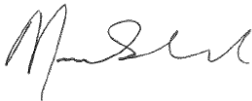




**CITY OF HAMILTON**  
**PLANNING AND ECONOMIC DEVELOPMENT DEPARTMENT**  
**Economic Development Division**

<b>TO:</b>	Mayor and Members General Issues Committee
<b>COMMITTEE DATE:</b>	June 14, 2023
<b>SUBJECT/REPORT NO:</b>	Downtown Hamilton Office Report (PED23081) (Ward 2)
<b>WARD(S) AFFECTED:</b>	Ward 2
<b>PREPARED BY:</b>	Karol Murillo (905) 546-2424 Ext. 7859
<b>SUBMITTED BY:</b>	Norm Schleeahn Director, Economic Development Planning and Economic Development Department
<b>SIGNATURE:</b>	

**RECOMMENDATIONS**

- (a) That the action based strategies identified in Appendix “A” to Report PED23081 be used to guide the City’s efforts to support the recovery of the office market in Downtown Hamilton;
- (b) That as immediate actions to support the Downtown Hamilton office market, the following be approved:
  - (i) That the Manager of the Commercial Districts and Small Business Section within the Economic Development Division act as the central “liaison” between departments, divisions and the downtown business community to coordinate City efforts to support the Downtown office market;
  - (ii) That staff within the Commercial Districts and Small Business Section of the Economic Development Division be directed to work with local Business Improvement Areas and with the appropriate City departments and divisions to identify opportunities to introduce enhanced service levels within the Downtown Core for critical street level issues such as waste collection, street sweeping, graffiti removal and boulevard maintenance, and that the General Manager of Public Works be authorized to introduce temporary increased service levels where warranted, to be funded from the Economic Development Initiatives Capital Project (3621708900);

- (iii) That staff report back on potential funding enhancements to the City's existing Start-up and Office Tenant Attraction Program for the Downtown Hamilton Community Improvement Area;
- (iv) That staff report back on enhancements to the City's existing Commercial District Revitalization Grant Program with respect to offsetting costs associated with vandalism and graffiti on commercial properties;
- (v) That staff report back with a recommended approach to creating a new incentive program, or modifying an existing incentive program, to support the conversion of vacant office spaces to residential uses within the Downtown Hamilton Community Improvement Area;
- (vi) That staff increase marketing and promotion of the City's office sector, and City programs to support the office sector;
- (vii) That the existing temporary Senior Project Manager position within the Placemaking, Public Art and Projects Section of the Tourism and Culture Division be converted to a permanent FTE, to lead programming and animation initiatives that draw workers, residents and visitors into the Downtown Core, and that the costs be incorporated into the base Tourism and Culture Operating Budget for 2024;
- (viii) That the General Manager of Planning and Economic Development be authorized to approve funding to an upset limit of \$400,000 from the Economic Development Initiatives Capital Project (3621708900) for the development and implementation of placemaking and animation projects and programs in the Downtown Core;
- (ix) That staff in the Transportation Planning and Parking Division be directed to continue efforts to pursue integrated public parking supply opportunities within future private developments in the Downtown Core, as set out in the City's Parking Master Plan;
- (x) That staff in the Transportation Planning and Parking Division be directed to expand the parking flex-pass pilot project to all City-owned parking lots, as a reduced cost option for hybrid workers, and to make more efficient use of the City's parking lots;
- (xi) That staff in Transportation Planning and Parking Division actively link the Smart Commute Hamilton program to downtown businesses during major construction projects.

## **EXECUTIVE SUMMARY**

This report provides an overview of the findings from the Economic Development Division's review of the Downtown Hamilton office market, as well as recommendations for enhanced City efforts to support the recovery of the Downtown Hamilton office market.

One of the key roles of the Commercial Districts and Small Business (CDSB) Section within the Economic Development Division is to promote the social, cultural, physical, and economic health of Hamilton's downtown areas. As part of that work, the CDSB has been tracking office vacancies for over a decade. Downtown Hamilton is the City's largest employment node, with an estimated 26,305 jobs, including 19,728 working in the office sector. Before the pandemic, the Downtown Hamilton office vacancy rate was beginning to decline. The 2019 vacancy rate was at a low of 11.9%, but after three years of shifting workplace arrangements and protocols, the vacancy rate is up to 13.29%.

