

Report to Planning and Environment Committee

To: Chair and Members
Planning and Environment Committee
From: Scott Mathers, MPA, P.Eng.
Deputy City Manager, Planning and Economic Development
Subject: Incentivizing Office-to-Residential Conversions in Downtown
Date: July 16, 2024

Recommendation

That, on the recommendation of the Deputy City Manager, Planning and Economic Development, the following actions be taken with respect to offering financial incentives to support office-to-residential conversions in downtown:

- (a) Civic Administration **BE DIRECTED** to amend the Downtown Community Improvement Plan Financial Incentive Program Guidelines to introduce the following financial incentive programs focused on downtown office-to-residential conversion projects:
 - i) Feasibility Study Grant Program
 - ii) Construction Conversion Grant Program with a maximum grant of \$35,000 per unit
 - iii) Application Fees Exemption Program
- (b) Civic Administration **BE DIRECTED** to amend the existing Office-to-Residential Conversion Grant Program in the Downtown Community Improvement Plan Financial Incentive Program Guidelines to increase the amount of the grant per residential unit to match the proposed new program in recommendation (a) ii).
- (c) Civic Administration **BE AUTHORIZED** to amend its agreement with 166 Dundas St London Inc. by \$110,053 to adjust for the increased per residential unit grant value to be implemented subject to Municipal Council approval of recommendation (a) ii).
- (d) Civic Administration **BE AUTHORIZED** to amend its agreements with any future applicants that receive an Office-to-Residential Conversion Grant prior to the new Construction Conversion Grant Program being approved, to adjust for the increased per residential unit grant value to be implemented subject to Municipal Council approval of recommendation (a) ii).
- (e) The report "City of London Office to Residential (OTR) Conversion Financial Incentive Program(s) (OTR-CFIP)" from Urban Insights Inc. attached as Appendix "A" **BE RECEIVED**.

Executive Summary

Summary of Request

The City of London retained a consultant team led by Urban Insights Inc. in collaboration with Durrell Communications and Gillam Group Inc. ('Urban Insights') to determine what new or amended Community Improvement Plan financial incentive program(s) will best result in incentivizing property owners to convert vacant downtown Class 'B' and 'C' office space to residential units.

Purpose and the Effect of Recommended Action

Urban Insights is recommending three financial incentive programs for the City of London to implement:

- Feasibility Study Grant Program
- Construction Conversion Grant Program
- Application Fees Exemption Program

Each program targets a specific aspect of an office-to-residential conversion project and will help make a project more financially viable for eligible applicants.

The Feasibility Study Grant Program targets the numerous technical studies required to determine if an office building can be feasibly converted to residential units.

The Construction Conversion Grant Program helps cover a portion of the cost of the physical conversion of the space. Urban Insights is recommending a maximum grant of \$40,350 per unit; however, Civic Administration is recommending a maximum grant of \$35,000 per unit as this is the maximum amount received from the Housing Accelerator Fund for an Office-to-Residential Conversion Unit.

The Application Fees Exemption Program reduces the upfront cost of an eligible development project by exempting municipal application fees.

Civic Administration agrees with Urban Insights' recommendations to introduce these three programs.

This report recommends Municipal Council direct Civic Administration to amend the Downtown Community Improvement Plan Financial Incentive Program Guidelines to introduce these new programs and to amend the existing Office-to-Residential Conversion Grant program to reflect the revised maximum grant value of \$35,000 per unit (without differentiating by the number of bedrooms) and remove the \$2 million cap per property.

Rationale of Recommended Action

The recommended action helps implement the Downtown Community Improvement Plan's goals and objectives, specifically:

- Goal III a. "to enhance the downtown as a unique community in the Heart of the City. The downtown shall be a place where people are attracted to live, work, shop and play".
- Objective IV c. "stimulate private property maintenance and reinvestment activity".

The recommended action also addresses Strategies 5,6,7 and 8 of the 13 strategic property initiatives in the 2023 Core Area Land and Building Vacancy Study and one recommendation from the 2023 Five-Year Community Improvement Plan Review.

Linkage to the Corporate Strategic Plan

This recommendation supports the following Strategic Areas of Focus:

- **Economic Growth, Culture, and Prosperity** by increasing residential occupancy and livability in the Core Area.

