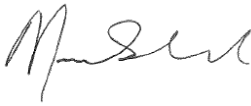




**CITY OF HAMILTON**  
**PLANNING AND ECONOMIC DEVELOPMENT DEPARTMENT**  
**Economic Development Division**

<b>TO:</b>	Mayor and Members General Issues Committee
<b>COMMITTEE DATE:</b>	December 4, 2024
<b>SUBJECT/REPORT NO:</b>	Downtown Hamilton Office and Storefront Commercial Sector Update and Action Report (PED24163) (Ward 2)
<b>WARD(S) AFFECTED:</b>	Ward 2
<b>PREPARED BY:</b>	Phil Caldwell (905) 546-2424 Ext. 2359
<b>SUBMITTED BY:</b>	Norm Schleeahn Director, Economic Development Planning and Economic Development Department
<b>SIGNATURE:</b>	

**RECOMMENDATION**

- (a) That the Economic Development Division staff be directed to develop a 10-Year Downtown Revitalization Strategy utilizing funding from the Economic Development Initiatives Capital Project (3621708900) for consultant related costs and that the draft Strategy be brought to a General Issues Committee for consideration before the end of 2025;
- (b) That staff be directed to incorporate future Downtown office and commercial sector updates into a new annual State of the Downtown Report, prepared by Economic Development Division staff and provided to the General Issues Committee annually, to provide a more comprehensive and wholistic review and update on the Downtown including annual reporting on key metrics to be identified as part of the 10-Year Downtown Revitalization Strategy;
- (c) That staff be directed to develop a pilot Downtown Office to Residential Conversion Financial Incentive Program, to be funded from existing annual budget allocations to the Economic Development Division, and that the draft Program be brought forward for consideration to a General Issues Committee meeting in the first quarter of 2025;

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- (d) That existing Graffiti Removal Grants on private property under the Commercial District Revitalization Grant Program, introduced as a pilot in September 2023 and scheduled to end on March 31, 2025, be made permanent and funded on a go-forward basis from existing annual budget allocations to the Economic Development Division for the provision of non-tax increment based financial incentive programs.

## **EXECUTIVE SUMMARY**

The office landscape Downtown continues to be a challenge with the results of the Downtown Office Vacancy Survey for 2024 identifying an office vacancy rate of 18.2%; a 4.3% increase from 2023. Although increasing, the vacancy rate is more favourable than other comparative municipalities including London (31.4%) and Waterloo Region (23.7%) and on par with the national average of 19.7% (comparator figures as reported by CBRE's Canada Office Figures for the third quarter of 2024 published on October 1, 2024)

The occupancy rate for storefront commercial also continues to be similarly challenged with occupancy in the Downtown and International Village Business Improvement Areas at 71.0% and 71.9% respectively versus the most recently available average storefront occupancy rate across all 11 of Hamilton's active Business Improvement Areas of 87.0%.

Hybrid work models and societal challenges/safety concerns prevalent in the Downtown continue to be a major source of concern for both office landlords and tenants, storefront businesses and employees with the consensus and sentiment expressed by the Downtown business community continuing to be that the Downtown is in a state of decline and in need of urgent attention.

The Downtown office market is likely to be further challenged in the near future as a significant number of office leases will be expiring in 2026 creating the potential for large tenants to either leave Downtown for suburban offerings or to right size existing office needs to reflect hybrid work models, ultimately putting upward pressure on Downtown's vacancy rate in the coming years.

In response to existing challenges, and staff's assessment that these challenges are becoming more systemic and long lasting in nature, staff believe significant and meaningful actions are required to ensure that Downtown revitalization efforts and the success of Downtown as a place to live, work and play continues to be priority. As such staff are recommending the following immediate actions:

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- Development of a 10-Year Downtown Revitalization Strategy to establish a common, forward-looking vision for the Downtown and identify the key corporate actions, plans, initiatives and metrics needed to ensure that corporate cross departmental prioritization, funding and resources are being provided to address Downtown's challenges in a timely, long-lasting and coordinated manner;
- The development of a pilot Office to Residential Conversion Financial Incentive Program for Downtown, funded by existing financial resources allocated to the Economic Development Division, in order to both support new housing supply Downtown and remove surplus, vacant office inventory from the Downtown; and,
- Make permanent Grants for graffiti removal on private property under the Commercial District Revitalization Grant Program introduced on a temporary basis in September 2023 and otherwise set to end in March 2025.

In addition, staff are also recommending that future annual Downtown office and storefront commercial sector updates be incorporated as part of a new State of the Downtown Annual Report intended to provide a more fulsome and comprehensive annual review and update on the Downtown to the General Issues Committee.

