ratio of 1:0.5

Using an assumption of 14 to 23 square metres per employee, the table below shows how office space needs shift in the Langstaff Gateway Planning District as a greater proportion of the 15,000 jobs in the area are to be accommodated through office uses.

Figure 8

Percentage of Office Jobs	Number of Office Jobs	Required Office Space – Langstaff Gateway Secondary Plan
25%	3,750	565,100 to 928,400 square feet
50%	7,500	1.13 million to 1.86 million square feet
75%	11,250	1.69 million to 2.79 million square feet

If, for example, half of the 15,000 employment opportunities are allocated for office jobs, the Langstaff Gateway Secondary Plan would implicitly be planning for up to 1.86 million square feet of office space. Assuming an average office building size of 150,000 square feet, this would equate to 12 stand-alone office buildings.

3.3 DEFINITION OF “DEVELOPMENT”

Under Section 41(1) of the Planning Act, “development” is defined as follows:

“development” means the construction, erection or placing of one or more buildings or structures on land or the making of an addition or alteration to a building or structure that has the effect of substantially increasing the size or usability thereof, or the laying out and establishment of a commercial parking lot or of sites for the location of three or more trailers as defined in subsection 164 (4) of the Municipal Act, 2001 or subsection 3 (1) of the City of Toronto Act, 2006, as the case may be, or of sites for the location of three or more mobile homes as defined in subsection 46 (1) of this Act or of sites for the construction, erection or location of three or more land lease community homes as defined in subsection 46 (1) of this Act.

Based on discussions with stakeholders, it is understood that the conversion of office buildings may get caught within the definition of ‘development’ in the Planning Act, thereby triggering the need for site plan even if the elements for which site plan is ordinarily meant for, such as building envelopes, relationship to nearby buildings, etc., are not being altered in any

way. The general scope of site plan review is to review the following, many of which would likely not arise in an office conversion:

- The location of buildings/structures to be erected, and location of facilities/works to be provided in conjunction with the building;
- Accessibility considerations;
- Massing and conceptual design;
- Relationship to adjacent buildings, streets and exterior areas;
- Provision of interior walkways, stairs, elevators;
- Sustainable design elements on any adjoining highway;

The potentially unnecessary triggering of site plan review would therefore lead to significant additional time and expense fulfilling the steps of that process.

Similarly, the conversion of office buildings, if they require site plan approval even without a clear change to the elements on a parcel that would be subject to site plan review, may also trigger parkland provision requirements, as under section 42(2.1) of the Planning Act, the “amount of land” or “payment in lieu” of land required to be provided would normally be determined the day an application for approval of development in a site plan control area was made.

The definition of ‘development’ in the Planning Act should be revisited to assess whether conversions of office buildings to residential uses should be treated differently than other forms of development.

3.4 CONCLUSIONS

Based on our review of municipal policies regarding office retention, office replacement and job-oriented targets, there are dozens of municipal planning policy documents that implicitly assume a significant amount of office space will be retained and/or built, which in the face of a structural change in demand for office space may be presenting unnecessary impediments to constructing new housing or adapting to recent and expected on-going changes in office demand.

Based on the implied quantity of office space (and non-residential space more generally) incorporated into such policies, and when combined with the frequent use of these types of policies, the current approach to planning

for office space in a prescriptive, quantitative-oriented, but highly localized manner, appears to necessitate undertaking a comprehensive inventory of such policies in the GTA, and an assessment of exactly how much office space is being planned for in GTA municipal plans.

Based on our preliminary review, it appears there is a relative glut of implied office and non-residential designations that could be better rationalized and coordinated with a more macro-based approach to planning for office uses in the GTA. In many cases, the quality, location and desirability of the implied office space incorporated into municipal policies is poor and unlikely to be marketable to prospective tenants, and prospective purchasers of these buildings.

A more coordinated approach may be more practical and responsive to office markets, needs of prospective businesses, and can alleviate the pressure these policies may be putting on the ability to deliver new residential dwellings in redevelopment projects.

The discussion regarding 'office conversion' is rightly focused on the ability to convert existing office buildings to residential and whether it is feasible and practical from a planning and development perspective. However, the notion of 'office conversion' should be expanded to also include conversion of lands, or adjustment of land use policies or other land use policies that require the retention, replacement or inclusion of office space, explicitly or implicitly.

It is prudent for GTA municipalities to coordinate and assess the amount of office space planned and study whether an overabundance of planned space may have a negative economic effect in the region and hinder the feasibility and possibility of residential development.

4 OVERVIEW OF MUNICIPAL FINANCE POLICIES AND OFFICE DEVELOPMENT IN THE GTA

4.1 EXISTING / PAST OFFICE INCENTIVE PROGRAMS

4.1.1 Toronto Office DC Incentives

Section 5(6)3 of the *Development Charges Act* allows municipalities to exempt a type of development from paying DCs or paying a lower DC than is allowed. However, the DC Act strictly sets out that these exemptions are not to be made up through higher DCs on other types of development. Rather, the DC reserve funds are to be made whole through the ‘cost’ of the exemptions made up through contributions to the reserve funds from non-DC funding sources.

A March 2018 staff report to the City of Toronto’s Executive Committee⁷ looked at the City’s various financial programs and found that the estimated annual value of the City’s discretionary exemptions for ‘non-ground floor’ non-residential DCs had an estimated **annual** cost of \$71.7 million in foregone revenue.

The City of Toronto’s 2022 DC Study noted that the exemptions for above-ground floor space is not accounted for in the calculation of the City’s DC rates:

It is noted that the calculation of the development charges does not include any provision for the exemptions required under the DCA, such as the exemption for enlargements of up to 50 per cent on existing industrial buildings, or any other exemptions that Council may choose to provide.

Consistent with the rules set out in the *Development Charges Act*, if a DC by-law exempts or implements a charge lower than the calculated charge, eligible DC costs relating to the reductions must be funded from sources other than development charges. As per a paper on DC policies:

Exemptions, Reductions, and Phase-ins – If a DC by-law exempts a use and/or implements a charge lower than the calculated charge for that use, and/or phases-in the charges for a certain use, “development

⁷ City of Toronto Staff Report, City Programs Providing Tax and Fee Waivers, Discounts, Rebates, Deferrals and Exemptions, (March 5, 2018)

<https://www.toronto.ca/legdocs/mmis/2018/ex/bgrd/backgroundfile-112998.pdf>

charges may not provide for any resulting shortfall to be made up through higher development charges for other development” (s.5(6)3.) If a municipality elects to reduce the calculated development charges for a specific use for policy reasons (eg. a lower industrial DC), eligible DC costs relating to the reductions must be funded from sources other than development charges (eg. taxes, water and sewer rates, other reserves).⁸

Therefore, when the City of Toronto has exempted DCs from being imposed on above-ground floor non-residential space, it was to have ‘topped-up’ DC reserves with non-DC funds to make the DC reserve fund whole.

Therefore, to the extent that any recently constructed office buildings that would have received this DC exemption will be converted, any DC credits that apply should be based on the notion that the City’s DC for the full office building (ground floor and above) has been paid in full (through DC and non-DC sources).

However, it is most likely that the majority of office buildings to be converted will be older office buildings that would not have received this DC exemption, the DC credits for the demolition and conversion of such office buildings should not be reduced for a DC exemption policy they were likely not subject to when those buildings were developed.

4.1.2 Toronto Office Property Tax Incentives

The City of Toronto has long offered significant property tax incentives to support the growing “Imagination, Manufacturing, Innovation and Technology” sectors (“IMIT”). The IMIT grant program is provided through a Community Improvement Plan (CIP) that includes a Tax-Increment Equivalent Grant (“TIEG”), that provides grants to a maximum of 60% of a project’s tax increment over a 10-year period, and up to 67% over 12 years if brownfield remediation costs are incurred.

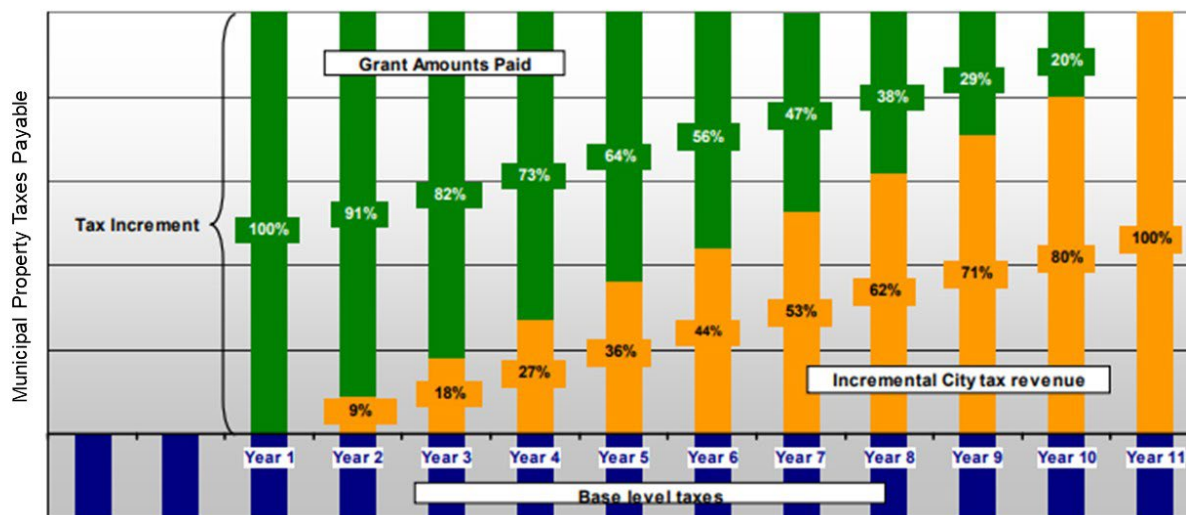
The grant is equal to a declining share of the tax increment generated by the development with the grant equating to 100% of the tax increment in year 1 post assessment value change, 91% in year 2, and so on until year 11 when

⁸ Watson & Associates, City of Hamilton, DC Impact Policy Paper
<http://www2.hamilton.ca/NR/rdonlyres/A5BD0030-0BFF-4DF2-B61A-D7038F11FC4C/0/Jun17Item88idcimpactpolicy.pdf>

the landowners pay the full municipal property tax allotment, including the full incremental increase.⁹

Figure 9

TIEGs to Achieve 60% Overall Incremental Tax Grant



Source: Altus Group

Figure 9 in Altus Group Economic Consulting "Office Needs and Policy Directions in the GTA" (2023)

Since the program began in 2008, a total of 63 IMIT grant applications were approved, representing \$5.8 billion in construction investment, 14.5 million square feet of new commercial space, which are estimated by the City to support 70,000 jobs.