To better understand current dynamics within the Downtown Hamilton office market, Economic Development Division staff met with major office landlords over the period from November 2022 to May 2023. This group shared a number of concerns related to the current state of the Downtown Hamilton office market, related to the lack of office workers, reduced pedestrians and foot traffic, and growing safety concerns for tenants and an increase in vandalism. In addition, the group also called attention to shifting work-from-home policies, and traffic and parking concerns, that are also contributing to difficulties in attracting and retaining businesses. They are seeking urgent efforts including tactics and/or programming to bring back workers.

### **Alternatives for Consideration – Not applicable**

## **FINANCIAL – STAFFING – LEGAL IMPLICATIONS**

Financial: The recommendations contained in this report include the following financial commitments:

- (i) The conversion of the existing temporary Senior Project Manager position within the Placemaking, Public Art and Projects Section of the Tourism and Culture Division into a permanent FTE, to lead programming and animation initiatives that draw workers, residents and visitors into the Downtown Core, at an estimated annualized financial impact of \$140,000.
- (ii) An upset limit of \$400,000 from the Economic Development Initiatives Capital Project (3621708900) for placemaking and animation projects and programs in the Downtown Core.

- (iii) Authorization to the General Manager of Public Works to introduce temporary service level enhancements in the Downtown core, to be funded from the Economic Development Initiatives Capital Project (3621708900).

Staffing: The recommendations in this report include the conversion of one existing temporary position into a permanent FTE.

Legal: N/A

## **HISTORICAL BACKGROUND**

The Downtown Hamilton Secondary Plan outlines the vision for Downtown Hamilton which remains to be the focus of attraction where all ages, abilities, and incomes can live, work, learn, shop, and play. Located in the heart of the city, the downtown links the surrounding neighbourhoods and is the city's commercial hub. For the City of Hamilton, the last ten years continue to be a transformative time. New residential development, upcoming transit investments and increasing creative and cultural experiences have made the city, specifically downtown Hamilton, one of the best locations to invest in Canada.

The pandemic changed our global economy and how downtowns function. The severe impact on downtowns include increased office vacancies, shifting retail uses and issues surrounding our public spaces. Discussions with major landlords have revealed a dramatic increase in vandalism and safety concerns. For many, the growing uncertainty in the office market and the lack of pedestrian activity have created the urgency to rethink and look for creative revitalization efforts.

This report highlights the impact of the pandemic on Hamilton's office market. Before the pandemic, the vacancy rate was beginning to decline, but after three years of shifting workplace arrangements and protocols, the vacancy rate is up to 13.29%. As organizations slowly started welcoming back workers, the shift to remote and hybrid work has added to the uncertainty of the office market. Many downtowns across North America have focused on placemaking and other interventions to ensure local commercial areas remain active and safe. The City of Hamilton's Mayor's Task Force on Economic Recovery initiated various actions including supports for placemaking and animation projects focused on uplifting the City's commercial corridors.

## **POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS**

The Downtown Secondary Plan, and associated zoning, permits and supports a wide range of land uses within what is referred to as the "Downtown Urban Growth Centre". The majority of sites within the UGC permit a mix of uses, including retail, office,

entertainment while predominately residential-focused areas are generally located to the peripheries of the UGC.

The 2022 Council-adopted Urban Official Plan Amendments (OPA 167) has updated the City's Downtown Urban Growth Centre Density Target to achieve a minimum gross density of 500 persons and jobs per hectare by 2051.

## **RELEVANT CONSULTATION**

The following City divisions and external organizations were consulted in preparing this Report:

- (a) Tourism and Culture Division;
- (b) Geographical Information Systems – Planning and Analysis, Planning Division;
- (c) Parking Operations and Initiatives, Transportation Parking and Planning Division;
- (d) Waste Management Division, Public Works Department; and,
- (e) Major Downtown Hamilton office landlords, office tenants, major downtown employers, and Downtown Business Improvement Areas.

Beginning in November 2022 to May 2023, Economic Development Division Staff met with major landlords in the Downtown Hamilton Urban Growth Centre (UGC) that represented over 50% of inventoried space measured in the Downtown Office Vacancy Survey. In addition, ongoing discussions with the Downtown Business Improvement Areas highlighted the current challenges being experienced by downtown workers and employers.