**Alternatives for Consideration – See Page 13**

**FINANCIAL – STAFFING – LEGAL IMPLICATIONS**

Financial: Staff Recommendations are to be funded through existing financial resources and annual budget allocations provided to the Economic Development Division. As such, there are no funding requests associated with staff's Recommendations.

Staffing: Staff Recommendations will be undertaken by existing staff within the Economic Development Division. As such no additional staffing resources are required to implement staff Recommendations.

With respect to Recommendation (a) to Report PED24163 and the development of a 10-Year Downtown Revitalization Strategy, staff anticipate utilizing consultants to expedite this work given the urgent need for action for the Downtown.

Legal: Not applicable.

## **HISTORICAL BACKGROUND**

Downtown Hamilton is the heart of the City's business community and is a vital urban destination for residents and visitors. Downtown's success and image are central to how Hamiltonians identify their city and how the city is viewed as a destination to live, work and play and invest in.

Downtown has been on a long road to recovery and revitalization since the late 1990's and early 2000's when the long-term effects of urban sprawl and changes in Hamilton's broader economy led to Downtown being in a state of significant decline. To counteract this decline, City Council at the time approved a number of key programs and investments that together, over time improved the physical condition of the Downtown and attracted new investment that has brought new residents and businesses to the core. Initiatives approved by Council at that time included, but were not limited to:

- The creation of new financial incentive programs and Development Charge discounts to incentivize the improvement of existing buildings and attract new investment on underutilized properties;
- A 10-Year Downtown Capital Budget Plan which established priorities in relation to infrastructure and public space improvements that led to capital projects including the renovation of City Hall, the Hamilton Farmers Market, Central Library, the Lister Block, the MacNab Street Transit Terminal and the Gore Park improvement and pedestrianization initiative;
- The conversion of one-way streets to two-way streets along with streetscape improvement projects to enhance the pedestrian environment;
- Investments supporting the Business Improvement Areas initiatives and the prioritization of placemaking initiatives; and,
- Contributions supporting the location of major institutional employers Downtown including the McMaster Health Campus.

The last 10 years in particular have been a transformative time for Downtown as new residential development, investments in conventional and higher order transit, an emerging culinary sector, relative housing affordability and improved quality of life compared to the Greater Toronto Area have brought a renewed focus and attention to Downtown as a great place to live, work and play.

Since the pandemic however, Downtown's momentum has stalled, and in some respects regressed, due to a number of ongoing and now largely systemic challenges including, but not limited to:

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- Rising office vacancies as businesses continue to maintain hybrid work arrangements on a permanent basis resulting in the downsizing/right sizing of office space needs and reduced presence of office employees Downtown on any given weekday;
- A continually evolving retail sector displacing the need for, and role of, 'bricks and mortar' retail;
- Increases to interest rates by the Bank of Canada which have impacted the feasibility of a number of residential development projects in the core and affordability by purchasers. This is particularly concerning for the Downtown as the depressed demand for existing and new office space has meant that the primary driver of Downtown revitalization in recent years has been residential development. This increased Downtown resident population drives Downtown activity, vibrancy and demand for commercial services and amenities;

Importantly, staff note that current development activity Downtown is largely comprised of projects which obtained financing and required pre-sales commitments prior to the rise in interest rates through 2023. Given the lead time required for large-scale developments, staff believe that the effects of the existing interest rate environment and decline in the residential market will have a lingering impact such that Downtown will see reduced development activity over the next two to three years, even if interest rates decline to a point where projects become more feasible; and,

- Societal issues leading to increasing concerns by businesses, property owners/landlords and residents of Downtown respecting safety and an overall declining perception of Downtown as a safe and vibrant place to live work and play.

### **Annual Downtown Office Vacancy Survey and Methodology**

As part of tracking the overall state of Downtown and given the importance of businesses and employees to the success and vibrancy of Downtown, Economic Development staff undertake an annual Downtown Office Vacancy Survey for buildings containing a minimum of 5,000 square feet (465 square metres) of office space within the area outlined in Figure 1 below:

**Figure 1: Downtown Office Vacancy Survey Area**



The survey results are gathered and reported to Council annually to better understand the state of the office market and to identify year over year trends and progress towards Economic Development's goal of achieving a Downtown office rate comparable to the 2019 (pre-pandemic) level of 11.9% as per Stretch Target #9 of the 2021-2025 Economic Development Action Plan. Note that Economic Development's stretch targets are intended to be ambitious and inspirational drivers of potential innovations where targets cannot be met in the Plan's time frame.

