

October 18, 2023

Memorandum to: Mayor Brown  
Members of Council

From: Peter Norman, VP & Chief Economist  
Altus Group

**Subject:** Office Needs at Airport Rd. and Mayfield Rd. Brampton, Market Opinion Memo

**Reference** Planning and Development Committee, Oct. 23, Agenda Item No: 7.1 Staff Report re: City-Initiated Official Plan Amendment to the Vales of Castlemore North Secondary Plan (Area 49), Ward 10

5759 Mayfield Road, Part of Lots 17 and 18 and Part of the Road Allowance between Lots 17 and 18, Concession 6 East of Centre Road, Geographic Township of Chinguacousy, County of Peel, now in the City of Brampton, Regional Municipality of Peel; and

5923 Mayfield Road Part Lot 17, EHS, Concession 6 being Lots 23, 26, 32, 35 of Plan CH4, City of Brampton, Regional Municipality of Peel

**Our File:** P-7082

---

Altus Group Economic Consulting (“Altus”) was retained by Upper Mayfield Estates Inc. and Royal Empire Group Inc. (“Client”) to provide an economic and market opinion on planned office uses at Airport Rd. and Mayfield Rd. in the City of Brampton.

### The Subject Lands

The client intends to develop lands located within the Airport & Mayfield Rd. Precinct Plan in the City of Brampton (the Subject Lands). The Subject Lands are currently unimproved. They were previously designated as employment lands under the Region of Peel OP but were removed from that designation through a municipal comprehensive review.

The lands are currently designated “Open Space” and “Employment” on Schedule 1 – City Concept and “Open Space” and “Business Corridor” on Schedule A – General Land Use Designations in the City of Brampton Official Plan (the “OP”); and are designated “Valleyland”, “Commercial/Institutional” and “Mixed Institutional” on Schedule SP49(a) in the Vales of Castlemore North Secondary Plan.

The lands are designed as “Office Mixed Use” in the Draft Official Plan as set out in Schedule D.

The client is concerned about the viability of office uses and commercial uses beyond those that would be small scale and neighbourhood serving. The office market across the GTA (and around the world) has been severely impacted by the pandemic and other factors and by some estimates may be oversupplied for decades to come. Conditions in the Peel Region office market are similarly distressed. Historically, Brampton has captured a very small share of the institutional office space demand in the GTHA. In light of

Office Needs at Airport Rd. and Mayfield Rd. Brampton, Market Opinion Memo  
October 19, 2023  
Page 2

all this the client's concerns about potentially sterilizing components of the subject lands with un-viable uses are important.

The Client has approached Altus Group to provide a professional opinion on the appropriateness of including office uses on these lands in light of evolving market conditions.

### **Current Economic Conditions**

Overall office market conditions have deteriorated substantially in Peel Region and across the Greater Toronto Area (GTA) over the past three and a half years, and a growing glut of vacant and available office space, and significant quantum of office space under construction and in the development pipeline represents a significant amount of competitive supply to the Subject Lands and will certainly impact the marketability and potential development timelines on the Subject Lands.

Given these conditions and given the need to proceed with development on the Subject Lands in a timely manner in order to advance the residential, public realm and infrastructure components of the block plan, the Client intends to submit a development plan with no lands set aside for employment/office uses, consistent with the findings of the 2022 Region of Peel MCR.

In the Spring of 2023 Altus Group prepared a comprehensive white paper for NAIOP, the Commercial Real Estate Development Association, setting out an economic analysis of the office market in the Greater Toronto Area today and its prospects over the next few decades. The Altus analysis found that, it is the wrong time to be planning for or building new office space and that policies and development plans that require office uses should be re-evaluated.

### **Economic Context**

The current development plan for the Subject Lands with no office uses is a sound planning measure. Current conditions in the GTA office market are poor with significant negative absorption of (demand for) office space in the past three years, a sharp rise in vacant and available space, and in particular a sharp rise in sub-lease space. As well, there is also significant new supply currently in the development pipeline.

Key considerations in this opinion include:

- There is currently limited market for office space at this location. Given a long-term structural change taking place in the office market, need for new space at this location is unlikely to arise in the decades ahead. It is in the interest of good planning to proceed with the proposed development, so that the community can accrue the benefits of much needed new housing, along side limited population-serving commercial uses and the block plan development can proceed in a timely basis.
- Because the weakness in current conditions is linked to permanent changes underway within the workforces of many major office users in the GTA, in particular, the permanent shift to hybrid and activity-based work practices which reduce the space needs of companies relative to the number of employees, it is expected that these poor conditions will linger for much longer than a typical office market cycle.
- Scenarios of office supply and demand are modelled by Altus Group in the 2023 NAIOP report based on different assumptions about how efficient companies ultimately will be in the tailoring of workspaces to adapt to hybrid and activity-based work practices. But assuming the final average will

be somewhere between 80% pre-pandemic utilization (an average of 4 days a week – or put differently, planning for 8 desks for every 10 employees) to 40% utilization (an average of 2 days a week – or 4 desks for every 10 employees) the implications on the market as far out as 20 years from now range from a weak market (approximately 17% vacancy rate) to an extremely distressed market (about 45% vacancy rate). Either way, there is no compelling reason to plan on additional office space at this time.

