



## City of Hamilton Report for Consideration

**To:** Mayor and Members  
General Issues Committee

**Date:** March 19, 2025

**Report No:** PED24163(a)

**Subject/Title:** Proposed Pilot Downtown Hamilton Office  
Conversion Grant Program

**Ward(s) Affected:** Ward 2

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### Recommendations

- 1) That staff **BE DIRECTED** to bring forward to the Planning Committee the proposed pilot Downtown Hamilton Office Conversion Grant program, contained in Appendix A to this Report PED24163(a), along with all necessary implementing by-law amendments, including those required to the Revitalizing Hamilton's Commercial Districts Community Improvement Plan and Community Improvement Project Area, for a statutory public meeting and Planning Committee consideration in accordance with Section 28 of the *Planning Act*.
- 2) That staff **BE DIRECTED** to establish a new Downtown Office Conversion Project ID from which grants under the Downtown Office Conversion Grant Program will be funded;
- 3) That Council **APPROVE** the reallocation of \$2,500,000, on as needed basis to the new Downtown Office Conversion Project ID, from the following existing Economic Development Division Project IDs:
  - a) 8201703100 and 8202203200 associated with the Start-Up and Office Attraction Program to a combined maximum of \$618,638;
  - b) 8201703620 associated with the Gore Building Improvement Grant Program to a maximum of \$250,000;
  - c) 8201703703 and 8201703704 associated with the Commercial District Revitalization Grant Program to a combined maximum of \$1,631,362;

- 4) That Planning Division staff **BE DIRECTED** to investigate opportunities to remove City barriers to the conversion of office buildings for residential or hotel uses in Downtown Hamilton that could arise through the Site Plan review process including, but not limited to, waste collection, noise and water/wastewater capacity, and report back to the Planning Committee with recommendations before the end of Q3 2025.

### **Key Facts**

- The purpose of this Report is to present a proposed pilot Downtown Hamilton Office Conversion Grant Program for Council consideration.
- Staff's recommendations are intended to remove financial barriers associated with office conversions which have the potential to mitigate future increases in the Downtown office vacancy rate and transition underutilized and vacant spaces into new housing and hotel opportunities supporting Downtown revitalization.
- Direction to pursue development of the Program was approved by Council on December 11, 2024, via Report PED24163.

### **Financial Considerations**

No new funding or staffing resources are required to implement any of the recommendations in this Report as staff are recommending that the proposed pilot Downtown Hamilton Office Conversion Grant Program (the Program) be funded from existing resources currently allocated to the Economic Development Division.

The funds identified for reallocation in Recommendation 3) herein are the result of a comprehensive assessment by staff to identify opportunities to better leverage existing funds which has culminated in staff recommending the reallocation and reprioritization of \$2,500,000 for initial seed funding to the proposed pilot Program as follows:

- The reallocation of \$807,464 associated with the Commercial District Revitalization Grant Program (Project ID 8201703704) for applications and approvals prior to 2021 which were not acted upon, and which staff have deemed to have lapsed approvals;
- The reallocation of \$823,898 associated with the Commercial District Revitalization Grant Program (Project ID 8201703703) originally allocated as part of a broader set of funds allocated based on historical application volumes for application approvals under this program which have not materialized through 2023 and 2024. Specifically, staff note that application volumes have been lower due to the recent high-interest rate environment that began in 2023 which has resulted in reduced development activity and building improvements being undertaken by businesses, property owners and developers;
- The reallocation of \$250,000 associated with the former Gore Building Improvement Grant Program (Project ID 8201703620). This program ended in 2014 however Council had previously approved a long-term extension to an existing approval

under the program for the restoration of the heritage facades at 18-30 King Street East. With the collapse and subsequent demolition of these buildings in November 2024, the program ceases to be available to these properties and can be reallocated; and,

- The reallocation of \$618,638 associated with the Start-up and Office Tenant Attraction Program (Project IDs 8201703100 and 8202203200) originally allocated to support the fit-up of office space for new office tenants. Due to the depressed nature of the office market this Program has remained under-utilized and as a result a portion of the program's funding can be reprioritized.