The City estimated in 2022 that these new developments resulted in \$1.1 billion in new municipal taxes during the period in which applicants received grants, with \$664 million returned to the property owners/tenants in the form of grants, while the remaining \$436 million in municipal taxes generated were retained by the City. As buildings reach the end of the 10/12-year grant period, the City will receive the full municipal taxes on each property.¹⁰

As all of the office buildings the City incentivized through DC exemptions and property tax grants mature and see their annual TIEG grants expire (after year 10), they will begin to generate the full amount of property tax revenue for the City's purposes, with that transition to full property tax

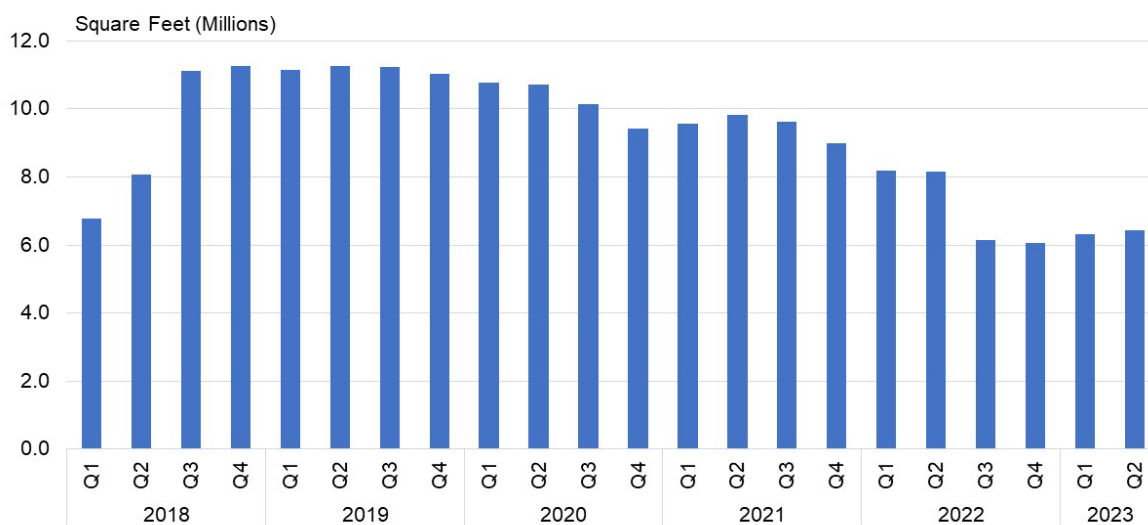
⁹ City of Toronto, <https://www.toronto.ca/legdocs/mmis/2008/cc/bgrd/backgroundfile-13284.pdf>

¹⁰ City of Toronto, <https://www.toronto.ca/legdocs/mmis/2022/ec/bgrd/backgroundfile-222792.pdf>

revenues potentially softening the impact from any changes in property tax classification from office conversions elsewhere in the City.

The amount of new office space under construction in the GTA has fallen by nearly half since early 2019 - if the pace of growth in new office space slows for the foreseeable future, the IMIT grant program could be re-oriented to also fund the maintenance and upgrading of existing office space, particularly for office buildings not likely to be suitable for conversion, ensuring that the existing building stock is reused and revitalized.

Figure 10 Office Space Under Construction, Greater Toronto Area, 2018-2023



Source: Altus Group

Figure 10 in Altus Group Economic Consulting "Office Needs and Policy Directions in the GTA" (2023)

4.1.3 Effect of DCs Payable and Tax Incentives

Figure 10 compares the current DC rates for office development in various jurisdictions in the GTA. While the City of Toronto's calculated full DC rate for office building space is similar to the region-wide average, as all but the ground-floor is exempt from paying DCs, the effective DC rates imposed on office development in the City is substantially lower than elsewhere in the GTA where similar incentives are not offered.

Figure 11

Office Development Charges across Various Municipalities in the GTA

Includes Upper-Tier (or Single-Tier, where applicable), Lower-Tier and Education DCs

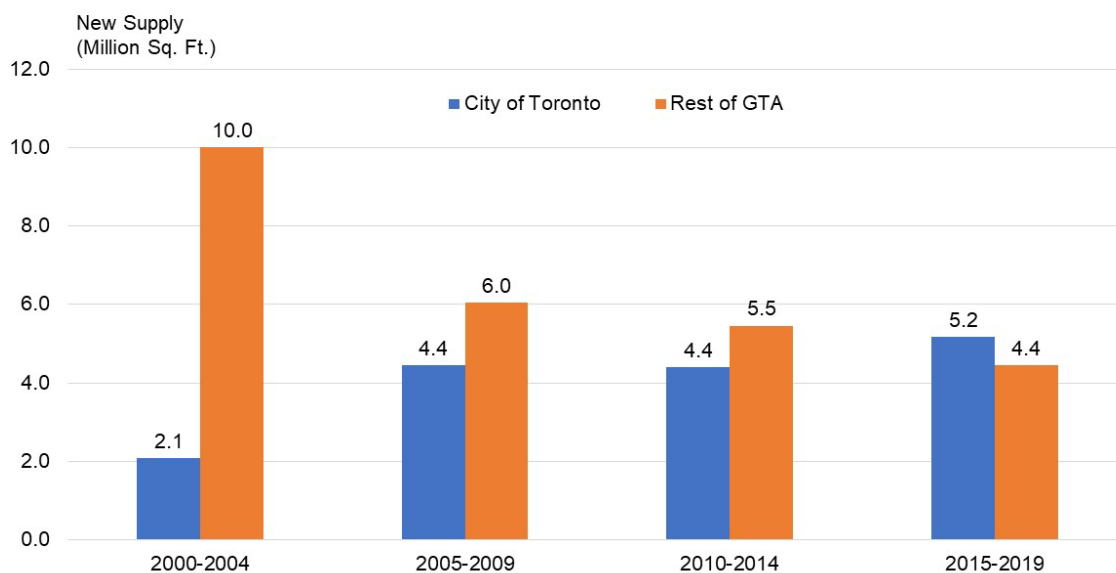


Source: Altus Group based on Development Charges rates as of March 28, 2023

Figure 11 in Altus Group Economic Consulting "Office Needs and Policy Directions in the GTA" (2023)

While the amount of office development within the GTA has been decreasing, the City of Toronto has seen an increase in new office development in recent years. The City's share of new office development has increased from just under 30% in the prior decade to almost 50% in the 2010s.

Figure 12

New Office Development by Location, Greater Toronto Area

Source: Altus Group

Figure 12 in Altus Group Economic Consulting "Office Needs and Policy Directions in the GTA" (2023)

Of the new office space completed since 2010 in the Greater Toronto Area (19.4 million square feet), 9.6 million square feet were within the City of Toronto (49.4%), of which, 8.7 million square feet (90.5% of space within the City) is in Downtown Toronto.

Over the prior ten-year period (2000-2009), a total of 22.6 million square feet of new office space was completed in the GTA, of which 6.5 million square feet (28.9%) was in the City of Toronto, of which, 4.7 million square feet (72.9% of space within the City) located in the Downtown.

The City's increasing share of office space coincides with the increasing differential between the DCs imposed on buildings in the City due to the DC exemption for above-ground floor GFA, and the property tax incentives offered for certain eligible office developments.

A 2017 report by Hemson Consulting found the following as to why the office market was strong in the Toronto Core area, but weaker in the areas outside of the Downtown Core:

The South Core area, located immediately south of the current boundaries of the Financial District, has been transformed from a largely vacant area cut off from the City by the railway tracks, to a vibrant mixed use community anchored by many large office developments and well-connected to Union Station, PATH, and many other important amenities. Again, it is likely that the IMIT Program has played a role in catalyzing this transformation, particularly during its early stages.

Like many major cities, Toronto has seen increasing demand for new, centrally located office buildings which offer flexible work spaces, efficient design features, and other amenities which contribute to significant cost efficiencies while helping to attract talented workers. At the same time, the City is planning a number of major transit projects which will further improve connectivity to the core and make this area increasingly attractive for office development.

Office development toward the periphery of the City's Downtown faces unique challenges. With strong residential development pressures, the City is struggling to achieve a balance of non-residential development in areas such as King-Spadina and King-Parliament. Further, without direct access to Union Station and subway routes, securing tenants can be more of a challenge than in the Financial District. IMIT grants may help to encourage a healthy mix of land uses and office building typologies in these areas.

Areas outside of the Downtown, such as North York, Scarborough, and Etobicoke, face significant barriers to office development. Toronto's commercial tax rates are higher than other GTA municipalities, average rents are much lower in these areas as compared with central areas of the City, and more cost effective surface parking opportunities are limited. As a result, office development in these areas faces significant competition from neighbouring municipalities. In this regard, there has been no uptake of suburban office IMIT grants to date. Despite the lack of investment, market conditions may change over time with continued transit improvements, low Downtown vacancy rates, and declining commercial tax ratios. In the future, IMIT grants may play a greater role in tipping the scales toward office development outside of the core.¹¹

The common themes behind the surge in office demand/supply in the Downtown, and less demand/supply in the outlying areas are accessibility to transit, availability of amenities, efficiently designed buildings, and the presence of significant financial incentives (DCs and tax incentives).

4.2 DEVELOPMENT CHARGE POLICIES

4.2.1 DC Credit for Conversion

There are numerous approaches to reducing DCs payable for office space converted to residential uses, or demolished to be redeveloped for residential uses, as summarized in the following table.

The majority of municipal DC by-laws reviewed have a full DC credit, while the City of Toronto limits it to the ground-floor area, based on the net amount of DCs payable for a new office building after the above-ground floor exemption is applied.

The City of Toronto's demolition period is also the lowest at just 36 months, while other GTA municipalities offer demolition periods of up to 10 years from demolition to building permit with a full DC credit available.

These DC demolition credit policies should be optimized to encourage building owners to maintain existing building shells and interiors to the extent possible, rather than eliminating the cost-relief that generous DC credit provisions and demolition periods would offer. Creating more optimized DC credit/demolition policies can also have a positive benefit of

¹¹ Hemson Consulting, IMIT Program Review: Findings and Recommendations, (December 15, 2017) <https://www.toronto.ca/legdocs/mmis/2018/ex/bgrd/backgroundfile-111609.pdf>

reducing construction waste, and reducing carbon emissions through encouraging projects to be less resource-intensive.

