

February 27, 2017

To: His Worship the Mayor  
And Members of City Council

Re: 2016 City of Regina Office Policy Review

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**RECOMMENDATION**

**RECOMMENDATION OF THE REGINA PLANNING COMMISSION  
– FEBRUARY 1, 2017**

- 1) That item CR12-88, Proposed Commercial Office Policy and Zoning Code be removed from the list of outstanding items for City Council.
- 2) That the next Office Policy review occur with the *Design Regina: The Official Community Plan Bylaw No. 2013-48* five year review in 2018.

*REGINA PLANNING COMMISSION – FEBRUARY 1, 2016*

The following addressed the Commission:

- Richard Jankowski and Dale Griesser, representing Avison Young; and
- Nicole Templeton, representing Harvard Developments.

The Commission adopted a resolution to concur in the recommendation contained in the report. Recommendation #3 does not require City Council approval.

Councillors: Mike O'Donnell (Chairperson) and Barbara Young; Commissioners: Phil Evans, Adrienne Hagen Lyster, Simon Kostic, Ron Okumura, Daryl Posehn, Laureen Snook and Kathleen Spatt were present during consideration of this report by the Regina Planning Commission.

The Regina Planning Commission, at its meeting held on February 1, 2017, considered the following report from the Administration:

**RECOMMENDATION**

- 1) That item CR12-88, Proposed Commercial Office Policy and Zoning Code be removed from the list of outstanding items for City Council.
- 2) That the next Office Policy review occur with the *Design Regina: The Official Community Plan Bylaw No. 2013-48* five year review in 2018.
- 3) That this report be forwarded to the February 27, 2017 meeting of City Council for approval.

## CONCLUSION

Due to the significant amount of new office space development between 2012 and 2016, slowing economy and users' changing space requirements, the City of Regina's (City) citywide office vacancy rate was 14.9 per cent in mid-2016 while the downtown office vacancy level was 12.5 per cent - a substantial change from 2012 when the citywide vacancy rate was 4 per cent and the city had one of the lowest downtown office vacancy rates in Canada at 1.5 per cent.

Of the twelve Canadian markets surveyed by commercial real estate firm Avison Young in mid-2016, Regina's citywide office vacancy rate ranked fourth highest, behind Calgary, Lethbridge and Edmonton. Since 2012, the amount of office space in medium and major office buildings has increased by approximately 10 per cent to 668,055 square metres. The downtown/central city office area accounts for 80 per cent of this increase. The balance of the increase went to suburban areas, with the Harbour Landing Business Park accounting for the majority.

Although recent suburban office developments have occurred, Regina's downtown and central city areas continue to be home to a significant proportion of office inventory relative to other Canadian cities. In Regina, 83 per cent of office space is concentrated in the downtown/central city office area. The national average is 51 per cent. The City's office policy is effective in supporting downtown as the city's primary business centre - as per the intent of Section D5, Goal 5 of *Design Regina: The Official Community Plan Bylaw No. 2013-48* (OCP).

Administration does not recommend changes to the policies at this time.

## BACKGROUND

In 2012, City Council amended the *Regina Development Plan* (the former OCP) by replacing the office policy section with a new set of office policies (Section 4.15) that better supported the then-current office market, as well as the City's objectives regarding a sustainable and prosperous downtown. The 2012 revisions provided a relaxation of the previous policy, which strongly protected the downtown area as the primary location for office development. The revisions allowed for limited opportunities for suburban office park development where it could be demonstrated that there was a clear need for the office development and:

- The proposed office development would not result in the downtown/central city office area retaining less than 80 per cent of the city's total office floor area pertaining to medium (1,000 square metres to 4,000 square metres) and major office (larger than 4,000 square metres) floor area.
- The vacancy rate for offices in the downtown, as interpreted by the City, does not exceed 6.5 per cent.

The revised policy further directed suburban office development by:

- Prohibiting major offices outside of the downtown, excepting lands immediately adjacent to the downtown and offices associated with specified uses such as universities or hospitals; and
- Limiting new office park development to two office area locations and limiting the total amount of office floor area to 16,000 square metres per office area location.

The decision to amend the office policy was largely due to increased demand for alternate forms of office development, such as office parks, outside of the downtown area during a period of rapid economic and employment growth. The process to amend the office policy involved significant stakeholder participation and the completion of two City-commissioned office studies.

Although opinions regarding the distribution of office development differed among stakeholders, the solution was substantially supported by all stakeholders involved at the time. At the time of the 2012 amendment, City Council directed Administration to engage in a regular review of the policy for a period of five years to monitor implementation issues.

The office policy was again amended in 2013 through the adoption of the current OCP by including additional potential locations for office development outside of the downtown in designated Urban Centres (OCP, Map 6). Still, measures to protect the downtown as the primary location for office development were retained.

The office policy was further amended in 2015 to allow for safety related relocations of existing office buildings. Specifically, Section D5, Goal 5 was amended by adding a new section after Section 7.33. The new section (7.33A) states:

“That, notwithstanding any other policy herein, City Council may approve a proposed office building where the purpose of the proposed development is to accommodate the relocation of an existing use where, at the discretion of City Council, there is deemed to be a potential safety issue due to the proximity of the existing office use to a potentially hazardous site or operation.”