The reprioritization of these existing funds is a unique opportunity allowing Economic Development staff to expedite the implementation of the proposed Program to mitigate potential rising office vacancy over the next two to three years while also supporting new housing supply and attract new residents/tourists to the Downtown.

It should be noted that the proposed Program is recommended as a pilot given the limited funds being allocated. If funds should become fully committed, staff would endeavour to find opportunities to further fund the Program through either reassessment of existing funding allocations to various programs in Economic Development, dedicating new funds through future on-going annual funding provided to Economic Development Division through future annual budgets or pausing/ending of the Program.

## **Background**

On December 11, 2024, City Council approved the following recommendation from the Downtown Hamilton Office and Storefront Commercial Sector Update and Action Report (PED24163):

*“(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;”*

The development of the proposed pilot Program was one of several actions recommended by staff and was intended to:

- Remove financial barriers associated with office conversion projects;
- Address a gap in the City's current incentive programs supporting Downtown revitalization and investment whereby existing tax increment grant programs have limited or no ability to incentivize conversions as such conversions result in minimal or no municipal tax uplift due to differences in City commercial and residential tax rates; and,
- Recognize that further supporting office conversions would mitigate future increases in the Downtown office vacancy rate and turn underutilized and vacant spaces into new housing and reinvigorate Downtown revitalization efforts.

## **Analysis**

### **Why is an incentive needed?**

Staff's assessment has identified the following key factors that, to-date, have impeded the viability of conversion projects:

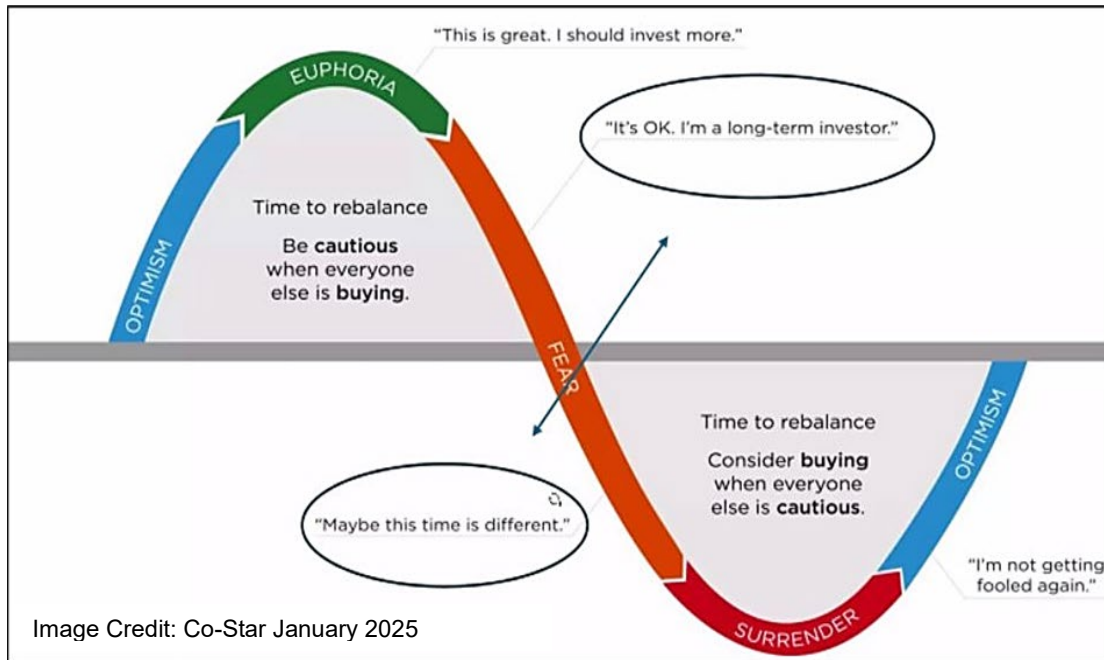
- Prohibitive costs due to significant retrofits required, particularly in terms of upgrades and expansions required to key services including electricity and plumbing within an existing structure;
- The inherent inefficiency of many typical office floor plates for residential uses when compared to new residential builds making conversions less profitable and thus less appealing to undertake; and,
- The unpredictability of potentially unknown additional costs that must be considered when working with older, existing buildings including the potential for asbestos and other hazardous materials requiring abatement and removal.

