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Toronto's offices are emptying out. The city wants to know what to do with them



Aaron D'Andrea || May 10, 2024

The City of Toronto is turning to the public for guidance on what to do with its empty office space as vacancies continue to rise.

The percentage of vacant office space in the city rose throughout every quarter last year, closing out 2023 at 17.5 per cent – a three per cent increase from the same period in 2022, and a 13.6 per cent spike from the fourth quarter of 2019.

The city's call for input is part of a study it's doing on office conversion amid an ongoing housing crisis that has "elevated pressure" for residential intensification, it said in a notice on its website.

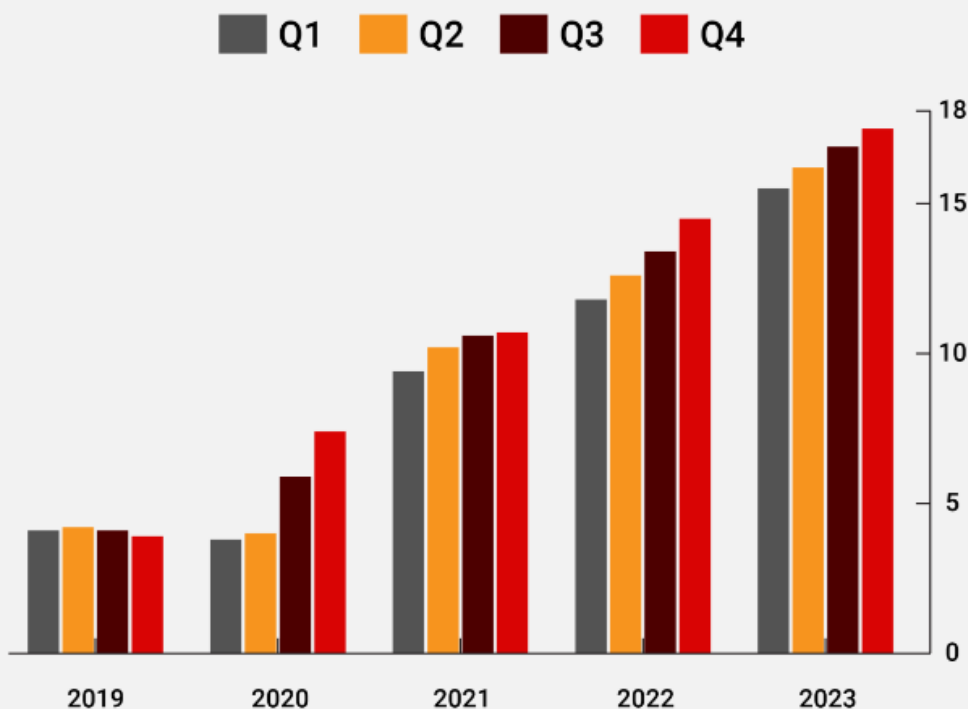
"In part, this increased pressure has led to development applications that propose to add residential uses above existing office buildings, convert office to residential uses, or demolish office buildings entirely," the city said.

"The loss of office space is typically a permanent outcome that cannot be reversed later if market conditions change."

'Higher-quality, well located' offices continue to fare well: report

In a preliminary report prepared for the city by outside experts, Toronto's office market has "undoubtedly softened" in the wake of the COVID-19 pandemic.

Quarterly Values for Percentage of Vacant Offices in Toronto



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However, signs of resilience are emerging, it said.

“Higher-quality, well located office spaces continue to fare well and remain favourable in periods of reduced demand such as this. This highlights the resilience of Toronto’s Financial Core and broader Downtown,” it said.

“Significant differentiation in the market for office uses has been observed across all key reporting metrics, including as a function of location, class of space, age of buildings, and industry positioning / tenanting, among other factors.”

The report added that distinction emphasizes the need to maintain and enhance the supply of prime office space in Toronto, and potentially re-evaluate future prospects for other spaces.

Canada's downtown office vacancy rate hit a record high to end 2023

Millions of Canadians fled their office workspace at the onset of the COVID-19 pandemic in 2020, which kicked off the trend of rising vacancies.

In fact, at the end of 2023, Canada's national downtown office vacancy rate hit a record high of 19.4 per cent, data from commercial real estate and investment firm CBRE showed. For context, a "healthy" office vacancy rate would fall between 10 and 12 per cent.

Maria Benavente, vice-president and real estate-focused portfolio manager at Dynamic Funds, told Global News in January that 10 to 15 per cent of office demand has been "permanently destroyed."

Remote work, the decline of the tech sector, new office supply and recession fears have all contributed to the rise of office vacancies, said Marc Meehan, managing director of research for CBRE Canada.

Housing crisis has politicians seeking solutions

Canada's housing crisis has politicians at all levels looking for solutions.

In October 2023, Toronto's planning and housing committee directed staff to look into what it will take to convert offices to housing units, using Calgary as an example.

An oil and gas bust nearly a decade ago forced Alberta's most populous city to start exploring office-to-housing conversions.

Currently, Calgary has more than a dozen buildings either under construction, or in other various stages of the planning process – enough to create 2,300 homes.

Calgary's grant program proved to be so popular, it recently paused the process because funding ran out.

“If you look at the time to do a new build, versus a conversion, the conversions we’ve seen that once you’ve got your building permit, it’s about 12-18 months to get that conversion completed and have occupancy,” the City of Calgary’s Sheryl McMullen said in October.

“It’s a quick way to deal with the housing crisis.”

How you can help the city

As part of its study, the City of Toronto is hosting a virtual community consultation meeting from 6:30 to 8:30 p.m. on May 15.

At the meeting, city staff will provide information on their study and findings, and will seek feedback on its recommended policy options before they submit their final report to the planning and housing committee.

“Considering Toronto’s important economic role as Canada’s largest concentration of office employment and corporate headquarters, any resulting policy decision should be informed by comprehensive analysis,” the city said.

“The Office Space Needs Study will include an office market analysis, weigh the benefits and risks of office space conversion, and explore policy options that balance office needs in the short-term and long-term.”

The report is due this summer.