Analysis

1.0 Background Information

1.1 Previous Reports Related to this Matter

Strategic Priorities and Policy Committee – Core Area Land and Building Vacancy Reduction Strategy – May 30, 2023

Planning and Environment Committee – 5-Year Review – Community Improvement Plans and Financial Incentive Programs – June 12, 2023

Strategic Priorities and Policy Committee – London’s Approved Housing Accelerator Fund Application – September 19, 2023

Planning and Environment Committee – Amendments to the Downtown Community Improvement Plan Financial Incentive Program Guidelines to introduce an Office-to-Residential Conversion Grant Program – February 21, 2024

1.2 Downtown Community Improvement

Municipal Council adopted the Downtown Community Improvement Plan (CIP) in 1996 and amended the CIP in 2017 to expand the community improvement project area boundary to include properties in Richmond Row. The Downtown CIP’s purpose is to provide the context for a coordinated municipal effort to improve the physical, economic, and social climate of the downtown. The initiatives summarized in the CIP, are intended to stimulate private investment and property maintenance and renewal in the downtown. The CIP’s focus is to foster an environment that will increase the supply of residential units within the downtown to ensure a viable downtown population, encourage the provision of unique or specialized attractions and public facilities, and the location of community amenities to make the downtown an attractive place for investment to occur.

The Downtown CIP provides the legislative and policy framework that permits Municipal Council to provide financial incentive programs to private property owners that support the CIP’s goals.

Financial incentive programs approved by Municipal Council are adopted in a separate by-law from the Downtown CIP and its community improvement project areas. This separation allows Civic Administration flexibility to implement edits to financial incentive programs without having to follow the Planning Act requirements that are necessary to amend the CIP itself.

In Civic Administration opinion updating the Downtown CIP Financial Incentive Program Guidelines to better incentivize office-to-residential conversion projects satisfies Goal “c.” of the CIP and meets the CIP’s purpose.

In March 2024, Municipal Council approved a preliminary Office-to-Residential Conversion Grant Program. This program (functioning as a forgivable loan) offers eligible office-to-residential conversion projects a grant equal to the amount of applicable development charges based on the number of bedrooms per unit and the total number of residential units created, up to \$2 million per property. In 2024, the applicable grant rates are \$20,777 for a one-bedroom unit and \$28,155 for a two-bedroom unit.

As of writing this report, Civic Administration has approved three Office-to-Residential Conversion Grant Program applications; however, the grant has only been issued for 166 Dundas Street. The grants for the other two applications will be issued once the building permit is issued and the agreement signed.

1.3 Core Area Land and Building Vacancy Reduction Strategy (CAVRS)

Municipal Council received the Core Area Land and Building Vacancy Study (CAVRS) in June 2023.

CAVRS serves as a guide to address Core Area commercial land and building vacancy in London. It is a property-based strategy, with supporting strategic initiatives related to people, place, and promotion. While each area of focus is important, CAVRS is foundationally a property-based strategy, meaning that occupancy-ready property must be available to reduce Core Area commercial land and building vacancy. Without a supply of occupancy-ready properties, the other three CAVRS areas of focus alone will not be sufficient to reduce Core Area commercial land and building vacancy.

Converting vacant commercial office space into residential units is specifically cited among the thirteen Property Strategic Initiatives in CAVRS.

Potential programs identified therein include:

- A new grant program that bridges the economic viability gap and achieves the

conversion of vacant Class 'B' and 'C' office space into residential units (e.g., a per square foot grant as used elsewhere in Canada).

- A program that improves air quality when converting office space to residential units.
- A program to support undertaking feasibility studies for eligible office properties to determine if it can be converted.
- A grant program to cover the cost of planning application fees for eligible conversion projects.

In CAVRS, a Class 'B' office building is defined as a slightly older building with good management and quality tenants.

Class 'C' office buildings are the lowest grade for useable office buildings. These office buildings are older and may be located on less desirable streets in older sections of the city. Many of these buildings usually have higher than average vacancy rates for their market. Older, less desirable architecture, limited infrastructure, and antiquated technology define Class 'C' buildings.