### **Previous Updates and Initiatives for Downtown**

Through Report PED23081 and PED23081(a), presented to the General Issues Committee on June 14, 2023, and October 18, 2023, respectively, staff identified and have been implementing several actions focused on economic development efforts in the Downtown. Through this Report, staff have identified and are recommending a next round of initiatives in order to continue supporting the Downtown over the near and long term which are discussed in more detail in the Analysis and rationale for Recommendation section.

## **POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS**

Staff Recommendation (c) to Report PED24163 respecting the development of a new pilot Office to Residential Financial Incentive Program for Downtown must be established via a Community Improvement Plan in accordance with Section 28 of *Planning Act*. As such, should Council approve this Recommendation, staff would bring forward the required draft amendments to the existing Revitalizing Hamilton's Commercial Districts Community Improvement Plan as part of the program's development.

## **RELEVANT CONSULTATION**

Internally, staff have consulted with the Tourism and Culture Division and Planning Division to inform the content of this Report.

Externally, staff have undertaken extensive engagement with key stakeholders including major office landlords/owners, major Downtown employers/tenants and the Downtown and International Village Business Improvement Areas between November 2022 and September 2024. This engagement has resulted in over 50% of inventoried office tenants/landlords being consulted. The feedback and sentiments expressed through these consultations have informed the content of this Report and staff Recommendations.

## **ANALYSIS AND RATIONALE FOR RECOMMENDATION**

### **State of the Downtown Office Market:**

#### **2024 Vacancy Rate and Methodology**

The results of the Downtown Office Vacancy Survey for 2024 identified an office vacancy rate of 18.2% with 722,034 square feet (67,079 square metres) vacant space out of a total surveyed office supply 3,958,845 square feet (367,789 square metres) in the Downtown. This represents an increase of 4.3% from 2023 when the vacancy rate was 14.5% with 712,299 square feet (66,175 square metres) of vacant space out of a surveyed supply of 5,098,307 square feet (473,648 square metres). Note that this survey excludes buildings with 5,000 square feet (465 square metres) or less of total office space.

The 2024 vacancy rate includes a change in staff's methodology to exclude office space that is leased/owned by Federal, Provincial and Municipal bodies which has resulted in approximately 1,000,000 square feet (92,900 square metres) of office space being removed from the survey compared to previous years. This change is intended to ensure the vacancy rate more accurately captures private sector office market activity

as public sector offices are deemed not to be readily available to the market and may have led to artificially depressed vacancy rates previously. Staff believes this approach better reflects the current office landscape and will be used hereafter for future surveys and vacancy reporting.

### **Downtown Office Market Trends**

The office landscape Downtown continues to be a challenge although the current vacancy rate is more favourable than in some other comparator municipalities in the region, such as London and Waterloo Region, which have reported downtown office vacancy rates of 31.4% and 23.7% respectively. Hamilton's office vacancy is generally on par with the downtown vacancy rate in Toronto (18.2%) and the national average of 19.7% (comparator figures as reported by CBRE's Canada Office Figures for the third quarter of 2024 published on October 1, 2024).

Based on Economic Development staff's regular engagement with major office landlords and tenants in the Downtown, staff believe that the challenging office environment will continue for the foreseeable future and that there is a reasonable prospect for a worsening state and rising vacancies over the next few years due to the following:

- **Hybrid Work** - The majority of firms are largely working hybrid models of two or three days per week in office with hybrid work continuing to be the new reality for office employees. Typically, the busier days are Tuesday, Wednesday and Thursday. In some cases, some larger firms require staff to come into the office once a month. Staff have begun tracking hybrid models in all economic development corporate calling efforts;
- **Upcoming Lease Renewals** – Based on staff's consultation, 2026 will be an important year for the Downtown and future office vacancy as several significant leases will be up for renewal. The market for larger office users has altered significantly with many reducing their total office square footage to right size their office needs to reflect hybrid work arrangements. A notable example is a Downtown anchor tenant that has recently reduced their square footage by approximately 40,000 square feet (3,716 square metres). Staff believe there is a risk that the current office vacancy rate could increase to the low to mid-20% range through 2025/2026; and,
- **Societal Challenges and Safety Concerns** – At the August 12, 2024, General Issues Committee, Report PED24143 provided an overview of business survey and engagement results respecting the impact of encampments on Hamilton's businesses. Top concerns shared by businesses included increased presence of encampments locating near businesses and increased incidences of violence

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and property damage posing challenges for employee retention and customer attraction. The consensus and sentiment expressed by the downtown business community was that the core is getting worse and requires urgent attention.

