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August 4, 2023

Via Email (growthplanning@ontario.ca)

Provincial Land Use Plans Branch
777 Bay Street, 13th Floor
Toronto, ON M7A 2J3

Dear Sirs/Mesdames:

Re: ERO No. 019-6813 – New Provincial Planning Policy Instrument

We are the solicitors for the Dream group of companies including DAM and Office ("Dream"), which is a major property investor, developer and asset manager with interests in properties all across Ontario and many in the City of Toronto. On behalf of Dream, we are writing to provide feedback regarding proposed policies for an integrated province-wide land use planning policy document (the "**Proposed PPS**"). The focus of our client's comments is on the relationship between the approach in the Proposed PPS to prioritize housing, including through a new approach to lands for employment outside *employment areas*, and certain municipal policies that require the replacement of non-residential gross floor area. This submission is supported by an analysis from Altus Group, attached to this letter, which sets out the need for housing in Ontario, current and forecasted market conditions of non-residential uses, concerns with municipal policies that require non-residential uses as part of a mixed use development, and recommendations for changes to the Proposed PPS to address these concerns.

As background, an important part of economic development policies in Ontario municipalities, including the City of Toronto, have been fostering adequate office space to meet projected needs. The City of Toronto employs an array of polices in its Official Plan and across its Secondary Plans that, for example, require the inclusion of non-residential uses, including office space, and/or require the retention or replacement of no-residential uses for lands in certain locations. These policies were drafted in the context of economic conditions and economic development needs prior to the pandemic, and must be re-evaluated in light of the fundamental change since the pandemic where office market conditions have eroded the performance of existing office assets and have rendered many potential office and mixed use developments un-viable in the face of prolonged weak office demand.

Of note, and of particular interest to Dream, in the City of Toronto:

- the Downtown Secondary Plan requires no net loss of office and overall non-residential gross floor area in the Financial District and the Bloor-Bay Office Corridor and in the

Health Sciences District the Downtown Secondary Plan requires the replacement of existing institutional and non-residential gross floor area;

- while the Downtown Secondary Plan, as approved by the Minister, <u>encourages</u> the replacement of all existing non-residential gross floor area in the King-Spadina and King Parliament Secondary Plan Areas, the City of Toronto has approved Secondary Plans for the King-Spadina and King Parliament Areas, which are currently under appeal, that would in certain areas require the greater of the replacement of all existing non-residential gross floor area or a minimum of 25 per cent of the total proposed gross floor area as non-residential uses;

- City of Toronto Official Plan Amendment 231, parts of which are currently under appeal, would require in certain places in the City an increase of existing office gross floor area as part of a mixed-use development; and

- the Yonge-Eglinton Secondary Plan requires replacement of any existing office gross floor area on lands designated as *Mixed Use Areas A* and *Mixed Use Areas B*.

The effect of these policies, and others like it, means that desirable intensification of properties for much-needed housing may stalled because the development cannot proceed without the provision of non-residential uses, including office space, for which there is no market. This approach is inconsistent with efforts in the Proposed PPS to prioritize housing.

To better implement the direction and need to prioritize housing, **<u>the Proposed PPS should be revised to make it clear that non-residential replacement is not required on lands outside employment areas.</u>** The proposed recommendation will help give the development community, and Dream, assurances that they may proceed quickly to help the province meet its housing supply challenges.

Our client appreciates the opportunity to provide these comments to the Minister. Please do not hesitate to contact us if any further information is required.

Yours truly,

Goodmans LLP

Joe Hoffman
JBH/

August 3, 2023

Dream Asset Management Inc. (Dream)
30 Adelaide St. E., Ste. 301
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Dear Ministry of Municipal Affairs and Housing:

Re: **Prohibiting Policies That Require the Replacement of Non-Residential Gross Floor Area. Comments on the Proposed PPS by Altus Group on Behalf of Dream Asset Management**
Our File: **P-7078**

Altus Group has been retained by Dream group of companies including Dream Asset Management and Office ("**Dream**"), which is a major property investor, developer and asset manager. Dream develops properties of all types and has several development sites across Ontario (many in the City of Toronto).

As part of this retainer, Altus Group has been asked to undertake a review of the Government of Ontario's proposed policies adapted from A Place to Grow (2020) and Provincial Policy Statement (2020) to form a new provincial planning policy instrument (the "**Proposed PPS**") and, in particular, to review and comment on the relationship between the approach in the Proposed PPS to prioritize housing, including through a new approach to lands outside employment areas, and certain municipal policies that require the retention or replacement of non-residential gross floor area. To this end, this letter sets out the need for housing in Ontario, current and forecasted market conditions of non-residential uses, with a focus on office uses, concerns with municipal policies that require non-residential uses as part of a mixed use development rendering those project no longer viable, and recommendations for changes to the Proposed PPS to address these concerns.