This report provides the Regina Planning Commission (RPC) and City Council information on the effectiveness of the office policy and potential impacts the policy may be having on Regina office market conditions. Specifically, a snapshot of current market conditions will be provided, along with an overview of the office policy's effectiveness. As with previous reviews, a group of interested stakeholders from the real estate, property management and development community were consulted.

## DISCUSSION

### **Current Conditions**

When the office policy was originally revised in 2012, Regina had one of the lowest downtown office vacancy rates at 1.5 per cent among mid- and large-sized Canadian cities. Since then,

approximately 57,419 square metres (618,062 square feet) of office space has been added. Absorption of this additional space has slowed in recent years and the addition of new office buildings has resulted in the movement of some firms to newer buildings, leaving older buildings that have fewer amenities with vacant space. This has resulted in elevated vacancy rates. The mid-2016 downtown vacancy rate of 12.5 per cent is higher than the optimal level of five to eight per cent identified in the 2012 City-commissioned *Regina Office Study* and greater than 6.5 per cent, the threshold used by the City to either support or deny new office development in identified suburban office areas and urban centres (OCP, Section D5, Goal 5, 7.33.2).

In addition to a downtown vacancy threshold of 6.5 per cent, the office policy also establishes a long-term target relating to office distribution, stating that “over the life of the OCP, the City shall endeavour to ensure that at least 80 per cent of medium and major office development is located in the downtown/central city office area.” As of fall-2016, according to City assessment records, 83 per cent of the floor space in medium and major offices was located in the downtown/central city office area. A summary of the data is provided in Appendices A and B.

In addition to the existing office space, there are also approved medium-sized office buildings that have yet to commence construction. These are the final phase of Harbour Landing Business Park, which will offer roughly 3,614 square metres of office space and the repurposing of an existing commercial building at 2410 Dewdney Avenue, which will accommodate 3,451 square metres of office space. In addition to these, there are two new office buildings in the planning stages - the recently proposed Conexus head office building (7,432 square metres) planned for the University of Regina’s College Avenue Campus on land recently donated by the City and a proposed new building for the Canadian National Institute for the Blind (CNIB) (roughly 1,400 square metres), also in Wascana Centre.

The majority, 78 per cent of the approved and planned new office space noted above will be outside the downtown/central city office area and, of that, 71 per cent is located on Wascana Authority land and outside the City’s regulatory jurisdiction. Although the proportion of planned suburban to downtown/central city office construction is high, the percentage of urban office space is expected to only decline slightly to 82 per cent of medium and major office in the downtown/central city office area, compared to 83 per cent this year. This conclusion assumes that all of the approved and proposed office space will be completed and no other office space will be added or removed from the existing inventory. While the downtown/central city share of medium and major office has remained relatively consistent between 2012 and 2016 (84.13 and 83.39 per cent, respectively), the addition of suburban office space may contribute to higher vacancy rates in this area.

Although vacancy rates are currently elevated in all office classes and all parts of the city, this may only be temporary. Office studies prepared by Dialog and MHBC Planning, Urban Design & Landscape Architecture for the City in 2012, found that Regina may require an additional 200,000 square metres of office floor area by 2035 to satisfy the growing market and population needs.

## **Observations**

Administration has reviewed the existing policy and related zoning regulations to identify issues and challenges related to implementing the policy and the effect on Regina's office market. Two key issues were identified and are discussed below.

With the recent economic downturn, a number of industrial space users across the city have downsized, leaving vacant space in existing industrial properties. Some property owners have expressed interest in converting their properties to office uses. In some instances, the existing zoning permits office development below 1,000 square metres, but the user desires more than 1,000 square metres. That would require rezoning, but would also be prohibited under the office policy due to the current elevated vacancy rate. City Council may see such rezoning applications in the future. Administration would likely recommend that the rezoning be denied. The reason for this is that employment lands are important in ensuring the financial sustainability of the City.

Section D5 of the OCP directs the City to aim for balanced growth by ensuring an adequate supply of serviced industrial land to maintain a diverse range of development opportunities. To achieve this, the OCP further directs the City to "protect industrial lands by avoiding re-designation of industrial areas, except where the City determines that a different land use is more beneficial" (7.23). Refusing re-designation of industrial employment lands for office development also supports the OCP's goal of supporting the downtown as the city's primary business centre.

A second issue identified is related to the distinction between Office General and Office Industry. The reason this is an issue is that Office Industry, which allows for up to 1,000 square metres, is a permitted use in several industrial zones where Office General is either a discretionary use or a prohibited use.

Currently, Office Industry is defined as an "office associated with industries or businesses benefitting from close access to major corridors, regional customers, intermodal hubs, etc." While the intent of this land use type has been to accommodate industrial users, this may be difficult to enforce as businesses could largely argue they would all benefit from close access to major corridors, regional customers and intermodal hubs.

Administration will continue to monitor the issues noted above. The definitions of land use types, including Office Industry, will be more thoroughly considered as a part of the Zone Forward Project, the Zoning Bylaw review and update project.