## **Downtown Hamilton Urban Growth Centre (UGC)**

The Downtown Hamilton area is identified as an Urban Growth Centre in the Province's Growth Plan for the Greater Golden Horseshoe. The Downtown Hamilton UGC functions as the major employment centre for the City.

## Study Area

### *Survey Area*



## Downtown Employment Survey

The City of Hamilton annual Employment Inventory Survey began in 2010 and was focused on businesses, buildings and employment within the City's Downtown. It has expanded to cover all of the City's employment, commercial and rural settlement areas. In 2019, the Downtown Hamilton Urban Growth Centre (UGC) density was 209 persons and job per hectare, representing 2,233 businesses and properties canvassed resulting in 26,305 jobs within the UGC boundaries. Before the pandemic, there had been a steady yearly increase of jobs (i.e. 209 persons and jobs per hectare measured in the UGC compared to 207 persons and jobs per hectare in 2018).

Due to the pandemic, the last Employment Survey was conducted in 2019. The Survey was reintroduced in 2023 and will share insights on the office market and provide further data on workforce trends to support the downtown office market. This information will be presented to City Council in late 2023.

## ANALYSIS AND RATIONALE FOR RECOMMENDATION

### Downtown Office Vacancy Survey

The Commercial Districts and Small Business Section tracks vacancies within buildings that have a minimum of 5,000 sq. ft. of office space in the Downtown Hamilton Urban

Growth Centre. The Downtown Office Vacancy Survey is conducted annually in December to gather information and analyse trends within the Downtown Hamilton office market.

In Q4 2022 when the survey was completed, there was 5,196,050 sq. ft. of office space available in the UGC, with 690,789 sq. ft. vacant. These results totalled a 13.29% office vacancy rate which is an increase of 0.4% compared with the 2021 Survey results. In addition to this increase, another significant driver of change has been the decrease in available square footage. Most notably, the removal of approximately 265,000 sq. feet of office space at 77 James Street (City Centre) and approximately 72,140 sq. feet at 350 King Street East.

<b>Year</b>	<b>Inventoried Space (sq. ft.)</b>	<b>Vacant Space (sq. ft.)</b>	<b>Vacancy Rate</b>
<b>2011</b>	5,124,900	618,555	12.1%
<b>2012</b>	5,327,345	684,010	12.8%
<b>2013</b>	5,190,095	674,655	13.0%
<b>2014</b>	5,265,516	671,656	12.8%
<b>2015</b>	5,263,295	743,190	14.1%
<b>2016</b>	5,293,291	731,534	13.8%
<b>2017</b>	5,289,012	719,667	13.6%
<b>2018</b>	5,316,916	677,585	12.7%
<b>2019</b>	5,598,287	667,720	11.9%
<b>2020</b>	5,645,283	705,269	12.5%
<b>2021</b>	5,631,982	728,670	12.9%
<b>2022</b>	5,196,050	690,789	13.29%

This increase reflects the continued rise in the office vacancy rate since 2020, which can be attributed to the COVID-19 pandemic and the shift in workforce arrangements as organizations provide their employees with work in-office, remote, and hybrid work arrangements. Provincially, many cities in Ontario are struggling with office vacancies as many employers are formally solidifying their remote and hybrid work models.

Figures in late 2022 indicate many downtown office vacancies in comparable communities are in the 20-25% range (CBRE Research, Q3 2022). Although Hamilton's vacancy is 13.29%, there are other Hamilton-based real estate groups that have this rate substantially higher in the 20-25% range. The City's survey includes office space that is leased by Federal and Provincial bodies which could account for the difference. The City Survey also includes office space 5,000 sq. ft. and larger. According to our discussions with major landlords, a significant number of tenants are coming up for lease renewals with many uncertain whether tenants will renew.

With the recent closure of 77 James Street (City Centre) in December 2022, staff investigated the relocation plans of the remaining tenants. Over one-third of the

commercial retail tenants relocated to Jackson Square or a neighboring commercial building. Just under two-thirds closed permanently with several owners retiring and others moving towards home-based businesses. Similarly, various office tenants moved to Jackson Square or a neighbouring commercial office downtown building. Two office tenants moved to other commercial corridors in the city, with the City of Hamilton moving 434 employees to several downtown office locations.