Figure 13

Municipality / By-law	Clause	Analysis
Toronto (By-law 1137-2022)	<p>Where, as a result of the redevelopment of land, a demolition permit has been issued within the thirty-six month period immediately prior to the date of submission of a complete building permit application with respect to the whole or a part of a building or structure existing on the same land, or a building or structure is to be converted from one principal use to another principal use on the same land, the development charges otherwise payable with respect to such building permit application shall be reduced as follows: ...</p> <p>b) in the case of a non-residential building or structure...which is being redeveloped for residential purposes, the development charges payable will be reduced by an amount calculated by multiplying the non-residential development charge rate set out in Schedule B by the amount of existing non-residential gross floor area to be demolished or converted <u>which is located on the ground floor that would have been, if newly constructed, subject to the payment of development charges at the time of building permit issuance for the new building or structure.</u></p>	<p>Credits available within a 3-year (36-month) demolition 'window'</p> <p>Only the ground floor portion of the City's DC is applied as a credit, despite DCA provisions regarding the requirement for DC exemptions to be funded by non-DC sources.</p>
Mississauga (By-law 0133-2022)	<p>18. (1) Changing all or part of a non-residential building or structure to a residential use will reduce development charges otherwise payable for the redevelopment by an amount that is equal to the applicable non-residential development charge for the Development-Related Studies, By-law Enforcement, Fire, Transit, and Roads and Related Infrastructure (including Public Works) services multiplied by the total floor area that has been demolished or converted.</p> <p>17. (2) Demolishing total floor area of all or part of a non-residential building or structure will reduce the development charges otherwise payable for the redevelopment where satisfactory evidence of the total floor area demolished has been provided to the Commissioner of Planning and Building or his/her designate and where <u>the building permit for the redevelopment is ready to be issued:</u></p> <p>(a) <u>within 10 years from the date the demolition permit was issued</u> with a copy of the original demolition permit; and</p> <p>(b) on the same parcel of land on which the demolished building or structure, or part thereof, was originally located; and</p> <p>(c) in cases where a demolition credit crosses over a parcel of land that was subsequently subject to land division, the owner of the original parcel provided written direction as to which parcel the credit applies.</p> <p>(3) Where demolition and redevelopment will occur concurrently on the same parcel of land and/or in phases, the Commissioner may, in their discretion, permit an owner to enter into a deferral agreement with the City on terms satisfactory to the Commissioner deferring payment of development charges for the redevelopment until such time as the reductions for demolition can be applied to the redevelopment.</p>	<p>Credits available within a 10-year (120-month) demolition 'window'</p> <p>Full DC reduction based on DCs that would be payable for the converted use.</p>

Municipality / By-law	Clause	Analysis
Vaughan (By-Law 109-2022)	<p>Redevelopment Allowances</p> <p>5. (1) Unless otherwise provided, where development is to replace in whole or in part a building or structure that exists or has existed on the land prior to the date of payment of development charges in regard to such redevelopment was, or is to be demolished, in whole or in part, or converted from one principal use to another, in order to facilitate the redevelopment, <u>and a building permit is issued within 48 months from the date of issuance of the demolition permit</u>, the development charge applicable to the redevelopment shall be reduced by a redevelopment allowance, without interest, in an amount equal to the total of, ...</p> <p>(b) for a non-residential use, the development charge for the lawful gross floor area shown on a demolition permit, in the records of the City, or on constructed building plans certified as such by a registered professional engineer; and</p> <p>(c) all at the development charge applicable to such dwelling units or gross floor area pursuant to subsection 2(3), provided that where such replacement is for a change in use from either residential to non-residential, or from non-residential to residential, only that portion of the development charge for the existing use which is attributable to the services comprising the charge for the proposed use shall apply.</p> <p>(2) Despite subsection 5(1), no redevelopment allowances shall be made in excess of the development charges payable.</p>	<p>Credits available within a 48-month demolition 'window'</p> <p>Full DC reduction based on DCs that would be payable for the converted use.</p>
Oakville (By-Law 2022-068)	<p>DEVELOPMENT CHARGE CREDITS FOR DEMOLITION</p> <p>11. If a development or redevelopment involves the demolition of and replacement of a building or structure, or the conversion from one principal use to another:</p> <p>(1) A credit shall be allowed against the development charges otherwise payable, provided that where a demolition permit for the demolition of a building or structure on the site has been issued and not revoked and a building permit has been issued for the development or redevelopment within <u>five years from the date of the demolition permit</u>.</p> <p>(2) The credit shall be calculated: ... b. for any portion of a building or structure used for non-residential uses, based on the total floor area of the building demolished and/or converted multiplied by the current non-residential development charge in place at the time the development charge is payable.</p> <p>(3) The credit can, in no case, exceed the amount of the development charge that would otherwise be payable. Where the amount of any credit pursuant to this section exceeds the amount of the development charge otherwise payable under this By-law with respect to the redevelopment, the excess credit shall be reduced to zero and shall not be carried forward unless the carrying forward of such excess credit is expressly permitted by a phasing plan for the development that is acceptable to the Treasurer.</p>	<p>Credits available within a 5-year (60-month) demolition 'window'</p> <p>Credit calculated based on total GFA to be demolished / converted multiplied by current DC rate at the time the DC is payable.</p>

The City's approach to providing DC credits only for the ground-floor GFA results in the vast majority of the converted building subject to DCs for the new residential units. In the hypothetical scenario outlined in Figure 13, without a full DC credit based on the full extent of the space that is to be

converted, the DCs payable would be \$5.98 million or roughly \$23,941 per unit.

The City's approach to DC credits would in theory pay for growth-related costs associated with development above the ground floor that was subject to the DC exemption, but as the DC Act requires the cost of DC exemptions to be made up by non-DC sources, those costs should have been fully funded through the DC and non-DC payments used to fully fund the office building DCs payable.

Figure 14

Quantity of DC Credits and Net DCs Payable, Office Conversions, City of Toronto

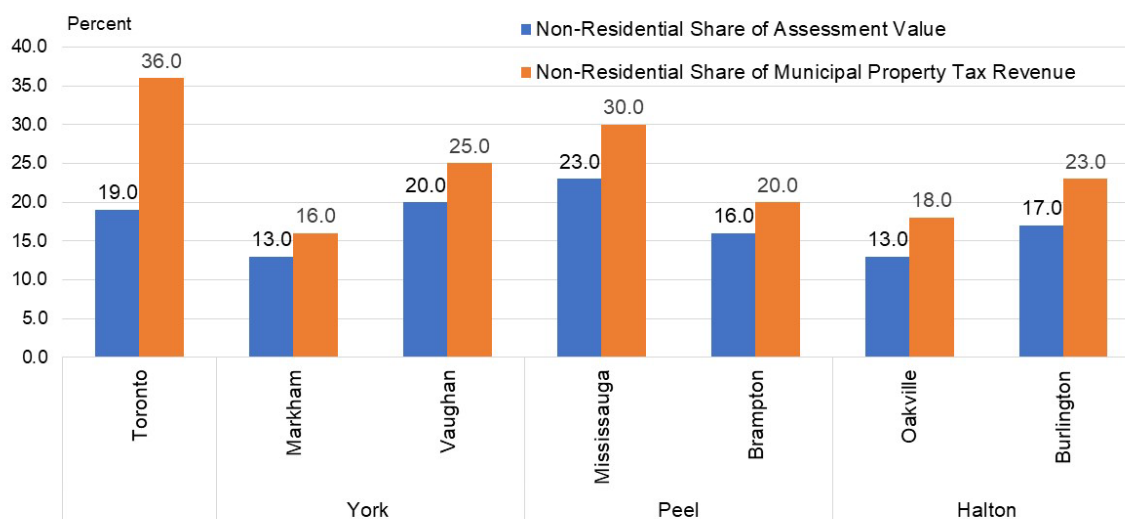
Office Building (Square Feet)		250,000		
Size of Floor Plate (Square Feet)		25,000		
Storeys		10		
Ground Floor GFA (Square Feet)		25,000		
Above-Ground Floor GFA (Square Feet)		225,000		
City of Toronto DC Rate (\$ / sf)		\$	35.45	
DCs Payable (entire building) at Current DC Rates		\$	8,861,788	
DCs Payable (ground floor only) at Current DC Rates		\$	886,179	
DC Exemption (amount of non-DC funds directed to City's DC reserve fund)		\$	7,975,609	
Residential Unit Yield at 1000sf/unit		250		
		Units	DC Rates	DC Revenues
<u>Assumed Unit Mix</u>				
1-Bedroom Apartments	50%	125	\$ 26,098	\$ 3,262,250
2-Bedroom Apartments	40%	100	\$ 26,098	\$ 2,609,800
3-Bedroom Apartments	10%	25	\$ 39,981	\$ 999,525
Total				\$ 6,871,575
Current DC Credit (Ground Floor Only)				\$ 886,179
Net DCs Payable			87.1%	\$ 5,985,396
Source	Altus Group Economic Consulting			

Additionally, most converted office buildings were built prior to the DC Act or the City's DC exemption provisions and so reducing the DC credit based on the current policy does not appear reasonable and may hinder the ability of the private sector in converting office buildings to residential uses.

4.3 PROPERTY TAX POLICIES

Using 2019 data reported in annual municipal Financial Information Returns, roughly 19% of the City of Toronto's assessment value is from the non-residential sector, roughly in line with other major GTA municipalities. However, the City of Toronto received 36% of its property tax revenues from the non-residential sector. While most other GTA municipalities are disproportionately reliant on non-residential development for funding the property tax revenue needs, the City of Toronto is most heavily reliant.

Figure 15 **Non-Residential Share of Assessment Value and Property Tax Revenues, Select GTA Area Municipalities**



Source: Altus Group based on Ministry of Finance data

Figure 15 in Altus Group Economic Consulting "Office Needs and Policy Directions in the GTA" (2023)

While the potential loss or reduction of property tax revenue may be seen as an issue in allowing office conversions, the City has on-going policy changes in progress that will soften any potential revenue impacts:

- The City has long planned to decrease the commercial property tax ratio, with a long-standing objective of the City to reduce tax ratios for commercial properties to 2.5-times the residential tax rate by 2020. Due to a 2017 Provincially legislated freeze on multi-residential property taxes, City Council enacted a policy of adopting only half of the residential tax increase for commercial properties, which has resulted in the target date for the tax ratio policy being pushed back from 2020 to 2023. The City's commercial tax ratio started as high as 3.55-times the residential tax rate in 2008. As of the

2023 tax year, the ratio in the City was 2.53-times the residential rate. This ratio is by far the highest ratio in the Greater Toronto Area, which ranges from 1.23 to 1.45, with the City of Hamilton being the only municipality where the ratio even approaches 2.0, at 1.98-times the residential rate.

- As discussed earlier, as newly built office buildings end their 10 or 12-year phase-in of incremental property tax revenues, these buildings will begin to generate the full property tax revenues for the City and offset some of the impacts from converting office buildings elsewhere in the City.

