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February 23, 2017

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**Attention: His Worship Mayor Fougere  
Regina City Council**

**RE: OFFICE POLICY REVIEW (RPC17-3 POLICY REVIEW)**

We are unable to attend Council meeting on February 27, 2017, but follow up with this letter as part of our report to the Regina Planning Commission, and in response to the report by Administration. We wish to reiterate that the report narrative prepared by Administration is very detailed and we commend them for the excellent attention to detail.

Meanwhile, our message to Council remains consistent; we continue to strongly believe that the current office policy is restrictive in terms of the overall growth of the city of Regina. The two key restrictive criteria in question revolve around protecting the 80% concentration of office space in the downtown, and the 6.5% vacancy threshold that limits suburban growth. We attach **Table I**, acquired from Avison Young's Canadian offices, which confirms that no other major or mid-market city in Canada has similar policies in place. The Table also provides some other useful comparative data on those cities.

**Background to Office Inventory, Vacancy and Suburban Development:**

The report correctly notes the rapid increase in office development since 2012. We have tracked vacancy since 2005 that shows the increase in inventory is directly the cause of today's high vacancy rates. Please refer to **Table II** which confirms there is no impact on the downtown office vacancy rate as a result of suburban development. In essence, the market has been put in an imbalanced position by having no office development for 18 years, then close to 700,000 square feet of space constructed in the span of a few years. Our analysis suggests strongly, that we will see an average of 10,000 sf of positive absorption for the next generation. The new construction planned for the downtown fringe and suburbs, collectively, has little to no chance of correcting this imbalance any more than it does of being detrimental. In the past, high office vacancy rates were corrected by re-purposing the space into residential uses; this is arguably our solution to the current downtown vacancy. Meanwhile, any municipal policy that appears to be restrictive to a long term investor, will cease investment interest in a soft market regardless of whether the development is in the downtown, downtown fringe, or suburbs.

### **Future Forecast of Office Inventory, Absorption and Vacancy:**

Please refer to **Table III**. Our analysis suggests that office vacancy will continue to rise, or hold at best, for the foreseeable future. Our predictions are based on the following facts and emerging trends in the office sector:

1. There is a committed/required/planned government consolidation of federal and provincial government office space underway and extending into 2019. It may run longer, regardless governments remains as an unmeasured and major stakeholder in our city that will very likely align themselves with the points noted below.
2. There are emerging trends in the office sector resulting in the creative use and exploitation of technology that essentially increases the occupied 'density' in office personnel. This trend will almost certainly be exacerbated by the use of robotics and automation that will decrease demand for human labour (a trend that fits well with various government departments and conventional 'office' jobs).
3. There is an ongoing trend towards the reduction of offices and/or office size that 'shrinks the footprint' of office workers in general.
4. There are approved office projects noted in the report that will be filled from existing inventory.
5. Work-life balance pressure/strategies are resulting in office flex uses to meet staff requirements working from their home, particularly with the emerging millennial population.

The market will determine its solutions for the next 10 – 15 years on the placement of business and new office buildings. We suggest a strong consideration to a 'long' view of development and related policies; the buildings take a long time to amortize and therefore investment is based on that as one of its criteria. Based on the fact that the market is growing, albeit slowly, in the suburbs (as defined in Regina) the 6.5% vacancy threshold effectively kills any and all future growth of businesses, employment and office expansion.

### **Conclusion:**

We believe the policy should be amended so as to remove those restrictions, for these reasons:

1. The current office vacancy increase was not the result of suburban development;
2. The current office vacancy was driven by rapid development in the downtown and fringe;
3. There is evidence-based data that supports the need for businesses to be located in a suburban location, especially in a resource-driven economy which drives Regina. The site selection process and criteria of these firms will dictate their decision to locate/expand in our city.
4. The current 6.5% vacancy policy currently in place prohibits City Administration/Regina Planning Commission & Regina City Council from considering an application from a business that wishes to locate in Regina but requires a suburban (non-downtown) location.
5. Any municipal policy that appears to be restrictive to a long term investor, will cease interest immediately in the Regina market.