## **Stakeholder Comments**

Administration has identified a core stakeholder group consisting of industry experts, including commercial real estate professionals, office developers and building managers, business improvement districts and others affected by the City's office policies.

Administration has consulted with the group of stakeholders as a part of this review. The following questions were posed to the group:

- What issues do you have, generally or specifically, with the existing policy (if any);
- How has the existing office policy affected your operations or objectives;
- How do you regard the current state of the Regina office market; and
- Any thoughts you may have on this subject that you would like to share.

The main issues identified by the stakeholders related to the office policy were:

- Policy measures are overly restrictive for the development of suburban business parks;
- Downtown vacancy rates are unrelated to demand from office users that are more appropriately located outside of the downtown;
- Requiring 80 per cent of office space to be located in the downtown/central city office area may be too high;
- If a vacancy rate is used at all, it should be revised upwards;
- Suburban business park development would capitalize on regional market growth and connectivity and curtailing it is a missed opportunity;
- Restricting new suburban office development will not drive users to unsuitable locations in the downtown, but may drive them to locate outside of the city or avoid investment altogether;
- The office policy is effective in terms of supporting the downtown as the city's primary business centre;
- The office policy has resulted in Regina having the highest density of downtown jobs in Canada, which is important in downtown vitality and maximizing transportation and infrastructure investments;
- Office growth in the downtown strengthens the area by drawing more secondary retail, entertainment and residential investment into downtown;
- The strong office policy supports sustainability goals by providing opportunities for increasing transit use and carpooling;
- The office policy has led to significant investment in the arts, culture, entertainment, restaurant and hotel sectors in downtown that would not have occurred without the density of office space and magnitude of consumers frequenting the downtown area;
- Downtown needs to be maintained as a central source of identity for Regina;
- Given the high downtown vacancy rate, no additional office development should be permitted elsewhere in the city until the vacancy rate falls below the established threshold;
- The relocation of tenants from downtown to suburban office parks has contributed to the vacancy rate in downtown;
- Pending office developments in Wascana Centre Authority Lands will have an impact on the downtown;

- Exemptions for major medical offices outside of the core should be reconsidered. There is a significant amount of underutilized retail and flex space throughout the city, which is well located, and could easily satisfy medical tenants.

## **Policy Implications**

### **Status Quo:**

The City's existing policy requires City Council to deny a proposed medium office development within an identified office area or urban centre when the downtown office area vacancy rate for medium and major office buildings is greater than 6.5 per cent. As the downtown vacancy rate is 12.5 per cent, no new medium office development outside the downtown/central city office area could be supported in the near-term. However, there are still office opportunities in the Global Transportation Hub (GTH), Wascana Centre Authority Lands and Regina Airport Lands - lands that are inside the city but outside the City's regulatory jurisdiction.

While recent suburban office development may have had some negative impact on the downtown office market and resulted in rising vacancy rates, the evidence to support this is not strong. In a relatively small office market such as Regina's, even small changes in inventory can lead to significant changes in vacancy rates. In recent years, a significant amount of office space has been added to the downtown area (e.g., Agriculture Place) and this new space likely has more to do with elevated vacancy rates than suburban development.

### **Relaxing of Office Policy:**

Relaxing the existing policy by removing the vacancy and distribution requirements may provide for a more fluid and versatile office development context. However, it may also jeopardize the downtown's strength as the primary business centre.

Administration agrees with the 2012 office market study that concluded larger-scale suburban office developments do compete with the downtown. A policy relaxation could eventually lead Regina to assuming the distribution characteristics of other Canadian cities, where up to half of the office development is scattered throughout peripheral and suburban locations. Allowing scattered office development would detract from the vibrancy of the downtown and jeopardize its standing as the civic and cultural hub of the city, which would be contrary to the OCP. As such, Administration does not recommend changing the policies at this time.

## **RECOMMENDATION IMPLICATIONS**

### **Financial Implications**

None with respect to this report.

### Environmental Implications

The office policy promotes a compact built environment. This not only makes it more cost-effective to provide infrastructure, it is also more environmentally sustainable than dispersed development. A centralized employment hub is more easily served by public transit and allows citizens to make sustainable transportation choices - a goal of the OCP.

### Policy and/or Strategic Implications

Maintaining the office policy supports the goals identified in Section D5 of the OCP. The policy ensures the downtown remains the city's primary business centre (Goal 5). It also supports the goal of maintaining the City Centre as the city's primary civic and cultural hub (Goal 2).

### Other Implications

None with respect to this report.

### Accessibility Implications

None with respect to this report.

### COMMUNICATIONS

External stakeholders were engaged by email correspondence during the course of this review. Stakeholders included representatives from major commercial real estate firms active in the city, office developers and managers, Economic Development Regina, the Regina Downtown Business Improvement District (RDBID), the Global Transportation Hub Authority (GTHA), the Association of Regina Realtors and the Building Owners and Managers Association of Regina.

### DELEGATED AUTHORITY

The recommendations contained in this report require City Council approval.

Respectfully submitted,

REGINA PLANNING COMMISSION



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Elaine Gohlke, Secretary