



The Case for Conversions: Understanding opportunities for conversions of office space to housing in Canadian downtowns

Executive Summary

April 2023

Prompted by CUI's work on downtown recovery in response to the impacts of COVID-19, the purpose of this work is to understand the opportunity that vacant and underutilized office space presents for making downtowns across Canada vibrant, equitable and sustainable. Office conversions offer the potential to play a key role in the revitalization of Canada's key downtowns, creating more complete communities by increasing housing, adding new uses, and bringing more people to the core.

Changes in work patterns and locations ushered in by the pandemic have resulted in what could be permanent alterations to our downtowns. Office occupancy— the number of people returning to work in downtown business districts— is still well below pre-pandemic numbers, and office vacancy rates are high or increasing in many markets. At the same time, the demand for housing is high in most urban areas.

Using a variety of methods, this work evaluates the potential for the adaptive reuse of aging office stock and vacant space to increase Canada's housing supply (ownership, rental, and supportive) while helping our downtowns become resilient to future shocks.

CUI's research establishes an evaluation framework for considering conversions in a variety of settings. This work is grounded in an analysis of the opportunities for office conversion based on past examples, policy readiness and current potential in six cities: Victoria, Regina, Winnipeg, Ottawa, Halifax and Moncton. In each city, we found examples of best practices and an inventory of office buildings identified as feasible for conversion. These buildings represent typologies that exist in cities across Canada. These are also structures reaching obsolescence — costly to maintain, inefficient, and out-of-date.

While conversions can be complex, involving a shift in business models, skilled trades and financial resources compared to those needed for ground-up construction, there is value in considering conversions for a variety of stakeholders. Developers can benefit from quicker timelines for approval and completion with similar costs for a retrofit than to build new. For building owners, it can provide a new or

What should we do with the millions of square feet of central office space sitting empty across Canada?

mixed form of revenue by transforming an obsolete asset; and for those with a large portfolio, like REITS or provincial and federal governments, it can help achieve climate targets aligned with ESG goals, and support housing creation.

Despite the complexity that conversions can present, our research demonstrates there are benefits to investing in office conversions in the appropriate location, under certain market conditions and for buildings with specific characteristics. Conversions also support downtown revitalization to achieve a healthier mix of housing types, diversified tax base, 24/7 economy, larger residential population, more sustainable built form and the preservation of heritage buildings. Additionally, the climate benefits of both preserved embodied energy in the buildings and the opportunity for building retrofits that would result in increased energy performance and longer lifespans for existing buildings are significant.

The risks of not pursuing conversions include a future loss of revenue to municipal governments as assessed values and the corresponding property tax decrease with a decline of downtown economic activity. In Calgary, for example, the downturn in the energy sector in the mid-2000s led to a downtown office vacancy rate of 30% and a depressed downtown core. The value of buildings and revenue to the City declined so significantly that it became more costly to leave empty buildings alone than to invest in a solution. Through targeted incentives (the first such program in Canada), the conversion of offices to residential use is aimed at bringing more residents downtown to support downtown recovery and capitalize on the buildings already in place. While the success of this strategy is becoming clear, Calgary's experience also demonstrates how important it is to act in a timely and nimble way.

Similarly, our learnings reveal templates and best practices to be adapted in a Canadian context. While many cities around the world have established processes and policies that make office-to-housing conversions easier and more appealing, Canada has lagged in re-imagining and repurposing vacant and aging office buildings. In the time that Ottawa created 500 residential units through conversions, for example, American and European cities created thousands.

What if we could increase housing supply AND revitalize downtowns at the same time?

To identify the scale of the opportunity and ways to mitigate risks and uncertainties, this report analyzes feasibility, barriers, and enabling conditions; evaluates best practices and supporting policies and programs; and provides recommendations. This work guided the creation of a scalable model for evaluating conversion opportunities including five hypothetical scenarios to assess conversions in different contexts. These findings identify the market conditions, policies and incentives that could be leveraged to create more opportunities for the conversion of under-utilized office space for a diversity of housing types.

Among the six sample cities examined, CUI identified millions of square feet suitable for conversion to housing, and millions more square feet of under-utilized office space when adding the potential in Canada's largest cities. In total, our estimates show a potential creation of 18,000 to 22,000 housing units in just 11 cities.

Our understanding of office-to-housing conversions is evolving. Continuing to track trends will be essential to finding where the most promising opportunities exist. CUI's research is a first step towards a Canada-wide initiative that could drive the creation of new housing and give a boost to Canada's downtowns in the process.

Read and share the report: <https://canurb.org/publications/case-for-conversions/>

CUI has undertaken this work with funding from CMHC for a Housing Strategy Solutions Lab. Solutions Labs provide funding to stakeholder project teams to examine persistent, complex housing issues and rapidly develop potential solutions.