That the City of Toronto's property tax ratio is substantially higher than other competitive municipalities places further pressure on the office sector to convert to residential uses. If the City were to seek to reduce the financial pressure to convert, it may want to extend the property tax ratio reduction policy to better align with other GTA municipalities rather than cease the reductions at a 2.5-times ratio.

5 ANALYSIS OF POTENTIAL FOR OFFICE CONVERSIONS

According to Altus Group data there are 196,882,800 square feet of office space in the Greater Toronto Area, broken down by ‘class’ as follows:

Figure 16

Class	Quantity of Office Space in GTA	Definition & Attributes
Class A	123,410,000 sf (62.7%)	Well-located in major employment centres and typically have good transit, vehicular and pedestrian access. Located adjacent to or in proximity to a high number of retail establishments and business-oriented or fast casual restaurants. Building services are characterized by above-average upkeep and management.
Class B	56,103,800 sf (28.5%)	Buildings in good to fair locations in major employment centres and have good to fair transit, vehicular and pedestrian access. Located adjacent to or in proximity to a moderate number of retail establishments and business-oriented or fast casual restaurants. Building services are characterized by average upkeep and management.
Class C	17,369,000 sf (8.8%)	Buildings in less-desirable locations relative to the needs of major tenant sectors in the marketplace. Older, neglected buildings in good locations or moderate-level buildings in poor locations, so transit, vehicular and pedestrian access may vary. Typically, fewer amenities and restaurants are found in or near these buildings, and they are usually of moderate to low quality. Building services are characterized by below-average upkeep and management.

It is expected that if office vacancies remain elevated, there will be general ‘flight to quality’ with Class A office space being more in demand, with Class B and Class C spaces most likely to be those sought for conversion. Many of the Class C buildings and some Class B buildings would not meet the contemporary environmental performance standards, and as tenants leave over time, these buildings will become less competitive in attracting replacement tenants and may see vacancy rates rise, giving cause to building owners to sell. Bringing these older, otherwise obsolete buildings to today’s performance standards will be extremely financially difficult, rendering them uncompetitive in today’s office market.

If the amount of potential space to be converted was limited to

Class B and Class C buildings with smaller floor plates are most likely to be suitable from a design and liveability perspective for conversion. Therefore the quantum of these buildings today can provide some insight into the potential quantity of residential units that could be yielded from office conversion.

In total, there is 73.5 million square feet of Class B and Class C office space in the Greater Toronto Area, of which there are 22.7 million square feet of Class B and Class C office buildings with typical floor plates less than 12,000 square feet, including 24.3% of Class B space, and 52.1% of Class C space. Based on some high-level assumptions, it is estimated that if all of these Class B and Class C buildings with small floor plates were converted, it could yield approximately 16,300 residential units.

Figure 17

Rough Estimate of Magnitude of Potential Residential Unit Yield from Office Conversion, Greater Toronto Area

Scenario: Class B & Class C space with Floorplates less than 12,000 sf

ILLUSTRATION PURPOSES ONLY

Office Class	Office Gross Floor Area	GFA Suitable for Conversion (Floor Plates less than 12,000sf)	Estimated Share Suitable for Conversion
	<i>Square Feet</i>	<i>Square Feet</i>	
Class B	56,103,800	13,643,390	24.3%
Class C	17,369,000	9,047,425	52.1%
Total	73,472,800	22,690,815	30.9%
Potential Residential Yield			
Convertible Space		22,690,815 sf	A
Assumed % Retained for Commercial	10%	2,269,082 sf	B = A x 10%
Gross Residential Area		20,421,734 sf	C = A - B
Gross to Net Floor Area		80%	D
Net Saleable/Rentable Residential Area		16,337,387 sf	E = C x D
Average Net Residential Unit Size (sf / unit)		1,000 sf	F
Estimated Potential Residential Unit Yield		16,337 sf	G = E / F
Source: Altus Group Economic Consulting			

As of Q2 2023, between direct available space (26.3 million square feet) and sublet available space (8.7 million square feet), results in a GTA-wide total available rate of 17.8%. If all of this 22.7 million square feet of office space

was converted to residential, all else being equal, the total available rate would fall to 7.1%.

The ability to convert space over time would be limited and constrained by ongoing occupancy of suitable office buildings, as a conversion would be most economical for buildings if the building has a high amount of vacancy.

The following table presents some aggregated statistics regarding these smaller floor-plated Class B and Class C buildings. The vast majority of smaller floor-plate Class B&C office buildings are located in the City of Toronto, including nearly 85% of such Class B buildings, and 94% of Class C buildings.

Figure 18

Characteristic	Class B Buildings	Class C Buildings
Total Gross Floor Area	13,643,390 sf	9,047,425 sf
Number of Buildings	257 buildings	322 buildings
Average Building Size	53,100 sf	28,100 sf
Average Age of Building	54 years	71 years
Share of Space in City of Toronto	84.8%	94.1%
Share of Space in Rest of GTA	15.2%	5.9%

Based on the above rough calculations, the residential unit yield could be a substantial addition to the suite of responses to the need for additional housing options in the GTA.

However, a detailed study regarding what existing office buildings in the GTA may be suitable or unsuitable for conversion needs to be undertaken to assess the size of the 'convertible' universe to right-size the municipal and provincial policies that may be required to encourage or discourage conversions of existing buildings.

5.1 BUILDING CODE ISSUES

Some potential office buildings otherwise suitable for conversion to residential may present problems if the existing building's floorplate and configuration presents issues with accessing windows for bedrooms. As per

Ontario Regulation 332/12 under the Building Code Act, 1992, every room used for sleeping shall be provided with windows:

3.7.2.1. Window Areas

(1) Except as provided in Sentences (2) and (3) or otherwise permitted, every room used for sleeping in any building, and every principal room such as living room, dining room or combination of them in dwelling units shall be provided with windows having areas conforming to Part 9, except that Article 9.9.10.1. does not apply.

There is a way to get around this requirement by an *Alternative Solution*, as per the Ontario Building Code. As per the Ontario Building Code's compliance section, Table 11.5.1.1.c. Compliance Alternatives for Residential Occupancies, C79, the size of windows may be reduced where they are not used for egress and where they don't conflict with ventilation requirements.

3.7.2.1 (a) Where windows are not used as means of egress and where they do not conflict with ventilation requirements, the minimum glass areas as shown in Table 9.7.2.3. may be reduced by 50%, or

(b) an existing room converted to an interior room, created by an addition, shall not require a window, provided there is an opening in a dividing wall occupying not less than 30% of the separating plane to an adjoining room, where the adjoining room has a minimum of 5% window area of the combined floor areas, and provided the required ventilation for the combined room is maintained.

As per Table 9.7.2.3., the minimum window glass area for rooms in buildings of residential occupancy or rooms that are used for sleeping shall be at least 5% of area served.

According to the National Building Code of Canada, there is no requirement for an exterior window in bedrooms as long as the suite is sprinklered.

9.9.10. Egress from Bedrooms

1. Except where the suite is sprinklered, each bedroom or combination bedroom shall have at least one outside window or exterior door openable from the inside without the use of keys, tools or special knowledge and without the removal of sashes or hardware. (See Article 9.5.1.2. and Note A-9.9.10.1.(1).)

2. The window referred to in Sentence (1) shall

(i) provide an unobstructed opening of not less than 0.35 m² in area with no dimension less than 380 mm, and

(ii) maintain the required opening during an emergency without the need for additional support. (See Note A-9.9.10.1.(2).)

3. Where a window required in Sentence (1) opens into a window well, a clearance of not less than 760 mm shall be provided in front of the window. (See Note A-9.9.10.1.(3).)

Without changes to the Building Code, many larger floor plated office buildings will not be suitable conversion without affecting safety and livability. The potential design issues may be less prevalent in smaller floor-plate buildings such that these buildings should be prioritized for conversion to minimize the cost of conversion and maximize the liveability of the residential units created through conversion.

5.2 CONCLUSIONS

While there are likely to be difficulties in converting office buildings to residential uses, within the nearly 197 million square feet of office space in the GTA, a significant proportion is in older buildings with more limited access to transportation options and more limited amenities for office users.

Building code issues present impediments to converting office buildings with larger floor plates, but there is substantial office space in Class B and Class C buildings with smaller floorplates, including 22.7 million square feet of office space in buildings with typical floor plates less than 12,000 square feet.

Prioritizing the conversion of less desirable Class B/C office space can provide numerous benefits to the region:

- Right-sizing the supply of office buildings over time to bring the office market back to a balanced state (vacancy rate of 5%) and prioritizing buildings likely to need major repairs and upkeep regardless of conversion;
- Focus the demand for office space in remaining existing, higher-quality office Class A office space most likely to be located near transit and major transportation facilities
- Provide a readily available source of new housing, with potential of upwards of 16,300 residential units in small floorplate Class B/C buildings alone;
- Allowing more time to assess longer-term office demand projections and study broader issues with larger-scale conversions, such as existing Building Code issues.

6 RECOMMENDATIONS

6.1 PLANNING-BASED RECOMMENDATIONS

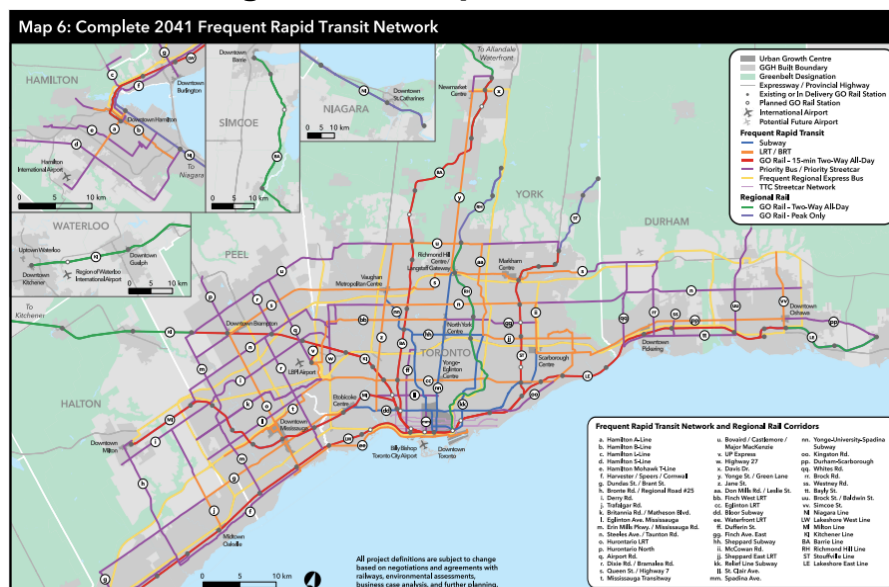
6.1.1 Coordinating the GTA's Approach to Planning for Office Space

The wide-range of approaches found in municipal plans regarding office retention policies, office inclusion requirements, area-specific job targets, and varying approaches to financial tools available for office conversions, redevelopments and/or encouraging and incentivizing office development all have cross-jurisdictional effects on office demand and how and where it is feasible to build new office supply.