Costs to convert purpose-built office space to residential can range widely based on the above factors and by market. Through staff's research, costs to convert have been generally noted as being in the \$200-\$300 a square foot range, with costs ranging upward of \$450 in some instances, not including land or building purchase costs.

In many instances, these challenges and the associated cost to convert have meant the conversion projects have not been financial viable for the private sector relative to other potential development opportunities that may exist.

Furthermore, in secondary office markets, such as Hamilton, where office supply remains generally unchanged year-over-year and where ownership consists of long-term investors with a primary focus on office/commercial holdings with limited residential experience, there is evidence of a stronger sentiment to maintain the status quo even in the face of rising vacancies and diminished demand.

Staff have included the below image, presented by Co-Star, a commercial real estate information company, during a January 2025 Canadian Office Outlook Webinar by Chief Economist Carl Gomez. The image demonstrates the current cyclical nature of owner/property manager sentiment in the office sector.



It's noted that owners of office buildings may be unwilling to 'surrender' to the realities of the current market due to concerns that reducing lease rates or selling existing properties could realize building valuation losses due to the current market conditions.

Until either owner expectations for recovery are met, or they 'surrender' to current market conditions, office space will remain vacant and under-utilized and impede Downtown revitalization efforts.

As such, staff's proposed Program is intended to not only mitigate costs associated with office conversions, but also serve as a catalyst for current office owners in Downtown to reexamine their long-term plans for existing vacant/under-utilized office space.

### Proposed Grant Amounts

As part of the staff's development of the Program, office conversion programs/incentives were reviewed in a number of municipalities, with a particular focus on those recently created by the City of London, City of Ottawa, City of Calgary and City of Edmonton where there has been positive reception and uptake. Below is a summary of the incentives provided by each City:

<b>London, ON</b>	<b>Ottawa, ON</b>	<b>Calgary, AB</b>	<b>Edmonton, AB</b>
\$35,000 per unit	<ul style="list-style-type: none"> <li>- Development Charge Exemption</li> <li>- Community Benefit Charge Exemption</li> <li>- 2% reduction in the Parkland Dedication Rate</li> <li>- Reduced Planning application fees</li> </ul>	<ul style="list-style-type: none"> <li>- \$75.00 per square foot (on a 600 square foot unit this would equate to \$45,000)</li> <li>- \$60.00 per square foot for hotel rooms (\$50.00 per square foot for ground floor lobby and ancillary uses)</li> </ul>	\$12,000 per unit where also including at grade-commercial (otherwise \$7,000 per unit)

Staff note that Calgary’s grant amount was developed with their intent of providing support equal to approximately 1/3 of the average cost to convert buildings to residential in that market, to a maximum of \$15,000,000 per project. Conversions in Downtown Calgary are estimated to average \$225 a square foot. Calgary’s program has been developed and implemented with significant funding support to enable such significant grants with the City Calgary program having been allocated a new round of funding in 2024 of \$52,500,000 on top of an initial allocation \$153,000,000 which was fully committed between 2021 and 2023.

In addition to considering the incentives provided by other municipalities, staff also assessed the role a new City incentive could provide in the context of other City incentives currently provided to support the creation of affordable housing.

In the Downtown, the most relevant affordable housing focused program is the Rapid Transit Multi-Residential Housing Incentive Program introduced in 2024 with funding support provided through the Canadian Mortgage and Housing Corporation’s Housing Accelerator Fund. This program is administered by the City’s Housing Secretariat.

Under this program, affordable housing units created either through new buildings or the conversion of non-residential floor area and which meet the program’s affordability criteria are eligible for a forgivable loan of \$25,000 per unit to a maximum of 100 units per project (\$2,500,000). Projects which do not meet the affordability threshold receive a maximum grant of \$50,000 for the entirety of the project.

As staff’s proposed Program is focused on incentivizing market-rate development, and notwithstanding the grants being provided by other municipalities, staff recognized the need to ensure that the Program’s maximum per unit grant not undercut the incentives being provided for affordable housing development. This ultimately set a cap that required the proposed Program’s per unit grant amount to be less than \$25,000.