### **Recommendations to Council:**

Our recommendations are as follows:

1. Remove the "80-20 and 6.5% vacancy" criteria at the earliest and most appropriate time within the governance limits of the City's development policy, and


2. Implement a revised office development policy that empowers City Administration, Regina Planning Commission, and Regina City Council with the authority to review any future application and approve, or reject, office development – regardless of location – on a case by case basis.
3. Expand the 'stakeholder consultant group' to include federal and provincial representatives, owner-users, and appraisal firms.
4. Consider the creation of a taskforce to assess the office-residential-retail ratios in comparison with Canadian cities, with a view of achieving the downtown *Live Work Play* objectives within Design Regina.
5. Consider a broader view on office policies in terms of the impact on transit and regional growth goals.
6. We recommend that the city of Regina continue to support the conversion of office space into residential use or alternate solutions to address surplus office vacancy.

Respectfully Submitted,

***Avison Young Commercial Real Estate (Sask) Inc.***

A stylized, horizontal signature in black ink, appearing to read 'Dale Griesser'.

Dale Griesser, President

A stylized, vertical signature in black ink, appearing to read 'Richard Jankowski'.

Richard Jankowski, Managing Director

# Table 1: Canadian Office Market Overview

## REGINA

### DEVELOPMENT RESTRICTIONS

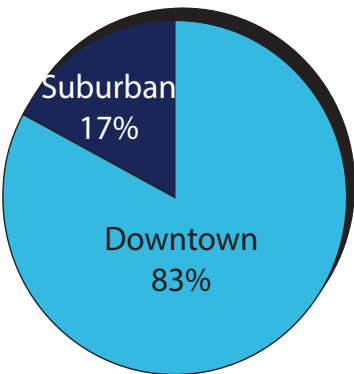
Downtown office inventory is protected; suburban office development is dictated by downtown vacancy (6.5%), inventory ratios (80/20 in favour of downtown) and size (16,000 m2).

### VACANCY

Current vacancy: 12.9 % (competitive inventory only)  
Overall vacancy: 8% (competitive and non competitive inventory)

### DOWNTOWN/SUBURBAN RATIO

83/17 - (Downtown/Suburban)



## CALGARY

### DEVELOPMENT RESTRICTIONS

No restriction or bylaw in place like the City of Regina

### TRACKING DATA/CRITERIA

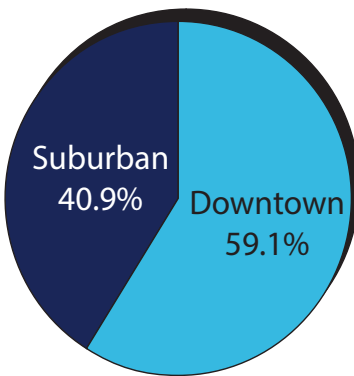
They don't track government buildings  
Their office vacancy sf numbers competitive inventory only  
Many areas under construction- not just downtown core

### VACANCY

Current vacancy: 22.0 %

### DOWNTOWN/SUBURBAN RATIO

59.1/40.9 - (Downtown/Suburban)



## EDMONTON

### DEVELOPMENT RESTRICTIONS

No restriction or bylaw in place like the City of Regina

### TRACKING DATA/CRITERIA

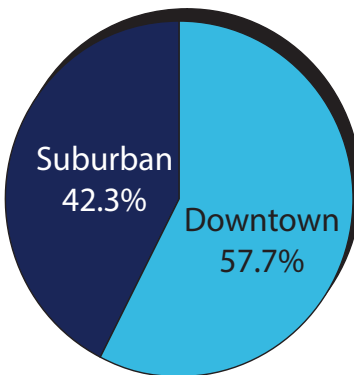
They do track government buildings  
Their office vacancy sf numbers competitive inventory only  
Many areas under construction- not just downtown core

### VACANCY

Current vacancy: 13.4 %

### DOWNTOWN/SUBURBAN RATIO

57.7/42.3 - (Downtown/Suburban)



# Table 1: Canadian Office Market Overview (cont'd)

## HALIFAX

### DEVELOPMENT RESTRICTIONS

No restriction or bylaw in place like the City of Regina

### TRACKING DATA/CRITERIA

They do not track government buildings

Their office vacancy sf numbers competitive inventory only

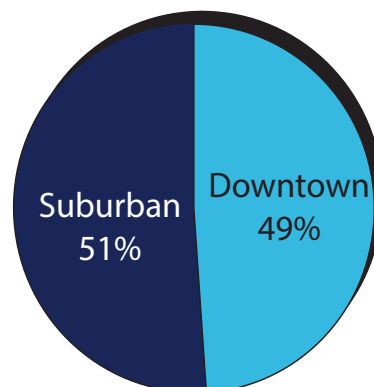
Many areas under construction- not just downtown core