### **Major Office Landlord Concerns and Challenges**

In late 2022 and early 2023, Economic Development Division staff met with major landlords in the downtown core. These property owners shared recent challenges including safety issues, work-from-home policies, and traffic and parking concerns.

The most pressing concern for many landlords was the lack of overall downtown activity (i.e. presence of office workers and pedestrian traffic), as well as safety concerns from their tenants. Harassment, panhandling, and increased presence of drug use was cited by workers who felt uncomfortable walking to work. In addition, several landlords mentioned daily break-ins and damage to their property was increasing their security staffing budgets. Several praised the former Action Team, which was focused on downtown and was comprised of officers on foot and bikes. This group generally expressed the view that the Action Team's presence or increased police presence in the core would help stabilize the downtown environment for workers. The overall sentiment expressed by the downtown landlords was that the core requires urgent attention, or it risks a downward spiral of falling commercial values leading to increased crime and further termination of office leases.

The impact of work-from-home policies has also altered Hamilton's office market. For many landlords, the shift to new flexible workplace arrangements in both private and public sector organizations has brought uncertainty and risk. In addition, some tenants are renewing leases for shorter terms and reducing their office footprints.

Another common concern related to traffic and parking. Some landlords noted that the recent traffic measures on Main Street have, in their opinion, improved safety on the roadway, but also increased congestion. The anticipated disruption from upcoming major construction projects such as the Light Rail Transit project and major new developments have also made it challenging to attract and renew tenants. In addition, many downtown parking lots and other sites are being redeveloped which is increasing the lack of parking options for new tenants.

There was a strong consensus that this is a transformational time for Downtown Hamilton. It was acknowledged that there are significant new opportunities and investments on the horizon, but that there is a need for targeted efforts now to bring back workers and visitors, especially during the upcoming period of major new



construction, and that City investment and programming in the core should be a top priority.

### **Remote Work and Leasing Trends**

According to Oxford Properties, more than 80% of global office tenants offer their employees hybrid work models (Real Estate New Exchange, March 2023). Various models range from two to three days in the office per week. Robert Half Canada, the global business consulting firm, recently released current human resource trends such as the following (Newswire, February 2023):

- 85% of workers are interested in hybrid or fully remote positions;
- 73% of workers with flexible work arrangements, report higher job satisfaction; and,
- Employees and managers feel the need to ensure all levels of an organization have equal opportunities for career advancement, whether in-office or remote.

Flexibility remains vital for companies of all sizes to attract and retain talent and boost employee satisfaction.

At a recent conference in February 2023, Avison Young shared office challenges as vacancies and sublets continue to increase (Real Estate New Exchange, March 2023). A recent report and analysis from Colliers covering the Hamilton, Burlington and Oakville office markets highlighted fluctuations in vacancy rates over the coming quarters.

From a Hamilton context, with information provided by office landlords, expectations of expiring leasing terms, the rise of remote work, and reduced space requirements, will have a negative impact on the demand for downtown office space.

### **Recommended Actions to Address Office Market Concerns**

Based on the results of the Downtown Hamilton office market review outlined above, as well as the analysis and goals highlighted in the 2021-2025 Economic Development Action Plan (EDAP), seven action-based strategies have been identified to help address concerns related to the office market in Downtown Hamilton as seen in Appendix “A” to Report PED23081.

## **ALIGNMENT TO THE 2016 – 2025 STRATEGIC PLAN**

### **Community Engagement and Participation**

Hamilton has an open, transparent and accessible approach to City government that engages with and empowers all citizens to be involved in their community

**Economic Prosperity and Growth**

Hamilton has a prosperous and diverse local economy where people have opportunities to grow and develop.

**Healthy and Safe Communities**

Hamilton is a safe and supportive City where people are active, healthy, and have a high quality of life.

**Clean and Green**

Hamilton is environmentally sustainable with a healthy balance of natural and urban spaces.

**Built Environment and Infrastructure**

Hamilton is supported by state-of-the-art infrastructure, transportation options, buildings and public spaces that create a dynamic City.

**Culture and Diversity**

Hamilton is a thriving, vibrant place for arts, culture, and heritage where diversity and inclusivity are embraced and celebrated.

**APPENDICES AND SCHEDULES ATTACHED**

Appendix “A” to Report PED23081 - Action Based Strategies to Guide the City’s Efforts to Support the Recovery of the Office Market in Downtown Hamilton