**Supporting Family Friendly Housing Downtown**

In developing the per unit grant amounts, staff recognized an opportunity to leverage this new Program to incentivize additional community and Council priorities beyond just Downtown revitalization; namely goals and objectives respecting family friendly housing.

The grant structure under the Program has been scaled to provide increasing per unit incentives based on the number of bedrooms provided in the unit as shown below:

Use	Minimum Bedrooms	Grant Amount
<b>Residential</b>	0 Bedroom (studio)	\$10,000 per unit
	1 Bedroom	\$12,500 per unit
	2 Bedroom	\$15,000 per unit
	3+ Bedroom	\$20,000 per unit
<b>Hotel</b>	n/a	\$10,000 per hotel room

At the moment, staff have not sought to establish a minimum unit floor area pending the completion of the Planning Division’s current work on the Family Friendly Design Guidelines. If such a metric is established through those guidelines and approved by Council, staff would revisit and assess the potential to incorporate such standards in the future.

In the meantime, eligible units under the proposed Program will be required to meet the Ontario Building Code’s minimum size requirement for a bedroom of 7m<sup>2</sup> (75ft<sup>2</sup>) along with any other applicable requirements of the Ontario Building Code.

**Notable Eligibility Criteria**

Staff’s proposed pilot Program contains key eligibility criteria highlighted below with accompanying rationale:

- The conversion must be in a building containing at least 5,000ft<sup>2</sup> (465m<sup>2</sup>) of office space which is intended to ensure alignment with the City’s annual Office vacancy survey in terms of reporting key performance metrics and program success as it relates to its impact on the Downtown office vacancy;
- Only units created above the first storey will be eligible in order to recognize the importance of continuing to support active, and engaging street facing uses Downtown to maintain a vibrant and pedestrian-focused public realm; and,
- Conversions may include those established via a long-term lease hold of no less than 99 years to provide greater flexibility for owners to consider housing opportunities involving a variety of long-term ownership structures and potential

partnerships, particularly where a conversion will occur in only a portion of an existing office building.

### **Area of Program Availability**

The majority of current City Downtown revitalization incentive programs are made available in the Downtown Community Improvement Project Area approved through By-law 21-163 and shown in Appendix B to this Report PED24163(a).

Staff believe that this existing Community Improvement Project Area encompasses a far greater area than needed for the purposes of this proposed Program, as the vast majority of the City's major office supply is concentrated in the City's former Urban Growth Centre.

As such, staff are proposing a new sub-area of the Downtown Hamilton Community Improvement Project Area be created in which the proposed Program would be made available. This new sub-area is based on the former Urban Growth Centre boundary and identified, for the purposes of the proposed Program, as "Sub-Area 1: Central Business District" and shown as proposed in Appendix B to this Report PED24163(a).

### **Hotels as a Program Eligible Conversion**

Staff's original recommendation was for the development of an office to residential conversion program. During the development of the proposed Program, staff identified an additional area of opportunity to support Downtown revitalization through the conversion of office space to hotels. Staff's assessment is that many of the same costs required to convert office space to residential, including electrical and plumbing, are equally transferable to the creation of hotel rooms.

Furthermore, in consultation with Tourism & Culture Division staff, the conversion of office space to hotels in the Downtown would support a number of City objectives respecting tourism and major event attraction. Specifically, staff note the following considerations:

- Hamilton has an accommodation gap in luxury, high-quality economy, and unique boutique hotels. In addition, accommodation supply is insufficient during peak demand periods, such as major festivals, large conferences, or city-wide events. Not only does this hamper the City from attracting larger major events, but the demand and visitor spending spills over to neighbouring communities outside of the City;
- Hotels are a unique real estate asset, similar to residential rental developments, in that they don't provide an opportunity to mitigate financial risk through pre-sales, increasing financial risk and early-stage funding requirements;
- New hotel accommodations would directly support Action 16 of the recently approved 2024-2028 Tourism Strategy to "Execute a tourism business attraction strategy to secure business investments that enhance Hamilton's destination offerings by filling identified gaps in accommodations, attractions, and cultural venues"; and,



- Recognition that the retention of existing office space for a commercial hotel use would help to retain existing commercial assessment and commercial tax revenue in the Downtown.