### VACANCY

Current vacancy: 14.0 %

### DOWNTOWN/SUBURBAN RATIO

51/49 - (Downtown/Suburban)



## MONTREAL

### DEVELOPMENT RESTRICTIONS

No restriction or bylaw in place like the City of Regina

### TRACKING DATA/CRITERIA

They do not track government buildings

Their office vacancy sf numbers include all inventory  
(competitive and non-competitive)

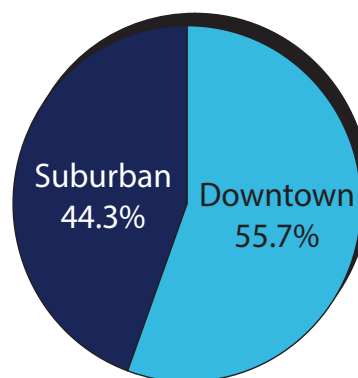
Many areas under construction- not just downtown core

### VACANCY

Current vacancy: 12.0 %

### DOWNTOWN/SUBURBAN RATIO

55.7/44.3 - (Downtown/Suburban)



## OTTAWA

### DEVELOPMENT RESTRICTIONS

No restriction or bylaw in place like the City of Regina

### TRACKING DATA/CRITERIA

They do not track government buildings

Their office vacancy sf numbers include all inventory  
(competitive and non-competitive)

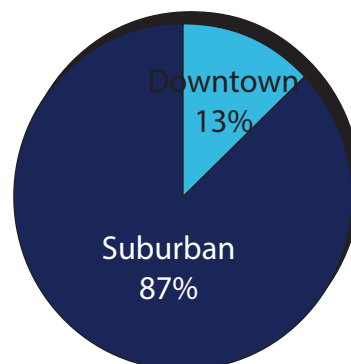
Many areas under construction- not just downtown core

### VACANCY

Current vacancy: 13.1 %

### DOWNTOWN/SUBURBAN RATIO

13/87 - (Downtown/Suburban)



# Table 1: Canadian Office Market Overview (cont'd)

## TORONTO

### DEVELOPMENT RESTRICTIONS

No restriction or bylaw in place like the City of Regina

### TRACKING DATA/CRITERIA

They do not track government buildings

Their office vacancy sf numbers competitive inventory only

Many areas under construction- not just downtown core

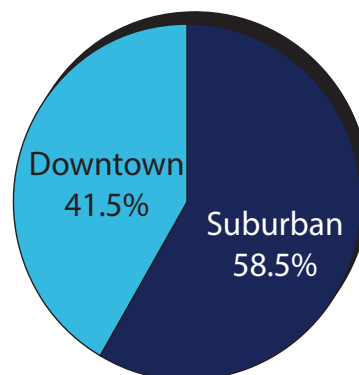
Over 4,012,862 sf under construction (GTA)

### VACANCY

Current vacancy: 6.4 %

### DOWNTOWN/SUBURBAN RATIO

41.5/58.5 - (Downtown/Suburban)



## VANCOUVER

### DEVELOPMENT RESTRICTIONS

No restriction or bylaw in place like the City of Regina

### TRACKING DATA/CRITERIA

They do not track government buildings

Their office vacancy sf numbers include competitive only

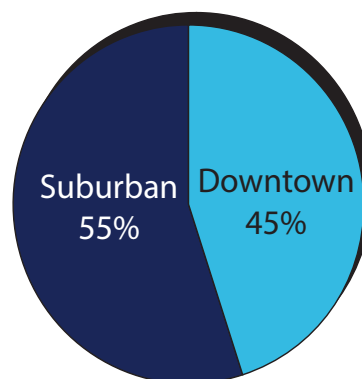
Many areas under construction- not just downtown core

### VACANCY

Current vacancy: 10.4 %

### DOWNTOWN/SUBURBAN RATIO

45/55 - (Downtown/Suburban)



## WINNIPEG

### DEVELOPMENT RESTRICTIONS

No restriction or bylaw in place like the City of Regina

### TRACKING DATA/CRITERIA

They do not track government buildings

Their office vacancy sf numbers include all inventory (competitive and non-competitive)

Many areas under construction- not just downtown core

### VACANCY

Current vacancy: 6.8 %

### DOWNTOWN/SUBURBAN RATIO

72/28 - (Downtown/Suburban)