The Province, through Metrolinx, has taken responsibility for planning regional transportation infrastructure. Metrolinx's Regional Transportation Plan ("RTP") sets out the plan for transportation in the GTA.

Figure 19

Metrolinx, Regional Transportation Plan, 2041 Network



Source: Metrolinx

The Metrolinx RTP talked about the need for a strong integration of transportation and land use:

Office employment, which is a major driver of transit use, is becoming increasingly concentrated in downtown Toronto and in a few large suburban employment centers... (page 33)

Although the importance of integrating transportation planning with land use has long been established, decisions about land use planning, transportation planning and investments are still often made in isolation. Full integration of municipal transportation and land use plans with the 2041 RTP is voluntary, and the priorities of municipal transit and transportation investments made not always be aligned.

The Growth Plan sets a strong policy framework for where and how to grow, and requires that municipalities plan for intensification. However, its implementation requires that municipalities and the private sector work towards the same goal. Ultimately, municipal policies and market forces jointly determine where growth is distributed. Competing objectives have sometimes led to jobs and services being located in areas that cannot support high-quality transit.³⁷ It is then a challenge to connect these areas to the rapid transit network.

Growth does not always happen as planned. At present, more than anticipated population and office employment growth is taking place in downtown Toronto.³⁸ This is positive for transit use, walking and cycling. (page 41)

As office uses are the most dense form of employment use (often with ratios of one job per 20-30 square metres of office space), given the importance of transportation accessibility in bringing people, including employees and customers, to and from the office, it may be time to consider the coordination of office use planning at higher levels of government, similar to the manner in which Metrolinx provides region-wide transportation plans.

This could include the coordination of various local Official Plans, Secondary Plans, and transportation plans, to ensure that they are all suited to and focused on maximizing the economic development potential of the office sector in the GTA, as well optimizing the significant investments in the region's transportation system.

6.1.2 May be Time for a Rethink of City of Toronto Urban Structure

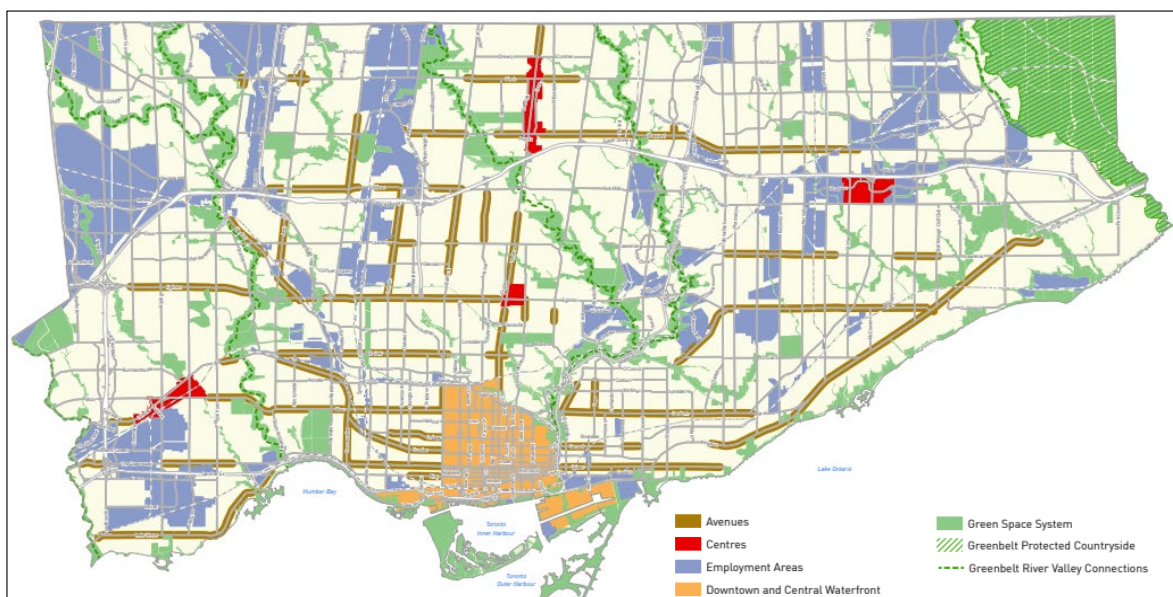
The City's current urban structure has been in place for a long period of time, however, there have been and are planned to be several transformative additions to the Downtown and adjacent areas that may necessitate the reconsideration of the City's urban structure:

- East Harbour and the approximately 11 million square feet of office space planned for the area, located east of the Downtown;

- The ongoing work of the Ontario Line which will pass through the Downtown along Queen Street, and create numerous new multi-modal transit hubs where it intersects with Line 1;
- The emerging transit node at Liberty Village which will include the western terminus of Ontario Line, as well as connections with the Lakeshore West GO corridor;
- The electrification of the Lakeshore West and Lakeshore East GO corridors with the plan to provide all-day 15-minute service; and
- The on-going development of the Port Lands, which will include major employment uses;
- The completion of the Eglinton LRT.

Figure 20

City of Toronto Urban Structure Map



Source: City of Toronto Official Plan (Map 2)

Given the disruption the COVID-19 pandemic provided to the office sector (in particular, among other obvious impacts), it exhibited the risk of geographic areas of being too reliant on a single land use.

6.2 MUNICIPAL FINANCE RECOMMENDATIONS

Based on our analysis, the following recommendations could be considered to encourage the conversion of office buildings:

- Consider waiving or reducing land transfer tax (municipal and provincial) for office to residential conversions;
- Provide full development charge credits for converted space based on the full non-residential DC rates, not just the un-exempted portion most conversions would not have been in receipt of;
- Extend time horizon for demolition-based DC credit; and
- Consider accelerating and extending the planned reductions of commercial property tax ratios to improve the financial feasibility of maintaining existing office spaces.

6.2.1 Consider Waiving or Reducing Municipal Land Transfer Tax / Provincial Land Transfer Tax for Office Conversions

Currently, all conveyances of beneficial interest in land in Ontario are subject to a Provincial Land Transfer Tax, with similar transactions in the City of Toronto also subject to a Municipal Land Transfer Tax.

In each case, the Land Transfer Tax (LTT) rate escalates for each band of value being conveyed.

Figure 21

Band	Toronto Municipal Land Transfer Tax	Provincial Land Transfer Tax
Up to and including \$55,000	0.5%	0.5%
\$55,000 to \$250,000	1.0%	1.0%
\$250,000 to \$400,000	1.5%	1.5%
\$400,000 to \$2,000,000	2.0%	2.0%
Over \$2,000,000	2.5%	2.5%

In the case of a typical residential unit created through an office to residential conversion (valued at \$750,000), the total land transfer tax payable through the municipal and provincial LTTs combined would be \$22,950.

As cost of conversion is identified as a primary impediment to office conversions, while this cost accrues to the end-user, it nonetheless limits the ability of the end-user to afford the overall cost of a converted unit.

Figure 22

Estimated Municipal and Provincial Land Transfer Taxes, Typical Residential Apartment Unit

Unit Value	\$ 750,000						
	Low	High	MLTT Rate	MLTT Payable	PLTT Rate	PLTT Payable	Total LTT Payable
Band 1	\$ -	\$ 55,000	0.5%	\$ 275	0.5%	\$ 275	
Band 2	\$ 55,000	\$ 250,000	1.0%	\$ 1,950	1.0%	\$ 1,950	
Band 3	\$ 250,000	\$ 400,000	1.5%	\$ 2,250	1.5%	\$ 2,250	
Band 4	\$ 400,000	\$ 2,000,000	2.0%	\$ 7,000	2.0%	\$ 7,000	
Band 5	\$ 2,000,000		2.5%	n.a.	2.5%	n.a.	
				\$ 11,475		\$ 11,475	\$ 22,950

Source: Altus Group Economic Consulting

6.2.2 Development Charge Credits and Demolition Periods for Converted Space

There are numerous approaches taken in GTA DC by-laws to reduce development charges based on the amount of space to be converted, and allow for period of time to elapse between demolition permits and building permit issuance.

The time periods for the demolition period range from 36 months to 120 months, and the DC credit reductions are generally consistent though the City of Toronto's DC credit reduction ignores that the 'cost' of the DC exemptions for above-ground floor space should have already been made-up through DC reserve fund top-ups.

The varying approaches across the region to demolition periods should be reviewed and made consistent to the extent possible, while respecting local circumstances.

The varying approaches to DC credits for converted space should be reviewed in more detail to ensure conformity to the legislation that requires cost of DC exemptions to be made up from non-DC sources, meaning that DC credits for converted space should not be limited in any way by current exemptions made available for new buildings that likely were not utilized by

or available to the older buildings that are likely to be the bulk of the office buildings converted (particularly any building constructed prior to the 1989 or 1997 *Development Charges Act*).

6.2.3 Consider Accelerating and/or Extending the Commercial Property Tax Ratio Reductions

That the City of Toronto's property tax ratio is substantially higher than other competitive municipalities places further pressure on the office sector to convert to residential uses. If the City were to seek to reduce the financial pressure to convert, it may want to extend the property tax ratio reduction policy to better align with other GTA municipalities rather than cease the reductions at a 2.5-times ratio.

7 SUMMARY OF RECOMMENDATIONS

Based on our research and analysis into a broad sample of the current base of planning policies and municipal finance policies affecting the office sector, it appears there are policy constraints that may create significant impediments that may prevent, limit or slow the office sector from right-sizing and renewing itself in the coming years, as the sector adjusts from the pandemic-induced work-from-home (“WFH”) era and both discovers and settles into a long-term steady state, whether that is a long-term return to pandemic WFH highs, or pre-pandemic lows.

Whereas policies that were adopted in good-faith prior to the massive shift towards work-from-home may have in the past, and in periods without acute housing shortages, had less of a constraining effect on office building owners, in the likely event that WFH is here to stay, a significant proportion of these policies may be stale-dated and ripe for an in-depth re-examination.

While it is important from an economic development perspective to continue to maintain a large and healthy office market, it would be counter-productive if policies to retain, replace and require office development had unintended consequences such as:

- An unnecessarily constrained housing supply due to underutilized/unmarketable office sites unable to be used to address any housing shortages;
- Limiting the prospective redevelopment of office buildings, even in periods of high and/or increasing vacancy, to such a degree that it puts upward pressure on high vacancy rates, thereby:
 - Reducing activity in urban areas where it is desirable to have a well-functioning pedestrian environment and retail-supportive levels of economic and pedestrian activity.
 - Lowering rents (through reducing the ability of the sector to correct structural vacancy issues) which reduces available revenues for property owners to fund the necessary operating and lifecycle costs associated with maintaining large buildings.