BACKGROUND

Ontario is in a housing crisis. That crisis is clear given the following realities:

- 83% of buyers can't afford an average resale home;
- Resale prices are rising up to 4.5 times the rate of incomes and rents are rising to 7.5 times;
- 56% of renters can't afford an average 2-bedroom apartment;
- Less than 2% of rentals are vacant;
- Purpose built rentals account for only 7% of new housing units;
- A new apartment project can take up to 10 years to build; and
- The site plan approvals process alone can take 2+ years.

The Province is responding to this crisis through an array of measures and policies aiming to cut red tape, encourage densification, and speeding up approval timelines, among other initiatives.

In April 2023 the Government of Ontario, through the Environmental Registry of Ontario #019-6813 (the "ERO") released the Proposed PPS, which was subsequently revised in June and is currently available for comment. According to the ERO:

> *The Provincial Policy Statement, 2020 (PPS) and A Place to Grow: Growth Plan for the Greater Golden Horseshoe (A Place to Grow) 2019 both provide comprehensive, integrated, whole-of-government policy direction on land use planning matters….*
>
> *Both policy documents aim to support the achievement of liveable communities, a thriving economy, a clean and healthy environment and social equity, improving the quality of life for all Ontarians…*
>
> *Given the importance of the PPS and A Place to Grow in guiding land use planning decisions in Ontario, ensuring that the policy framework is housing-supportive is integral to the implementation of the Housing Supply Action Plan and meeting the target to construct 1.5 million new homes by 2031…*

Within the ERO is a document titled *Proposed Approach to Implementation of the proposed Provincial Planning Statement*, it states:

> *As many municipalities' existing employment areas currently allow a range of uses, including a mix of office, retail, industrial, warehousing, and other uses, time-sensitive official plan updates will be needed to align with the new definition. Once the proposed legislative and policy changes (if approved) take effect, a<u>reas that do not meet the definition would no longer be subject to policy requirements for "conversions" to nonemployment uses</u>.* (emphasis added)

It is clear that Proposed PPS is intended to be "housing supportive" and meant to implement "the Housing Supply Action Plan and meeting the target to construct 1.5 million new homes by 2031". While the Proposed PPS currently includes policies to support the creation of housing on lands where non-residential uses are currently situated, for example, by redefining areas of employment and through a new approach to lands outside employment areas, the Proposed PPS is silent on a municipality's ability to require a certain amount on non-residential space as part of a mixed-use development delivering much need housing, particularly in the context of in-fill development where there are existing non-residential uses present. The consequence of <u>minimum required</u> non-residential or non-residential <u>replacement</u> policies is that much-needed housing may be stalled. This is because the development cannot proceed without the provision of non-residential use, particularly, office, for which there is no market, as is outlined further below in this letter. This approach is inconsistent with efforts in the Proposed PPS to prioritize housing.

Current Office Market Conditions

Recent office market conditions have eroded the performance of existing office assets and have rendered many potential office and mixed-use developments un-viable in the face of prolonged weak office demand. While COVID-19 has had a significant impact on office-demand, it represents an acceleration of trends in workplace structures that pre-date the pandemic, which can be rooted to changing activity-based work practices.

Activity-based work is an organizational framework that acknowledges people's performance can be best maximized by allowing them to self-direct the structure around their work activities, including location, to best suit their needs. The emergence of this trend in office organization has been enabled by technological change that allows employees to interference with a workplace's technical and information technology assets to work from anywhere and at any time.

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The pandemic pushed companies to adopt full-remote work as a health and safety measure. This arrangement has somewhat been rebalanced in post-lockdown environment, however, that balance has not returned to where it was pre-pandemic. Today, it is common to see workplaces provide hybrid arraignments that allow employees to work from home for some number of days of the work week or to work remotely full-time.

As an example of the shift in work practices, the City of Toronto itself provides hybrid and remote working options to its staff. This has allowed the City to create plans to reduce its workplace footprint by approximately 1 million square feet and reuse some of its former office sites for housing purposes through its 'ModernTO' program.

Since the onset of the pandemic, overall market conditions have also deteriorated substantially in the City of Toronto and across the GTA over the past three years.