- These findings were confirmed by a report published by the McKinsey Global Institute in July 2023 saying that hybrid work is here to stay and that office attendance in Global centres like Toronto has stabilized at 30% below pre-pandemic levels (i.e., 70% utilization) and that office market distress will remain for more than a decade.
- In Peel Region, the requirement for new office space in the next few decades ahead is certainly lower than pre-pandemic expectations and may even be close to or below zero.
- Peel Region's office market includes about 34.1 million sq. ft. of major office space (28.1 million occupied) across 349 buildings. Peel Region accounts for 23% of GTA-wide net office absorption in the past 10 years (the City of Brampton represents 25% of Peel Region net absorption).
- Since the onset of the pandemic, Peel Region's office market has lost almost 1.0 million square feet of occupied leased space through consistent negative absorption. Availability rates have almost doubled to 17.4 % as the quantum of vacant and available space, including a large quantum of sublease space, has ballooned to 6.0 million square feet – about 12 years worth of supply in a more normal market.
- Pre-pandemic, expectations for the need for new office space (based on annual average net absorption) for Peel Region were for some 0.5 million square feet per year. But given future scenarios of need adjusted for hybrid and activity-based work impacts, expectations for annual office absorption over the next few decades will likely be flat or negative for at least a decade to come. Scenarios of persistent negative absorption over such a long period of time is suggestive that millions of square feet of office space will need to be removed from the stock, in order to ensure a functioning office market and policy needs to pivot away provision of office to how best to remove or repurpose functionally obsolete existing office space.
- In addition, demand for office space is currently pivoting to a flight to quality where the marketplace is favouring Class A buildings in core transit supported nodes.
- The Client's development intentions for the Subject Lands are to bring forward much needed residential units. The additional residential uses at this location will bring important benefits to the City of Brampton.
- Provincial intentions to allow for flexibility planning for a viable mix of office and residential uses to help deliver housing supply are helpful to keep in mind in evaluating the best course of action on the Subject Lands. These provincial intentions have been articulated in emerging policies such as Bill 97 Helping Homebuyers, Protecting Tenants Act, the proposed Provincial Planning Statement, and the 2031 Municipal Housing Target ("Housing Pledge").

The longer-term prospects for office or employment demand at this location are weak given the long-term transition the sector is undergoing across the GTA and the pending oversupply of office space in Peel Region .

## Office Supply Context

In the third quarter of 2023 there was some 6.2 million sq. ft. of new office space under construction and a further 13.9 million in projects actively pre-leasing for a total pending supply pipeline of 20.0 million sq. ft. There was another 23.8 million square feet of vacant space on the leasing market.

In Peel Region the current availability rate for office space is 17.4% about twice as high as prior to the pandemic. Accounting for directly available and the growing segment of sub-lease available, there is a total of some 6.0 million sq. ft. of available space.

## Office Absorption (Demand) Context

Absorption is a sound measure of demand in the office sector and accounts for the change in leased space over time.

On average, prior to 2020, annual absorption in the GTA was some 2.0 million square feet per year. It had accelerated somewhat in the six years prior to the pandemic, 2014-2019, to 2.8 million square feet per year. The pre-pandemic benchmarks for Peel Region was 0.5 million square feet per year.

In the three and a half years since the onset of the pandemic, absorption has turned sharply negative and the quantum of total leased space in the market has declined by some 5.7 million square feet across the GTA with declines in Peel Region of just under 1.0 million square feet.

Many typical factors that affect office demand leading to higher or lower absorption are considered to be short term factors that can ultimately reverse over the course of an office market cycle. For example, weak demand related to weak employment growth (say, if the economy slows down or goes into a recession), is typically offset by stronger employment growth later on. Another example is investment confidence. If office users are confident about business growth ahead, they may take on more space in anticipation of growth. This can lead to positive absorption across the market and be characterized as an expansionary point in the office market cycle. But at another time they may feel more uncertain about growth, and reduce their space usage to save on expenses, this could lead to reduced absorption or even negative absorption and would be considered a contractionary point in the office market cycle. In general, these cyclical changes would be considered short term fluctuations in office demand.

In the past three and a half years, there has been a dramatic period of negative absorption in the GTA and in the Financial District that is unprecedented in recent times.

These declines are absolutely not an example of a short-term demand factor that will reverse itself within short order. Although single quarters and even single years of negative absorption have been seen in the GTA during various “normal” office market cycles, it is unprecedented over the past 25 years to have negative absorption over a three-year period. That and the fact that it is consistent across all the major geographic markets in the GTA, support the idea that a more fundamental demand shift has taken place, which certainly represents more than a short-term fluctuation.

## Concluding remarks

The Subject Lands are ideally situated to provide a significant new residential community in Brampton. As forecasts for office demand are reduced due to hybrid and activity-based work practices the merits of

Office Needs at Airport Rd. and Mayfield Rd. Brampton, Market Opinion Memo

October 19, 2023

Page 5

including any lands in the Airport & Mayfield Precinct Area for office type employment uses are called into question. The Draft Official Plan proposes to designate the subject lands Office Mixed-Use. In our opinion there is no market for new office space on the Subject Lands. Inclusion of employment lands designated for office uses in the development plan could effectively block or delay the proposed residential new community on the Subject Lands. A more effective approach would be a Mixed-Use designation, which would provide immediate flexibility and not preclude the development of office uses if and when the market would support.