Additionally, the various policies embedded within municipal Official Plans, Secondary Plans and other associated policy targets appear to, even just upon review of a sample of such policies, drastically over-estimate (even if

sometimes only implicitly) the potential for prospective growth in the demand for net new office space in several ways:

- Constraining the ability of existing office buildings to redevelop for or with residential uses especially in the potentially limited cases where the buildings are suitable from an urban design and building code perspective for residential use;
- Not allowing sufficient flexibility in policy so as to avoid a glut of vacant office space in major urban areas, through policies that seek to retain, replace or require office space to be included within mixed-use developments. The cumulative effect of these policies, when converted into a practical estimate of gross floor area protected or required to be constructed in areas across the region, appear to indicate that the scale of office being planned for is well beyond the potential growth of the region's office market for even the longest of planning horizons;
- Maintaining limited ranges of non-office based permitted uses in the land-intensive 1980s-era 'greenfield' office-oriented business parks, areas that often feature large surface parking lots, large landscaped areas, or vacant parcels that could be suitable for sensitive residential infill, and in areas with limited transportation options, residential uses for those with limited mobility, such as long-term care, assisted living, etc.)

The table on the following page summarizes the recommendations for further consideration in the on-going planning for office space in the GTA.

	Recommendation	Rationale
1	Create Economic Development Task Force	Undertake a thorough analysis of the implied amount of office space embedded in municipal Official Plans and Secondary Plans Work with municipal stakeholders to co-ordinate plans for uses to maximize public investments in public transportation (highways, transit);
2	Rethink Urban Structure Plans	Better integrate plans for transportation, central business districts, business parks with anticipated future demand for office space to maximize economic potential of office sector
3	Undertake Study to Create Design-Based Criteria to Evaluate Prospective Conversions of Existing Buildings	Create objective, design-based criteria that evaluates whether buildings (or sub-sets of buildings) are suitable for conversion to residential uses.
4	Prioritize Conversions of Existing Class B/C office buildings with Smaller Floorplates	Right-sizing the supply of office buildings over time to bring the office market back to a balanced state (vacancy rate of 5%) and prioritizing buildings likely to need major repairs and upkeep regardless of conversion. Focus the demand for office space in remaining existing, higher-quality Class A office space most likely to be located near transit and major transportation facilities. Provide a readily available source of new housing, with potential of upwards of 16,300 residential units in small floorplate Class B/C buildings alone. Allowing more time to assess longer-term office demand projections and study broader issues with larger-scale conversions, such as existing Building Code issues.
5	Seek Best Practices to Address Building Code Issues with Prospective Conversions	Assess whether adjustments could be made to Ontario Building Code to provide more flexibility in design regarding bedrooms and windows.
6	Applicability of Land Transfer Taxes for Conversions	Consider waiving or reducing significant land transfer taxes for converted space to reduce costs of conversion to end-users.
7	Consider extending TIEG / IMIT grants to costs associated with renewing and revitalizing existing office buildings	As the market for new office space changes, the City of Toronto may consider the need to extend IMIT grants and associated property tax relief for office buildings that are instead renewed and revitalized, instead of just new office developments.
7	Harmonize DC policies regarding credits for demolished space	GTA municipalities have significantly varying timeframes for which demolished space received DC credits, which may create cost-issues if time horizons are unnecessarily short or did not consider complex demolitions and re-builds like office conversions may be.

8	Consider revising definition of 'development' for applicability of site plan control provisions of Planning Act	The definition of 'development' in the Planning Act should be revisited to assess whether conversions of office buildings to residential uses should be treated differently than other forms of development.
8	Accelerate and/or Extend Commercial Property Tax Ratio Reductions	To make the existing office space more economical to maintain, consider further reductions to the Commercial property tax ratio (beyond those already planned), or accelerate the shift towards existing end-goal.

Appendix A
Other Municipal Approaches to Office
Conversions

APPROACHES TO CONVERTING AND RE-PURPOSING OFFICE SPACE ELSEWHERE IN NORTH AMERICA

CANADA

This section reviews what has been done in Canada to promote office conversions to residential units. Experience is less rich than in the United States, with Calgary being the only major city in Canada to have adopted a conversion policy.

City of Toronto

The City of Toronto, with an estimated portfolio of over 8,000 assets and \$27 billion in assessed value, has initiated a program called ModernTO-Workplace Modernization plan to reduce the City's own office footprint by 1 million square feet, consolidating 14,900 office employees to 15 locations, and replacing that space with other uses. This reduction in the City's office footprint may lead to 32 full or partial lease collapses. In 2022 the Workplace Modernization Program worked with an external program manager for program delivery and involved engagement with City divisions, agencies and corporations.

Four out of the eight projects planned so far will see some of the office space converted to residential affordable housing uses, with those projects located at:¹²

- 1900 Yonge Street: an adaptive use of a heritage asset and provide affordable rental housing and new parkland through the replacement of office use;
- 33 Queen Street East: is currently Toronto Parking Authority's (TPA) head office. The conversion project proposes a high-rise mixed-use residential development with affordable housing units;
- 610 Bay Street: is the City-owned Toronto Coach Terminal's site and is proposed to be converted to a mixed-income mixed-use development, including affordable housing, a paramedic hub and other employment uses; and

¹² Information found at: <https://createto.ca/modernto/>

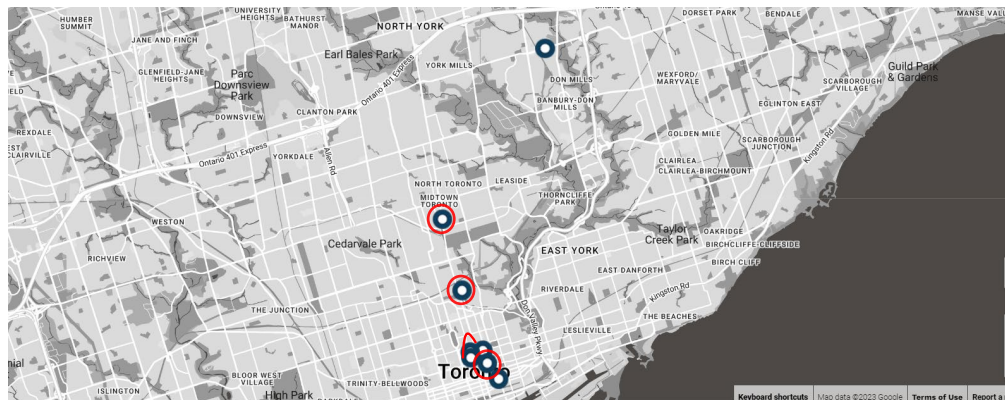
- 75-81 Elizabeth Street: is located behind Toronto City Hall and the proposed redevelopment includes a mixed-use high rise building with residential, commercial, community uses and new parkland.

Other ModernTO projects are located at:

- 18 Dyad Road;
- 95 The Esplanade;
- 277 Victoria Street; and
- 931 Yonge Street.

Figure 23

ModernTO Projects

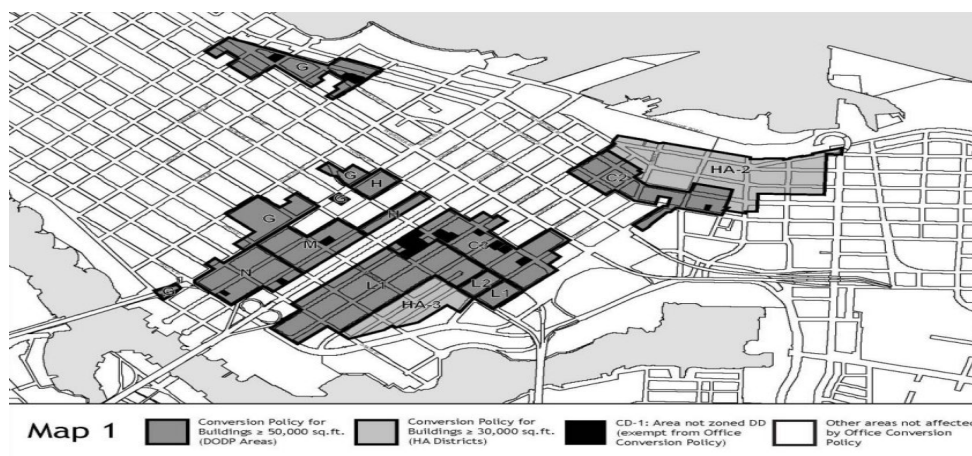


Source: City of Toronto

City of Vancouver

The City of Vancouver has not introduced a new policy for conversions, rather they adopted a conversion policy in June 2009. Conversions can be allowed in mixed-use areas that allow both residential and office, conditional of building size. This policy does not guarantee the right to convert. Rather, the conversion requires an application to Council, where they would then decide if the conversion meets the public interest and conditions set out in the policy document, which include the amount of office supply, the quality of the application and access to transit.

Figure A- 1

City of Vancouver Office-to-Residential Conversion Policy Areas

Source: Altus Group Economic Consulting, based on <https://guidelines.vancouver.ca/policy-downtown-office-conversion-for-rezonings.pdf>

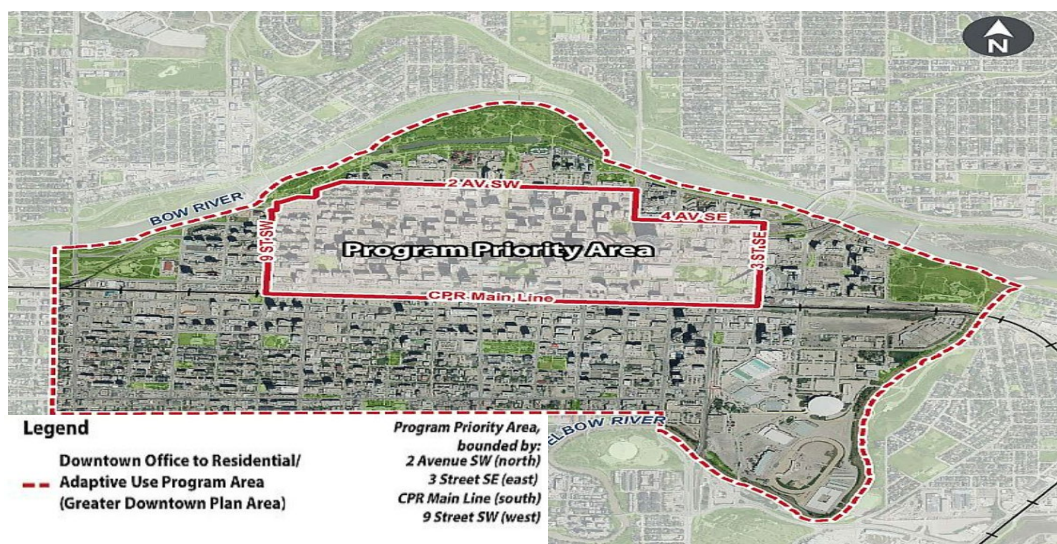
City of Calgary

Downtown Calgary has become less “vibrant” following both the pandemic and economic downturn since 2014. To bring more vibrancy to the downtown, The City approved the Downtown Strategy, which includes a \$200 million investment for rehabilitating the downtown. Along with this plan, the City of Calgary introduced the Calgary Downtown Development Incentive Program¹³, which provides grants for conversion of office space to multi-residential units, schools, hotels and performing arts centres. To receive the grant, the development must be within the adaptive use program, with priority given to projects within a narrower geographic scope.