1.4 5-Year Community Improvement Plan Review

Civic Administration completed the 5-Year CIP and Financial Incentives Review in June 2023.

Its purpose was to propose changes to several of London's CIPs, to the scope and terms of Financial Incentive Programs, and to consider new programs and approaches to address community improvement issues.

On June 27, 2023, Municipal Council directed thirty-five recommendations from the review be implemented with many recommendations requiring funding approval through the Multi-Year Budget process.

The recommendation relevant to this report is:

- d) xiv) the Civic Administration BE DIRECTED to investigate the feasibility of a new community improvement financial incentive program to support conversion of vacant commercial buildings with a low potential for continued commercial use to residential units in alignment with the multi-year budget process.

1.5 Housing Accelerator Fund

In April 2023, the Canada Mortgage and Housing Corporation released details on the Housing Accelerator Fund (HAF). HAF is a \$4 billion incentive program targeting local municipal governments, with an anticipated outcome of 100,000 additional building permits issued in Canada over a three-year period.

HAF's aim is to encourage new municipal initiatives that will increase housing supply at an accelerated pace and enhance certainty for developers in the approvals and building permit processes, resulting in transformational change to the housing system.

London's approved HAF application provides a housing target of 2,187 additional units between 2024-2026 for eligibility of up to \$74,058,143 under the HAF. These units must be over and above London's recent unit construction average.

The funding is awarded based on the overall number of additional units that will occur because of the HAF funding. In general, funding is based on the municipality's overall growth commitments and projected units that align with priority areas. The funding framework has three components:

1. Base funding
2. Top-up funding, and
3. An affordable housing bonus.

Multi-unit housing near transit will receive the most per unit funding, followed by 'Missing Middle' built form multi-unit housing, other multi-unit housing, and detached homes. Per unit funding ranges from \$20,000 to \$50,000 per unit.

Of the seven HAF initiatives, #1 is most relevant to this project:

- Promoting high-density development without the need for privately initiated rezoning (as-of-right zoning), e.g., for housing developments up to 10 storeys that are in proximity (within 1.5km) of rapid transit stations and reducing car dependency.
 - Noting: The City would also tie these incentives to inclusion of housing unit types for families, students, and seniors at various levels of affordability to ensure a diverse and inclusive community is created. This initiative will also include implementing incentives for conversions from non-residential to residential and multi-unit housing within close proximity to transit through the development of a Community Improvement Plan.

Of the approved up to \$74M in HAF funding, \$20M is earmarked for per unit financial incentives to support Community Improvement Plans and Financial Incentive Programs to support multi-unit non-residential conversions and multi-unit transit-oriented housing.

2.0 Discussion and Considerations

2.1 Project Overview

The City of London retained a consultant team lead by Urban Insights Inc. in collaboration with Durrell Communications and Gillam Group Inc. ('Urban Insights') to determine what new or amended Community Improvement Plan financial incentive program(s) will best result in incentivizing property owners to convert vacant commercial office space to residential units.

Several deliverables were contracted from the consultant team, including:

- A planning justification report to provide policy framework and rationale related to the creation of the proposed financial incentive program(s);
- A review of the existing financial incentive programs offered through the Downtown and Old East Village CIPs to determine if they can be modified to (better) incent the conversion of vacant commercial office space to residential units in buildings with low potential for commercial reuse;
- An analysis supporting a recommendation for or against introducing a feasibility study grant for converting vacant Class 'B' and 'C' office space into residential units;
- The development of a new grant program for office conversion projects at a specified rate per square foot or unit that will be converted to residential units;
- An analysis supporting a recommendation for or against a financial incentive program to support improving air quality when converting office space into residential units;
- An analysis supporting a recommendation for or against a financial incentive program to cover the cost of planning application fees for office to residential conversion in the Core Area;
- An analysis supporting a recommendation for or against expanding any of the proposed financial incentives beyond the Core Area.

As outlined in Sections 2.2 to 2.8 below, Urban Insights' analysis in Appendix "A" shows that introducing financial incentive programs to help cover some of the cost of the studies needed to convert an office building, construction, and application fees will

improve a conversion project’s financial feasibility. A financial incentive program related to improving air quality is not being recommended.