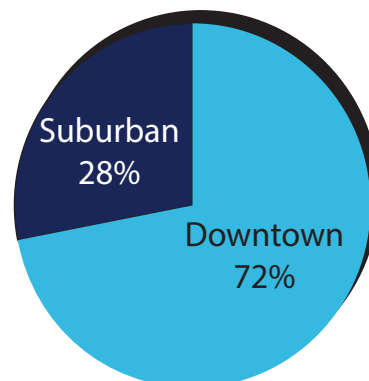
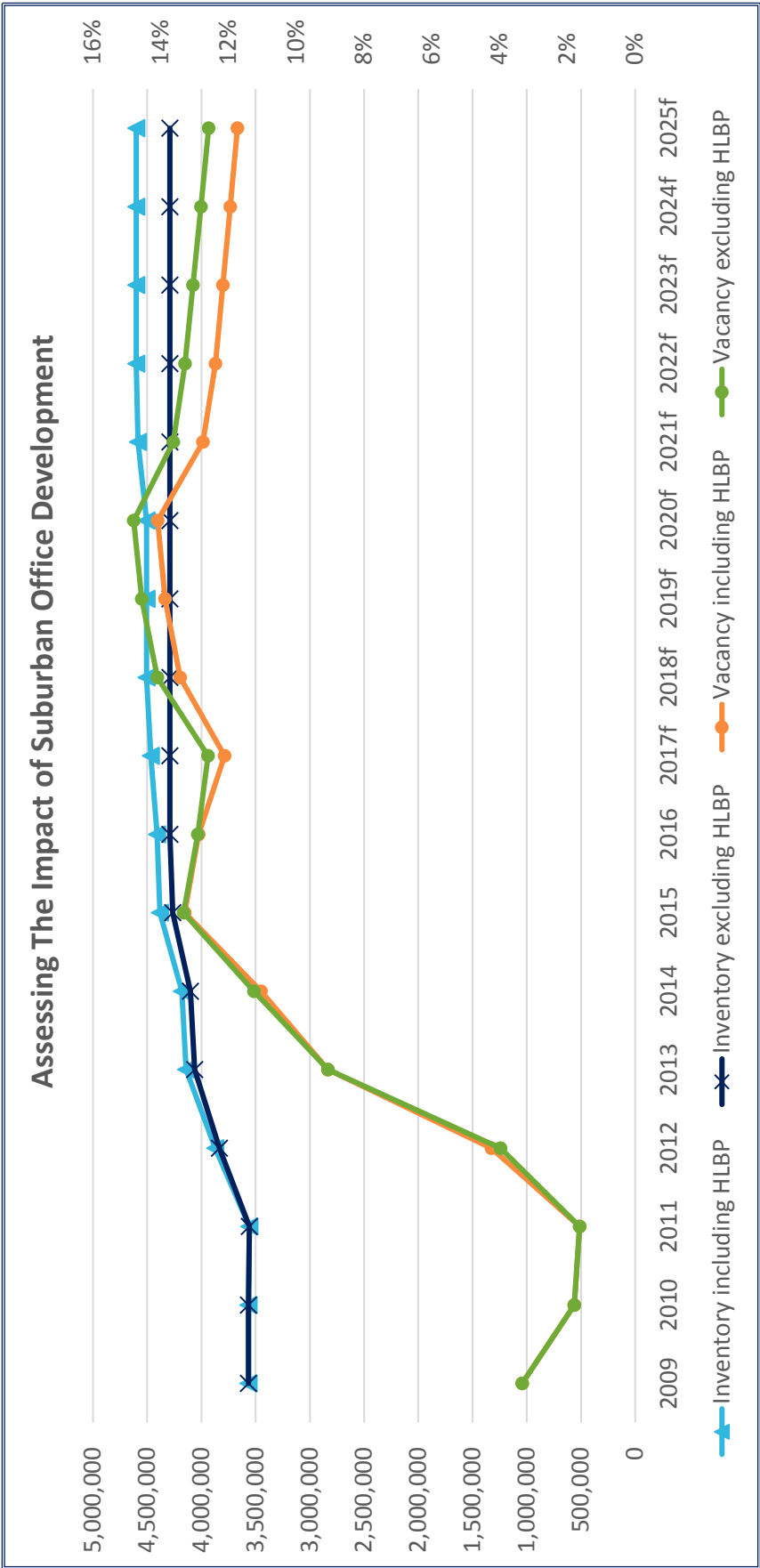
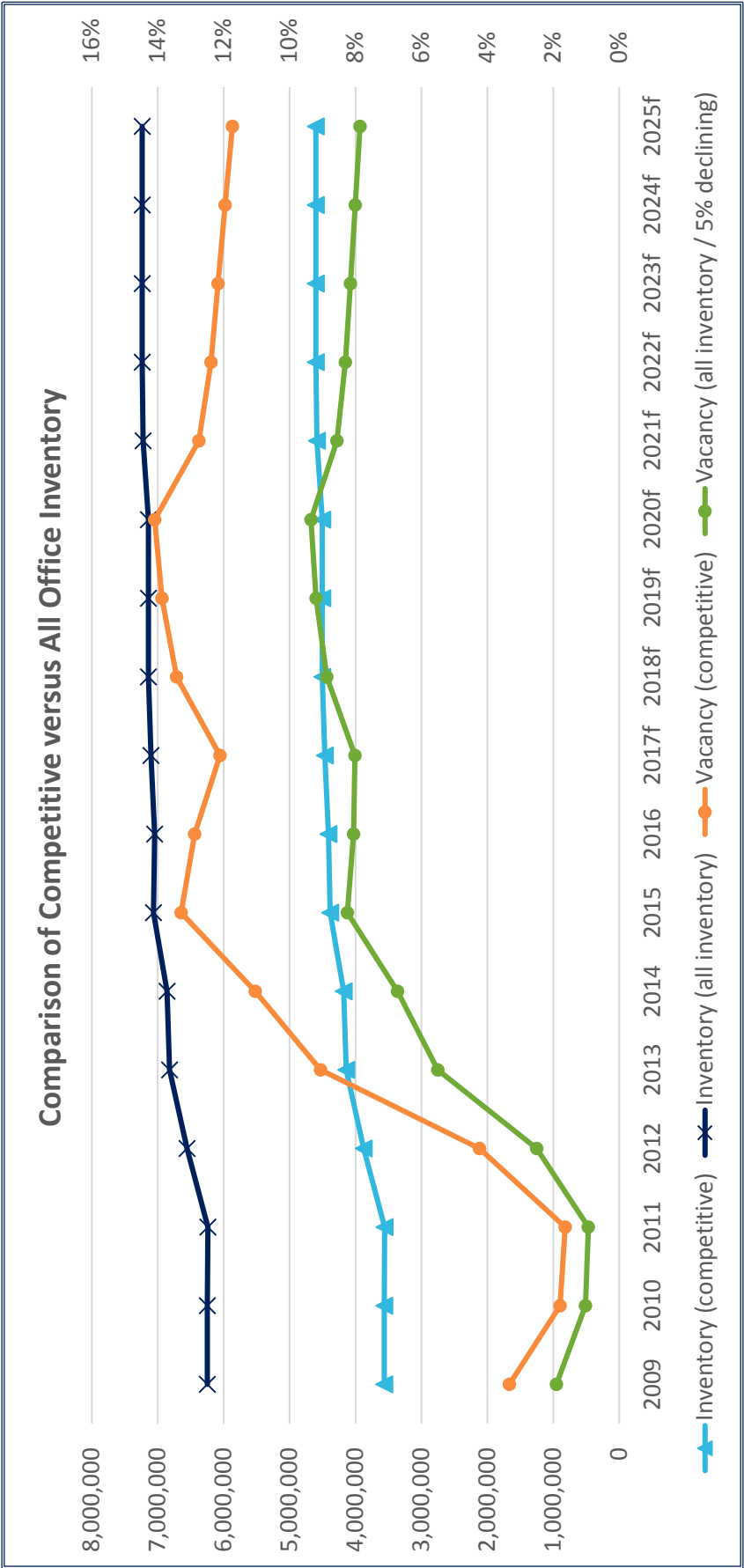


Table II: Assessing The Impact of Suburban Office Development



- NOTES:
- 1. HLBP = Harbour Landing Business Park
  - 2. HLBP has added approximately 120,000 sf to inventory
  - 3. If HLBP was not constructed, vacancy would trend higher in the future (assumes they remain occupied)

Table III: Comparison of Competitive versus All Office Inventory



NOTES: 1. Inventory (competitive) means those buildings that are on the market available for occupancy  
2. Inventory (all inventory) means both competitive and owner occupied office buildings  
3. Owner occupied buildings are occupied by the owner and generally not counted in total inventory