¹³Information found at: <https://www.calgary.ca/development/downtown-calgary-incentive-program.html>

Figure A- 2

City of Calgary Downtown office-to-Residential Adaptive Use Program Area



Source: Altus Economic Consulting, based on City of Calgary Municipal website

The grant provides the property owner \$75 per square foot of the office space being converted, to a maximum of \$15 million. Projects that exceed this maximum can apply for Council approval.

Five properties have been approved for conversion in Calgary so far, as summarized in the figure below. On average the converted space yielded one residential unit per 941 square feet, and the City provided incentives equal to an average of \$70,700 per unit created.

Figure A- 3

Approved and Announced Downtown Development Incentive Program Projects, City of Calgary

Building Name	Address	Municipal Investment	Scope of Conversion	Number of Homes Created
			Square Feet	Units
The Cornerstone	909 5 Ave SW	\$ 7,800,000	104,000	112
Canadian Centre	833 4 Ave SW	\$ 12,375,000	163,000	225
United Place	808 4 Ave SW	\$ 6,600,000	88,000	81
Palliser One	125 9 Ave SE	\$ 15,000,000	200,000	176
Teck Place	205 9 Ave SE	\$ 8,200,000	110,000	113
Total		\$ 49,975,000	665,000	707
Square Feet Converted per Home Created				941
Municipal Investment per Home Created				\$ 70,686

Source: Altus Group Economic Consulting based on City of Calgary

City of Ottawa

The City of Ottawa or the Federal government has not introduced a new policy to incentivize office conversions.

However, Policy 6.3.1 (5) of the Ottawa Official Plan states that underutilized non-residential uses may convert to residential if:

- a) The proposed development includes the majority of its site as low rise missing middle housing typologies;
 - b) The intent of the growth management requirements of Section 3 are met;
 - c) The proposed development respects the immediate adjacent existing residential uses by retaining features which previously existing prior to the development proposal; and
 - d) The proposed development includes an affordable housing component meeting Section 4.2 and provides a non-residential component in order to contribute to 15-minute neighbourhoods, preferably an underserved non-residential component such as community infrastructure or local retail and commercial services.
- (Page 172, Ottawa Official Plan)

Conversions still require a zoning bylaw amendment in the City of Ottawa. An application was submitted for a zoning bylaw amendment to allow a 7-storey office building to be converted into an 8-storey, 45 unit residential building at 331 Cooper Street. The application was submitted in December 2020 and presented to Council on April 14, 2021.

UNITED STATES

Many U.S. cities have a rich history of office-to-residential conversions, as they have always been a part of regenerating older downtown neighbourhoods in U.S. cities following crisis, or just as the consequence of aging buildings.

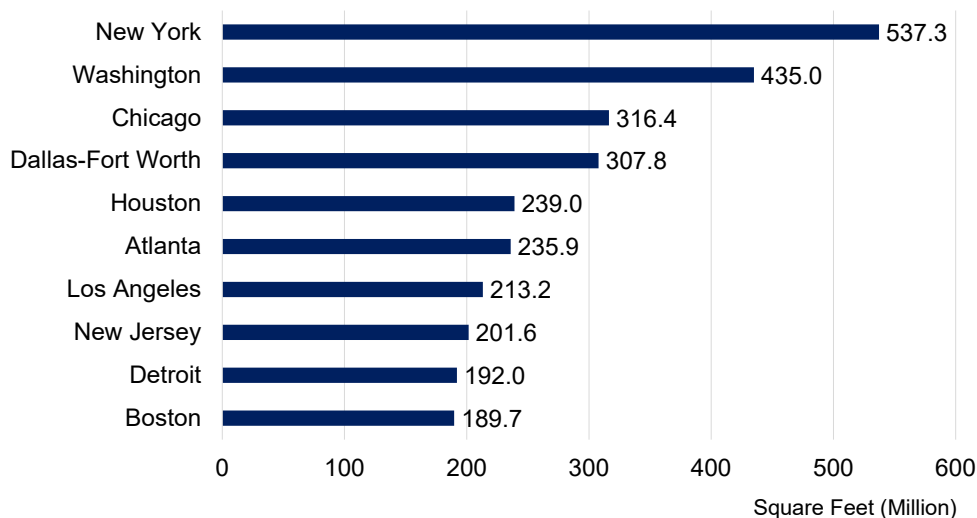
With office vacancy rates ranging from 11% to 30% across major U.S. cities, there has been increased focus on adaptive reuses from developers and policy makers alike since the pandemic.

Many cities in the U.S. already allow the conversion of office-to-residential space in downtown districts through regulations. The cost of conversions is the predominant barrier, which has led some municipalities to expand financial incentives to encourage such investments.

This section reviews the policies set in place by the five largest office markets in the U.S. – New York City, Washington D.C., Chicago, Dallas-Fort Worth, and Houston.

Figure A- 4

Inventory of Office Space, 10 Largest Office Markets in the United States, 2021



Source: Altus Group Economic Consulting, based on Colliers International

New York City

New York City is seeking to manage imbalances in housing supply and office vacancies by allowing, encouraging and incentivizing the conversion of unused office space to residential uses.

The City recently commissioned their “Office Adaptive Reuse Task Force” to produce a *New York City Office Adaptive Reuse Study*, which highlights that New York City has a history of adopting policies to encourage office conversions in the past, including:

- New York City already has some flexible regulations that allow office conversions in residential neighbourhoods, subject to criteria relating to the age and location of the building. The report highlights that 200 million square feet of office space could potentially be converted to housing under current regulations. In addition, there are multiple special district mixed-use districts that allow conversions for buildings that were built before 1997.
- The Lower Manhattan Revitalization Program was introduced in 1995 and included financial incentives and regulatory reforms for

office-to-residential conversions. Financial incentives included a 10-year property tax abatement on the new assessment value following the conversions.

- In 1997, the City loosened zoning rules to make it easier to convert office buildings built before 1977 to residential uses in the Financial district.
- A tax incentive called the 421-g in the Financial District was introduced between 1995 and 2006. The tax benefits included a 1-year construction-period exemption from property taxes, a 12-year exemption from the increase in real estate taxes resulting from the work, and a 14-year abatement of approximately 80% of the real estate taxes paid on the property before conversion. All rental units created with this incentive were subject to rent stabilization for the duration of the tax benefits.¹⁴
- A tax-exempt Liberty Bond program designed to promote investment in Lower Manhattan after the tragic events of 9/11, which gave developers access to low-cost financing for conversions and other construction projects between 2002 and 2010.
- Since 1995, around 20 million square feet of Financial District office space has been transformed into approximately 17,000 housing units. The report further estimates that already announced or under-construction office-to-residential conversions are expected to create at least 3,600 additional residential units in the future.

A barrier to conversions in New York City, however, is the cost of construction. Various zoning regulations, and existing floor plates can make conversions expensive. The City's current office vacancy rate is considered to not yet be high enough in the City to support market-driven conversions.

The Office Adaptive Reuse Task Force made the following concrete policy recommendations to incentivize more conversions:

- **Extending Flexible Zoning Regulations** - the pandemic exacerbated the usual flight-to-quality, as newer, better space has become more affordable. Older buildings are experiencing the greatest challenges filling vacant office space. The task force recommends extending the

¹⁴ <https://furmancenter.org/coredata/directory/entry/421-g-tax-incentive-program>, for explanation of 421-g

most flexible zoning regulations for conversions to buildings built before 1990. The Task Force estimates this will increase the amount of space eligible for conversions to 136 million square feet and generate 20,000 new housing units and house 40,000 people. This recommendation requires changes to the New York State multiple dwellings law and the New York City zoning resolution (article 1, chapter 5).

- **Expanding Flexibility in Regulations** - the report recommends expanding flexible conversion regulations to all high-intensity office districts, including Downtown Flushing and the Bronx Hub — easing the potential conversion process for an additional 16 million square feet of office space.
- **Allow Conversions for Broad Range of Housing Types** - even the most flexible regulations in place only allow conversion to dwellings. The task force recommends allowing conversions of office buildings to a broader array of housing types, including supportive housing.
- **Remove Impractical Floor Area Ratio Regulations** –adjusting existing Floor Area Ratio (FAR) requirements or eliminating such limitations that otherwise make conversion projects infeasible.
- **Providing Tax Incentives to Encourage Inclusion of Affordable Housing** - conversions to affordable housing would still not be economical, even if these recommendations were implemented. Therefore, the task force recommends providing a tax incentive to provide affordable housing within mixed-income housing.

Washington D.C.

Policy discussion around converting office space to residential units in Washington, D.C. (“Washington”) began in 2019, well before the pandemic. However, a barrier to conversions has been the costs and profitability of such projects. Like New York, office buildings are difficult to convert and earn a higher premium than residential.

Washington established an “Office to Affordable Housing Task Force” in 2018, with a report being issued in 2019. The report outlined that barriers to conversions in D.C. included:

- The higher profitability of office buildings relative to residential. The vacancy rate was not yet high enough to encourage conversions.
- Vacancies were often spread across buildings – a completely empty building is rare.
- Incompatible zoning rules that made it infeasible; and
- Lack of conversion experience.

The task force recommended focusing efforts on incentivizing the conversion of Class “C” buildings because they had the highest overall vacancy rates, making it more feasible. Recommendations from the report included:

- Directly subsidizing conversions to make them more attractive.
- Provide zoning incentives – for instance increasing density allowances to encourage conversions.
- The task force would like to see the District fund feasibility studies.

Following the Task Force recommendations, Council approved the Housing Downtown Tax Abatement Program. Property owners converting offices that will include 10 or more residential units will receive an abatement for up to 20 years, as long as 15% of the units are affordable rentals to households making no more than 60% of the area median income¹⁵.

The Department of Planning also applied to allow the conversion of office buildings built after 1978 in mixed-use downtown zones to non-conforming residential as of right^{16,17}.

