

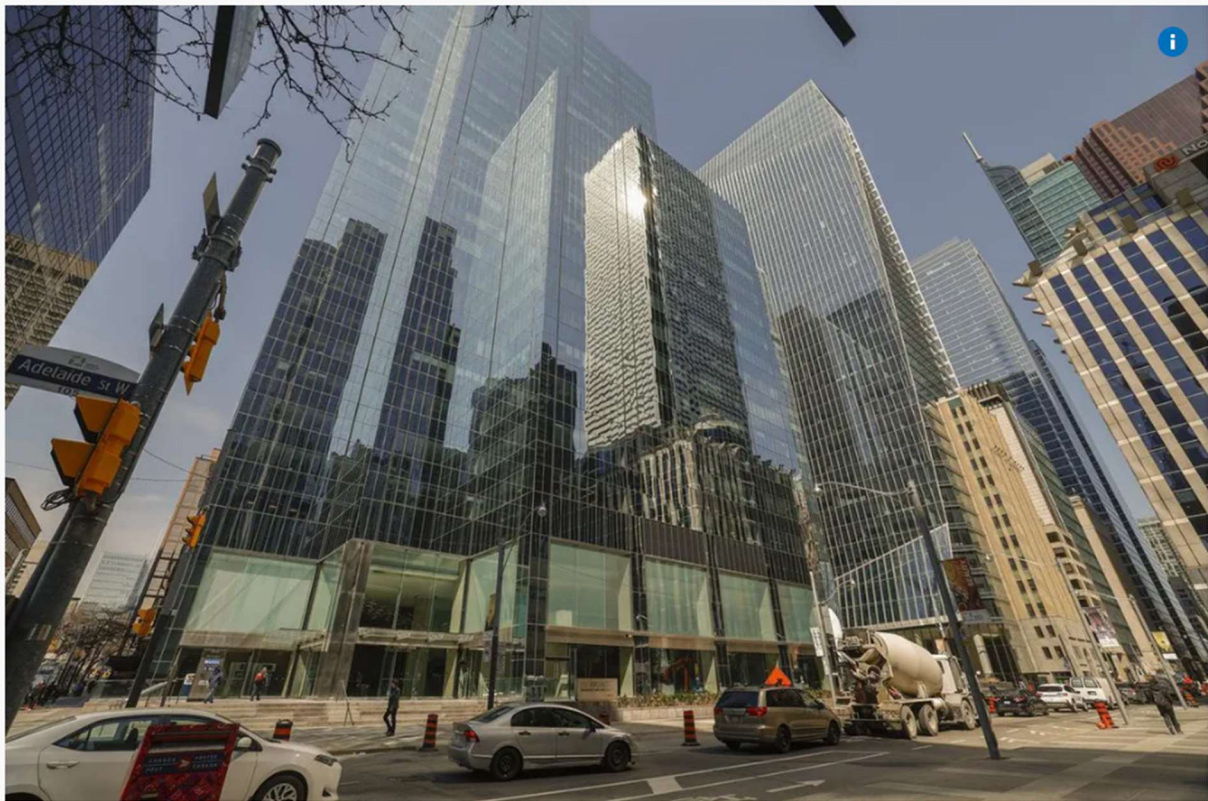
Toronto Star – May 25, 2023

Time for the wrecking ball? Report warns Toronto's glut of empty office towers could last at least two more decades

Growing space and more workers doing their jobs from home has left a large chunk of GTA offices empty. Now what? Some say converting them to condos is the answer.



[Josh Rubin](#) Business Reporter || May 25, 2023



The Greater Toronto Area could see a significant oversupply of office space for another two decades thanks to slumping demand in the wake of the pandemic combined with new construction already in the pipeline, according to an economist's report.

Peter Norman, who prepared the report for the Toronto chapter of the National Association for Industrial and Office Parks, warned vacancy rates in the GTA could spike as high as 46 per cent in the years ahead.

He said the problem is too much office space, more being built, and a slump in demand as workers spend more time doing their jobs from home.

“We’ve had a paradigm shift in how much space is required to accommodate jobs,” said Norman, chief economist at Altus Group, a real estate data consultancy. Even if a company hasn’t downsized, he said its space needs have shrunk considerably from traditional assumptions.

“If I’m a new company setting up, am I going to set up four chairs for every ten people I plan to employ? Or am I going to set up six chairs or eight chairs?,” said Norman. “Even if you’re in one of the sectors that’s being really hard-nosed in terms of bringing people into the office all the time, almost nobody who’s setting up a new space for their company right now is going to set up ten chairs for the ten people they expect to employ.”

With 40 million square feet of new office space already being built, that means there’s likely going to be an excess until at least 2041, Norman added. In his study, he looked at three hybrid work scenarios: People coming into the office two, three or four days a week.

In even the most optimistic scenario, only 15 million square feet of new space is required, Norman said.

“That means our pipeline is more than twice as big as it needs to be.”

While some of the excess space could theoretically be converted to residential use, there are technical, zoning and even commercial obstacles, said Leona Savoie, head of government relations at NAIOP Toronto.

Knocking down office buildings cheaper

“It’s not as easy as people think it is. And there are only a handful of existing properties that would even be a candidate for it,” said Savoie, who is also a senior vice-president at Dorsay Development Corp.

In some cases, knocking the office buildings down and putting up something new makes more sense, said Savoie. In a few cases, retrofitting it to convert it into a condo building is more tempting, she added.

“Sometimes it would be cheaper just to take it down and start from scratch. But sometimes it has great structure and great bones and you have a lot to work with,” said Savoie.

Still, she added, most municipalities have strict rules about converting commercial buildings into housing, or even tearing one down and replacing it with a condo tower. Many municipalities also require an office or employment component in any new mixed-use development. That means, Savoie argued, that developers are being asked to build office space for which there’s no demand and that governments need to re-examine zoning policies.

“We all know we have an office vacancy and absorption problem,” said Savoie. “And we don’t see it getting any better. The last thing we need is old policies in place. We need some flexibility built into the system.”

Veteran real estate analyst John Andrew said encouraging a pipeline of new office construction may have made sense in a pre-COVID world, but agreed that governments now need to shift their thinking. Anything, he said, is better than offices sitting empty.

“If a developer wants to build condos, for god’s sake, let them build condos because at least it’s going to put more people downtown,” said Andrew, a retired real estate professor from the Smith School of Business at Queen’s University.

Most excess office space can’t be converted into residential buildings for engineering reasons, Andrew added. That means, if zoning rules are eventually loosened, Toronto could see wrecking balls coming out in a big way.

“We’re going to start to see a tremendous wave of demolition happening. Companies are going to say ‘you know what? It’s worth the cost and the delay to completely level this building to the ground and start new,’” said Andrew.

“I think we’re going to start to see 50-storey office buildings being demolished.”