Based on the above considerations, staff are proposing that the creation of hotel rooms be eligible under the proposed Program with units eligible for a maximum grant of \$10,000 per unit.

### **Additional Barriers to Office Conversion Projects**

Staff's development of the proposed Program has included consultation with Planning Division staff to further identify any development considerations that could pose a barrier to conversion proposals.

Based on Planning staff's experience with office to residential conversions to-date, potential barriers that may arise through the Site Plan review process include the following:

- Waste collection;
- Noise; and,
- Water/wastewater capacity.

Notwithstanding that the City may have authority to address some matters, such as the ability to deem a proposed development/area as a Class 4 Noise Area (urban/semi-urban areas) under Provincial Noise Guidelines (NPC-300) for noise mitigation, issues such as these currently result in applicants having to submit feasibility studies as part of a Site Plan application to address potential concerns, adding time and cost to conversion projects.

As such staff have incorporated into the proposed Program the ability to receive grants supporting feasibility studies that will be required by the City through the Site Plan application process. The maximum grant for such studies would be 50% of the cost to a maximum of \$20,000.

In addition, staff's recommendation 4) is intended to direct staff to explore opportunities to remove potential barriers to conversion projects, including opportunities to reduce the need for feasibility studies wherever possible through internal process improvements or procedural changes.

Staff further note that under existing Provincial *Environmental Protection Act* regulations, the conversion of an existing office building greater than 6 storeys to a residential use will be subject to requirements for a Record of Site Condition.

While currently an added barrier to conversion projects, the Province has proposed amendments through Environmental Registry of Ontario Posting 019-9310 which, among other proposed amendments, would expand the current Record of Site Condition exemption to residential conversion in buildings greater than six storeys.

Staff provided comments on behalf of the City in support of the proposed amendments as discussed in Report PED25017 approved by City Council on January 22, 2025.

A final decision on the proposed amendment has not been issued by the Province at the time of writing this Report.

### **Legislated Requirements**

Municipal financial incentive program required to be enacted through a Community Improvement Plan must be established in accordance with Section 28 of *the Planning Act*.

As per recommendation 1), staff are seeking direction to prepare and bring forward to a future Planning Committee for a statutory public meeting the required amending bylaws to the Revitalizing Hamilton's Commercial Districts Community Improvement Project Area By-law (21-163) and Community Improvement Plan By-law (21-164) required to implement the proposed program. This process would also include providing the required public notices required under the *Planning Act*.

### **Alternatives**

- Delaying Program implementation 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; or
- Not pursue the proposed program at all.

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 or not pursuing the proposed Program.

### **Relationship to Council Strategic Priorities**

Staff's recommendations are intended to support key Council priorities respecting Downtown revitalization and increasing the supply of housing.

### **Previous Reports Submitted**

- [PED24163 Downtown Hamilton Office and Storefront Commercial Sector Update and Action Report \(Ward 2\)](#)
- [PED25017 City of Hamilton Response to the Province's Proposed "Amendments to Reduce Records of Site Condition That Are Not Supporting Brownfields Redevelopment" - Amendments to Ontario Regulation 153/04 under the Environmental Protection Act \(City Wide\)](#)

**Consultation**

- Michael Kovacevic, Solicitor, Corporate Services Department
- Christine Kempton, Business Administration, Corporate Services Department
- Hildegard Snelgrove, Business Development Consultant – Tourism, Planning and Economic Development Department
- Ken Coit, Director – Heritage and Urban Design, Planning and Economic Development Department
- Sean Kenney, Manager – Site Plan, Planning and Economic Development Department
- The Development Industry Liaison Group
- WestEnd Home Builders Association
- Individual property owners and developers with experience in conversion programs and those with expressed interests in exploring potential conversion projects in Hamilton.

**Appendices and Schedules Attached**

Appendix A: Proposed Pilot Downtown Hamilton Office Conversion Grant Program Terms

Appendix B: Proposed Program Eligibility area being a new Sub-Area 1: Central Business District of the Downtown Hamilton Community Improvement Project Area

**Prepared by:** Phil Caldwell, Senior Business Development Consultant  
Planning and Economic Development Department, Economic Development Division

**Submitted and recommended by:** Norm Schleeahn, Director Economic Development,  
Planning and Economic Development Department