City Planning is guided through the Comprehensive Plan, which has a policy and an action to allow and encourage conversions¹⁸:

- Policy CH-1.1.9 allows the conversion of ‘obsolete or vacant’ non-residential structures to housing, provided that important architectural resources are conserved; and

15 D.C. Housing Downtown Tax Abatement Overview. <https://dmped.dc.gov/page/housing-downtown-tax-abatement-overview-%E2%80%93-january-2023>

16 Nena Perry-Brown, “DC Office of Planning Proposes By-Right Conversions to Residential”, (Urban Turf, January 4, 2022)

17 Link to policy change: https://app.dcoz.dc.gov/CaseReport/CaseReportPage.aspx?case_id=22-01

18 Information at <https://lms.dccouncil.gov/downloads/LIMS/46201/Meeting3/Enrollment/B24-0001-Enrollment3.pdf>

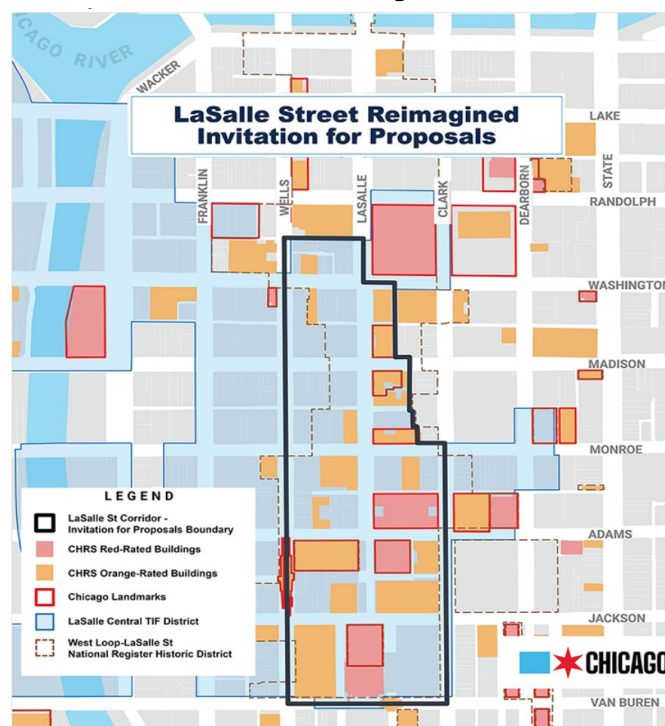
- Action CW-1.1.E seeks to continue developing financial and non-financial incentives for the conversion of lower-performing retail/office buildings into new housing or mixed-use development.

City of Chicago

The City of Chicago implemented a program offering financial incentives to developers willing to convert office to residential units along LaSalle Street, called “LaSalle Reimagined”. The plan would create 1,000 housing units, one-third of which will be affordable (see Figure 14)¹⁹.

Figure A- 5

City of Chicago Office-to-Residential Conversion Policy Area



Source: City of Chicago

The City is extending the following financial incentives to office-to-residential conversions:

- A tax credit for 20% of qualified expenses under the Federal Rehabilitation Tax Credits;

¹⁹ Information at <https://www.chicago.gov/city/en/sites/lasalle-street/home.html>

- A property tax reduction through Affordable Illinois (HB2621)²⁰, which could reduce assessment value by 25% to 35% for affordable units, depending on the length of time units will remain affordable;
- Tax Increment Financing from LaSalle Central Redevelopment Project Area;
- Use of the Low-Income Housing Tax Credits (dollar for dollar tax credit for building affordable housing); and
- Chicago PACE - upfront, zero interest financing that gets repaid on property tax bill over 25 years.

There are currently six applications for non-residential conversions through this program, for a total of 1,729 units, with roughly 44% (760 units) to be affordable.

Dallas-Fort Worth

The City of Dallas currently has applications for 1,500 adaptive-reuse residential units across five projects in downtown Dallas including Energy Plaza, First National Tower, and Renaissance Tower.²¹

The City has not introduced any new policies to allow or encourage conversions, rather, conversions have always been a part of the City's development goals. A high office vacancy rate (25%), combined with rising residential prices has meant that the economics supported conversions in the City.

The City offers a tax incentive for developers who will rehabilitate or convert old buildings in historic districts to residential. In many cases, 100% of the value of the work completed will be provided as a property tax abatement for 5 to 10 years.²²

²⁰ Information at <https://www.lakecountyil.gov/4655/Affordable-Housing-Tax-Credit-HB-2621-35#:~:text=This%20new%20assessment%20program%20creates,for%20households%20at%2060%25%20AMI.>

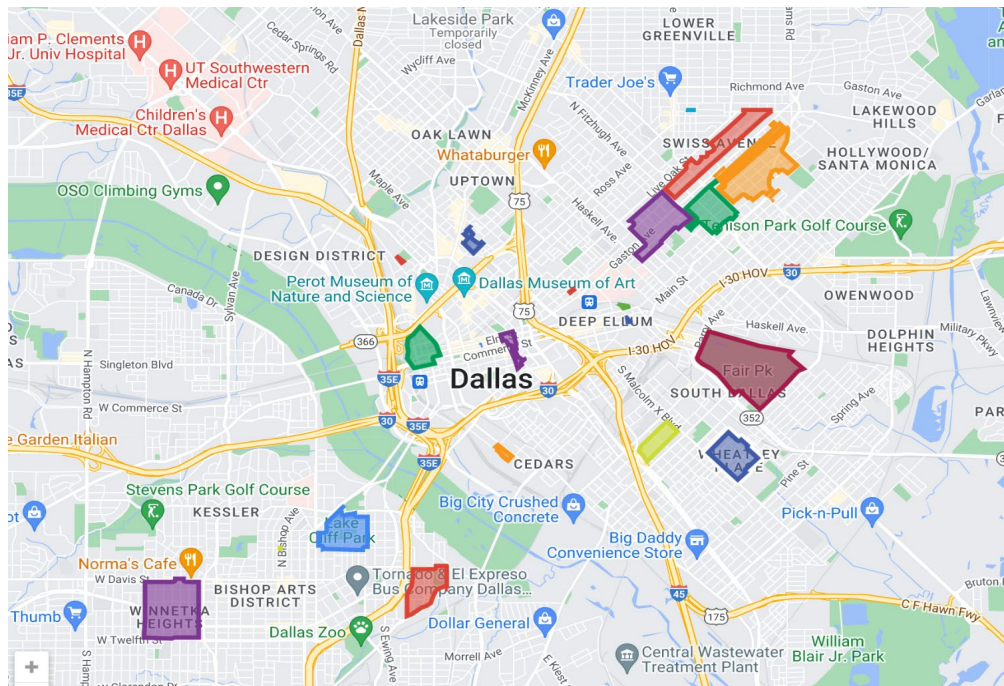
²¹ Diana Ionescu, "Dallas Ahead of the Game in Adaptive Reuse" (Panetizen, March 21, 2023).

²² Information found on city website at

https://dallascityhall.com/departments/sustainabledevelopment/historicpreservation/Pages/tax_incentives.aspx

Figure A- 6

City of Dallas Historic Districts with Conversion Policies



Source: City of Dallas

City of Houston

Houston does not have zoning that specifically regulates land-use, but the City does have regulations that govern characteristics of development such as parking requirements, lot sizes, and setbacks. Therefore, a conversion application does not need a zoning by-law change to convert office uses to residential uses, but applications must meet these form-based regulations.

Houston already offers incentives in certain locations. Tax Increment Reinvestment Zones (TIRZs)²³ are “special zones” created by City Council to attract new investment in an area. These zones help finance costs of redevelopment and promote growth in areas that would otherwise not attract sufficient market development in a timely manner. Taxes attributable to new improvements (tax increments) are set-aside in a fund to finance public improvements within the boundaries of the zone.

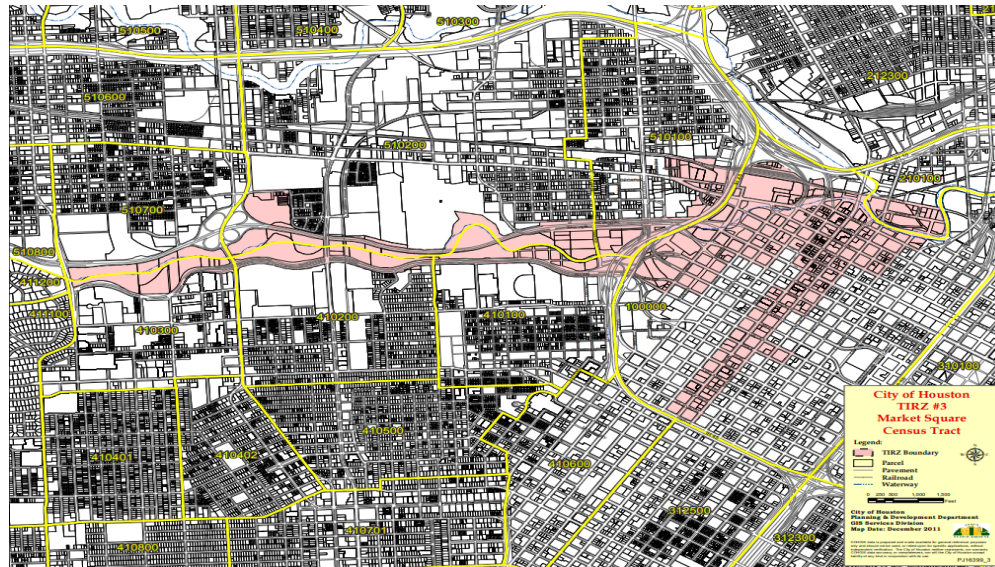
²³ Information found at:

[https://www.houstontx.gov/ecodev/tirz.html#:~:text=Tax%20Increment%20Reinvestment%20Zones%20\(TIRZs\)%20are%20special%20zones%20created%20by,development%20in%20a%20timely%20manner.](https://www.houstontx.gov/ecodev/tirz.html#:~:text=Tax%20Increment%20Reinvestment%20Zones%20(TIRZs)%20are%20special%20zones%20created%20by,development%20in%20a%20timely%20manner.)

One such emphasis has been put on office-to-residential conversions in “Tax Increment Reinvestment Zone #3”, which is at Main Street and Market Square.²⁴

Figure A- 7

City of Houston Tax Increment Financing Zone 3



Source: City of Houston

The Downtown Redevelopment Authority in Houston did a call for downtown office conversion feasibility studies at the end of 2022. The goal is to identify buildings that would be suitable for an office-to-residential conversion, then to partner with the owners of these buildings to introduce programs to incentivize conversions.²⁵

²⁴ Information found at: <https://downtowntirz.com/>

²⁵ Information found at: <https://downtowntirz.com/program/rfp-downtown-office-conversion-feasibility-study/>