In the spring of 2023, Altus Group prepared a comprehensive analysis for NAIOP on the state of the office market in the Greater Toronto Area. The report found that there was systemically weak demand and a large potential overhand of supply, which could mean that balanced office market conditions may not return for decades to come. Altus Group recommended that municipalities pivot from office inclusion, retention and replacement policies toward policies that more readily enable other viable uses, such as housing. The primary focus for office policies should now be to encourage the conversion or redevelopment of functionally obsolete office space into higher and better uses in order to better meet Provincial planning objectives and to improve the functionality of the office market and support important economic development objectives.

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.[1]

The Concern is Not Temporary But Rather a Result of a Structural Shift in Office Demand

Importantly, the downshift in demand for office uses in recent years is not an economic development problem. It is not due to a lower pace of employment growth, industrial production, or investment in companies. If it were, a case could be made that office demand is weak due to a weak economy and that the weakness is short term as it could be corrected by an upturn in the economy. This, however, is not the current situation.

Going forward, the prediction of systemically weaker office demand over the years ahead is similarly not based on a slowdown in job growth or a shift in the economy away from office-type employment.[2] Instead, the weakness in office absorption and demand in recent years has been because of a permanent and fundamental shift in the way office workers interface with their workspaces. Hybrid work practices (working at least some of the time at home) have become prevalent across the private and public sector

[1] Office demand is measured by the concept of absorption, which is the change in leased (or occupied) space. Office need from a planning perspective is governed by anticipated long-term absorption over the next 10 or 20 years. Prior to 2020, absorption in the GTA averaged some 2.0 million square feet per year. It had accelerated somewhat in the six years prior to the pandemic to 2.8 million square feet per year.

[2] The modelling that Altus Group has done to determine a baseline need for office space in the GTA over the next 20 years uses the major office-type jobs forecast from Hemson Greater Golden Horseshoe: Growth Forecasts to 2051 (2020) a technical report prepared as a backgrounder for the 2020 A Place to Grow (some 17,000 net new office type jobs per year).

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and has allowed companies and departments to reduce the amount of leased space as they are accommodating fewer workers in the office on any given day.

In addition, for those workers who do attend the office, companies and departments are actively reducing leased space needs with activity-based work practices and fit-outs, where a flexible and dynamic approach to organizing and utilizing office space based on the activities and tasks employees perform rather than assigning fixed workstations to individuals is taken. With activity-based work practices, not every employee needs a dedicated desk. This leads to a reduced need for fixed workstations and, consequently, a smaller overall office space requirement. The shared nature of workstations means that companies can optimize the use of space.

These effects aggregated across the market as a whole means a substantially lower need for net new office space for decades to come

Our Models Show the Reduction in Office Space per Worker Has Just Begun

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 layouts ('efficient' meaning lower space per worker). 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.[3]

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.

Scenarios of office supply and demand have been tested in a study undertaken by Altus Group based on different assumptions about how efficient companies ultimately will be in hybrid work and the tailoring of workspaces to match. Assuming the final average will be somewhere between 80% pre-pandemic utilization (an average of 4 days a week – or put differently, planning for 8 desks for every 10 employees) to 60% utilization (an average of 3 days a week – or 6 desks for every 10 employees) to 40% utilization (an average of 2 days a week – or 4 desks for every 10 employees) the implications on the market as far out as 20 years from now range from a weak market (approximately 10% vacancy rate) to an extremely distressed market (about 40% vacancy rate).

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 ever 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 becoming 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.

[3] Future office needs are modelled based on anticipated employment growth in the office sector and other factors affecting density.

All told, these structural shifts, stemming from the pandemic and permanently changing the market, are having a remarkable impact. Of note:[4]

- Pre-pandemic growth
  - 2000-2020 office absorption GTA: 2.0 million sq. ft. per year
  - 2014-2020 office absorption GTA: 2.8 million sq. ft. per year
- Pandemic period loss
  - 2020-2023 office absorption GTA: (1.8 million) sq. ft. per year
- Post-pandemic scenarios annual avg. absorption through to 2041
  - Optimistic scenario (80% utilization) 1.2 million sq. ft. per year
  - Moderate scenario (60% utilization) (0.4 million) sq. ft. per year
  - Severe scenario (40% utilization) (1.9 million) sq. ft. per year

Moreover, these demand numbers need to be viewed in conjunction with pending supply. In the first quarter of 2023, there was approximately 6.1 million sq. ft. of new office space under construction and a further 16.1 million in projects actively pre-leasing for a total pending supply pipeline of 22.1 million sq. ft. There was another 23 million square feet of vacant space on the leasing market.

Fundamental Shift in Planning is Needed

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.