Since Report PED24143, staff's engagement has further confirmed these challenges continue with multiple Downtown employers now also reporting making changes to staff work hours so that employees can leave during daylight hours to address employee safety concerns.

### **State of Downtown Commercial Storefront Occupancy**

As of August 2024, the occupancy rate for storefront commercial in the two Downtown Business Improvement Areas were:

- 71.0% in the Downtown Hamilton Business Improvement Area; and,
- 71.9% in the International Village Business Improvement Area.

For context, the average storefront commercial occupancy rate across all 11 of Hamilton's active Business Improvement Areas was 87.0% as of the 2023 Business Improvement Area occupancy audit. Furthermore the 2021-2025 Economic Development Action Plan establishes a stretch target of 90% storefront occupancy across all Business Improvement Areas.

Downtown continues to be a challenging environment for commercial storefronts given the decline in office employees present during the weekdays, reduced consumer spending due to higher interest rates and housing costs as well impacts due to current societal challenges and perceptions of Downtown. Specifically, business owners and Business Improvement Area representatives continue to raise concerns around incidents of theft and harassment of employees and criminal activities occurring in storefront alcoves and entrances.

Positively, the recent enhancement of the Hamilton Police Downtown Core Patrol from two officers to six officers has been very well received by business owners and has led to an initial improvement in perceived safety Downtown while also providing additional resources for business owners and employees to report and raise concerns about crime and other incidents Downtown.

It is noted that the existing enhancement to the Downtown Core Patrol is temporary and set to end in December. Businesses and Economic Development staff believe the continuation of the enhanced Downtown Core Patrol with six officers, if not more, is vitally important to continuing to improve the overall state of Downtown, its perception in

the community and to provide much needed support and resources to Downtown's businesses and employees.

### **Recommended Actions to Continue Supporting Downtown Revitalization**

In response to existing challenges and staff's assessment that these challenges are becoming more systemic and long lasting in nature, staff believe significant and immediate actions are required to ensure that Downtown revitalization efforts and the success of Downtown as a place to live, work and play continues to be priority. As such staff are recommending the following actions:

#### **Action 1: Development of a 10-Year Downtown Revitalization Strategy**

A comprehensive revitalization strategy for Downtown can play an important role in establishing a common, forward-looking vision and identify the key corporate actions, plans, initiatives, and metrics needed to ensure that corporate cross departmental prioritization, funding and resources are being provided to address Downtown's challenges in a timely, long-lasting and coordinated manner.

Similar plans have been undertaken in comparator municipalities including London (Our Move Forward – London's Downtown Plan) and Kitchener (Shaping DTK – A Vision for 2020) as well as by larger city's facing challenging futures for their downtowns such as Calgary (Calgary's Greater Downtown Plan – Roadmap to Reinvention) among others. These plans and strategies are generally developed from an economic development, business support, public and private sector investment, and corporate strategic focus perspective.

Staff envisions that a revitalization strategy for Downtown would be developed to identify a number of priorities, actions and initiatives to be undertaken over a ten-year time horizon with a combination of both immediate, medium and long-term work plan items across various departments to ensure Downtown remains on a consistent path towards improvement, revitalization continues to be a source of pride for Hamiltonians and a key destination for private-sector investment.

The Strategy's development will be led by the Commercial Districts and Small Business section of the Economic Development Division and supported by the use of a consultant to expedite the strategies development. Furthermore, the Strategy would be undertaken with a robust engagement plan including with City departments, the internal Downtown/West Harbour Coordinating Committee, Business Improvement Areas, Downtown businesses and property owners/landlords and the broader community.

Staff Recommendation anticipates the delivery of a draft Strategy to a General Issues Committee for consideration before the end of 2025.

**Action 2: Develop a Pilot Office to Residential Conversion Financial Incentive Program**

Through previous Downtown office market reports PED23081 and PED23081(a), staff assessed the feasibility of an Office to Residential Conversion Incentive and shared Canadian best practices for incentive programs promoting office to residential conversion projects.

Central to staff's assessment was that the conversion of office buildings to residential units can be cost prohibitive because of the significant retrofits required to such buildings, particularly in terms of upgrades and expansions required to key services including electricity and plumbing within an existing structure. In addition, office floor plates can be of a scale leading to inherent inefficiencies in residential unit configurations when compared to new residential builds making such conversions less profitable and thus less appealing to undertake. In many instances, these challenges have meant conversion to housing has not been a viable development option. It is important to note that while the City has seen past limited instances of office/commercial space being converted to residential uses (such as 252 Catharine Street North (2023), 150 Main Street West (2016) and 135 James Street South (1996), among others), demonstrate the feasibility of conversions but it is staff's assessment that the historical pace of such conversions is not sufficient to demonstrate a trend based on market conditions and that these represent a small percentage of office to residential projects could occur if provided with supports to increase financial feasibility. As such, staff believe that the time is right to pilot a program that can provide such incentives to increase the feasibility of new projects and expedite the delivery of housing and new population growth for Downtown.

While Economic Development staff administers various incentive programs to incentivize housing in the Downtown, conversions present a unique challenge where traditional City incentives, such as Tax Increment Grants, will have limited or no impact owing to the fact that such conversions are likely to generate little or no municipal tax uplift due to differences in commercial and residential tax rates. In addition, while programs administered through the Housing Secretariat and funded by the Housing Accelerator Fund can apply to conversion projects, only projects being planned as affordable housing would be able to access funding levels under these programs deemed by staff to be significant enough to make feasible most market-rate conversion projects.

As such, staff recognize that there is a gap in currently available incentives to support the conversion of office buildings for market housing. Market-rate housing continues to be vitally important to supporting the Downtown's revitalization by bringing new residents and adding vibrancy, eyes, and activity on the street and bringing demand for new and existing commercial services and amenities.

Staff have reviewed funding options and determined that a new pilot Incentive Program supporting a limited number of offices to residential conversions Downtown can be pursued through the reallocation of existing funds already provided to the Economic Development Division without the need to request additional funding;

Therefore, staff are recommending that a pilot Program for Downtown be developed and brought to a General Issues Committee for consideration before the end of the first quarter in 2025;

### **Action 3: Making Permanent Grants for Graffiti Removal on Private Property**

On September 13, 2023, Council approved the Recommendations of Report PED23140 to introduce temporary amendments to the Commercial District Revitalization Grant Program to provide grants supporting the removal of graffiti on private commercial properties located in strategic commercial districts and corridors in the city, including in Downtown.

These changes provide property owners and commercial tenants of commercial or mixed-use commercial properties grants of \$200 per instance of graffiti up to a maximum of five instances, or \$1,000, in a calendar year.

The Program was established as a pilot to assess uptake and to evaluate any potential administrative and staffing impacts.

Between September 2023 and October 2024, grants totalling \$10,400 have been approved and are supporting the removal of 52 instances of graffiti on 28 different properties. Of note is that approximately 50% of these applications were for properties in the Downtown area alone.

The Graffiti Removal Grants were established on a temporary basis and are currently scheduled to end on March 31, 2025.

Staff's assessment is that the Graffiti Removal Grants have been a meaningful financial support to commercial property owners already facing a number of challenges, particularly those located in Downtown and that the Grants have improved the overall appearance and cleanliness of commercial areas with only a minimal financial commitment required from the City.

Administratively, there have been no significant impacts on staff resources in order to administer the Grants based on application volumes to-date.

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As a result, staff are now recommending that the temporary Graffiti Removal Grants under the Commercial District Revitalization Grant Program be made permanent. No new funding is required to support staff Recommendation as current and future grants will be funded through existing block funding provided annually to the Commercial Districts and Small Business Section of Economic Development for the provision of non-tax increment-based grant and loan programs.

A further review by staff of the Graffiti Removal Grants will be undertaken as part of the next five-year review of the Revitalizing Hamilton's Commercial Districts Community Improvement Plan scheduled to commence in the latter half of 2025.

**ALTERNATIVES FOR CONSIDERATION**

One or more of staff Recommendations could be modified or not pursued at Council's discretion. Staff do not recommend this alternative as the current state of Downtown is such that significant and immediate action is required to ensure Downtown's path to revitalization continues and the momentum achieved over the last several years is not lost.

Specifically respecting Recommendation (c) to Report PED24163 and the creation of a pilot Office to Residential Conversion Financial Incentive Program for Downtown, the development of this Program could be delayed so as to form part of the scheduled comprehensive review of the Revitalizing Hamilton's Commercial Districts Community Improvement Plan and all associated financial incentive programs made available Downtown. This review is scheduled to commence in late 2025 with Recommendations to Council in 2026. However, given the urgency for action needed to support the Downtown, the need for housing in our community and staff's belief of a rising risk for office vacancies in the near future, staff do not recommend delaying the development of this Program.

**APPENDICES AND SCHEDULES ATTACHED**

Not Applicable.