An important part of economic development policies in Ontario municipalities, including the City of Toronto, have been fostering adequate office space to meet projected needs through combinations of incentives, zoning, and more advanced planning policies governing mixes of use. The City of Toronto employs an array of polices in its Official Plan and across its Secondary Plans that require the inclusion of office space, and/or require the retention or replacement of office space for lands in certain locations. These policies were drafted in the context of economic conditions and economic development needs prior to the pandemic and must be re-evaluated in light of the fundamental change in the relationship between new office supply and economic development that has emerged since the pandemic. Dated policies should not continue at the expense housing in the midst of a housing crisis.

New and Proposed Policies

Through its latest Housing Supply Action Plan, the Province has introduced Bill 97 (which has since attained Royal Assent in June 2023) and released a proposed draft of the Proposed PPS that this letter is addressing. As noted above, among other matters, Bill 97 and the Proposed PPS narrow the scope of employment areas. More specifically, the Proposed PPS defines employment areas as excluding retail and office not associated with manufacturing, warehousing, goods movement.

It is clear that the intent of the province, as articulate through Bill 97 and the Proposed PPS, is to unlock land to accommodate housing which was previously safeguarded for non-residential uses. While the Proposed PPS (see policies 2.8.3 and 2.8.4) make clear that residential permissions shall be permitted

[4] (Brackets around the numbers indicate a negative number).

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on former employment lands, thus forgoing the need for a conversion. However, the Proposed PPS is silent on how to deal with lands proposed to be redeveloped outside employment areas that have existing non-residential uses on those lands

Recommendations

The Proposed PPS does provide clarity that lands formerly designated as employment areas with permissions such as retail, institutional, office, etc. are no longer considered part of defined areas of employment, and therefore conversion requests to add residential permissions are not necessary. While the PPS and Bill 97 changes are clear about the added residential permissions on lands outside employment areas, there remains concern about the ability to redevelop lands where residential permissions are conditional based on the provision of non-residential uses.

There is also a concern that without robust clarity, municipalities could provide a wide range of interpretation that do not match the letter nor spirit of the provincial government's new planning framework. Already, key notions from the new provincial framework, such as not needing to convert former employment lands to permit residential uses, are being challenged by municipalities through such examples as the City of Toronto's recent OPA 668 (Transition Employment Policies), where in a staff report dated June 19th, 2023 it was stated:

> OPA 668 is intended to ensure that any development applications to remove (or convert) lands designated Core Employment Areas or General Employment Areas to non-employment uses would still be subject to the Official Plan policies respecting the conversion of these lands

Furthermore, while policies such as 2.8.3 and 2.8.4 of the Proposed PPS make clear that residential permissions shall be permitted on former employment lands, thus forgoing the need for a conversion, no such policy exists on lands that already include both employment and residential use permissions i.e. – that are mixed use. As a highlight of this the issue, many secondary plans in the GTHA have 'office replacement' or 'office inclusion' requirements as a condition for residential allowance on mixed-use lands. Examples of these policies include

- Replacing any pre-existing non-residential space (including retail in some instances) with office space on a one-to-one ratio in order for residential permissions to be enabled;

- Requiring office prevalence where a development is required to provide at least 51% of it's totally gross floor area towards office uses, with retail often not counting towards the non-residential requirement, in order to unlock residential permissions

These sorts of conditioned mixed-use permissions are very widespread, with examples in planning frameworks such as Toronto's Eglinton Yonge Secondary Plan, Downtown Plan etc., Brampton's Hurontario-Main Corridor Secondary Plan, and so on (more examples can be found in the Altus Group NAIOP report).

The province should take steps to clarify that while non-residential permissions may be included on both former employment lands and lands designated for mixed-use, requiring office uses cannot be a condition to enable residential uses. Without this clarification, there could be significant delays to providing housing on sites that new the provincial framework contemplates as appropriate for such use.

Delays emanating from this issue can be caused by not just land-use planning appeals to debate the letter or spirit of the new planning framework, but also delays or project failures related to construction financing because relief from provisions are not provided in a timely manner.

While in some instances the residential component of mixed-use projects may be able to overcome the lack of office demand by subsidizing this space, which would require higher home prices to work, there are likely to be many instances where the required office subsidy is too significant for the market to absorb through the residential component, causing financing partners to be relucent to provide capital to projects. As a result, neither residential nor office uses are built until such time as the market can absorb higher residential prices, costs diminish by way of interest rates falling in conjunction with inflation, office becoming more viable, or some combination of all three trends.

The proposed recommendations will help give the development community, and Dream, assurances that they may proceed quickly to help the province meet its housing supply challenges provided that greater certainty is given, which is necessary to deploy rapid investment and capital deployment decision making.

Sincerely,

Alex Beheshti

Peter Norman, MA, PLE
VP & Chief Economist
Altus Group

Alex Beheshti, BURPL
Consultant
Altus Group