2.2 Proposed Financial Incentive Program Overview

Urban Insights is recommending three financial incentive programs for the City to adopt:

Feasibility Study Grant Program – to fund the cost of technical studies to reduce the financial risk for project proponents to assess the viability of converting office space into residential units. This three-step grant program is designed to advance the most viable conversion projects through an evidence-based criteria system and reduce the risk to the property owner and the City.

Construction Conversion Grant Program – to reduce the construction cost (initial investment burden) when converting vacant office space into residential units.

Application Fees Exemption Program – to exempt applicants from all planning, building permit, and other associated fees (e.g., cash-in-lieu of parkland) to reduce the upfront costs for property owners when converting vacant office space into residential units and to improve project viability.

The three programs will have access to \$10 million, minus any existing commitments, allocated from the \$74 million received under the Housing Accelerator Fund.

The three programs are anticipated to generate four to six office-to-residential conversions within the three-year HAF funding window.

Table 1: Urban Insight Inc. Proposed Financial Incentive Programs

| Program | Funding Allocation | Purpose | Funding Criteria |
|---------------------------------------|--|--|---|
| Feasibility Study Grant Program | \$800,000 (8%) | Funding towards a technical feasibility study grant program organized into three steps | Maximum \$80,000 per property (phased criteria guided by the Scorecard) |
| Construction Conversion Grant Program | \$9,200,000 minus any previously approved application funding (92%) | Funding towards construction and management costs for eligible projects | Maximum \$40,350* per unit |
| Application Fee Exemption Program | \$0.00 (0%) | A fee exemption to help the OTR program and reduce costs to the project | Forgone Revenue |
| Total | \$10,000,000 | | |

*The maximum funding potential is recommended to create at least 228 office-to-residential units

For maximum effectiveness these programs can be stacked with other applicable financial incentive programs in the downtown, such as the Rehabilitation and Redevelopment Tax Grant Program.

Each proposed program is discussed in more detail in Section 2.3 to 2.5.

2.3 Feasibility Study Grant Program

Urban Insights is recommending the City of London create a Feasibility Study Grant Program. The Feasibility Study Grant Program is recommended to be up to \$80,000 per property (one-time).

This grant helps applicants complete specific technical studies to determine if a building can be converted. The Feasibility Grant Program incorporates a maximum cap to ensure grant funding remains available to support between four and twenty feasibility study applications. In some cases, additional study work and more expensive studies are required. If this occurs, it is the applicant's responsibility to cover the costs beyond the \$80,000 grant if they wish to proceed.

The Feasibility Study Grant is being recommended as a three-step process with eligible funding for defined studies up to a maximum of \$80,000 per property described at a high level below:

- The first step is the Scorecard performed by a third-party consultant. A set \$3,000 fee is assigned for this study requirement. The Scorecard Report will show the conversion potential and project viability. The anticipated turnaround time for step one is one to two weeks.
- The second step is the Phase 1 Feasibility Study Assessment involving a floor plan, hazardous materials assessment, and geotechnical study. If these studies show the building is viable for conversion, funding will be available for the third step.
- The third step involves a structural assessment, mechanical and electrical, fire life safety, envelope and energy, and elevators, lifts, and escalators reports. The anticipated turnaround time for steps two and three is six to eight weeks to complete all required studies. If less studies are required these steps can be done more quickly.

Urban Insights is proposing the City of London retain a third-party consultant to independently (from the City) complete the Scorecard step in the process.

2.4 Construction Conversion Grant Program

Urban Insights is recommending the City of London create a Construction Conversion Grant Program to help incentivize the conversion of vacant office spaces into residential units.

A maximum grant of \$40,350 per unit has been calculated based on a pro forma financial feasibility analysis and taking into consideration the \$10 million funding envelope. A \$40,350 per unit grant results in 228 residential units being created.

A \$40,350 per unit grant represents a 14.3%-17% cost reduction to a standard renovation project which is estimated to range between \$315 to \$375 per square foot.

No maximum grant per property (or cap) is being recommended for the Construction Conversion Grant Program.

Civic Administration is recommending a maximum Construction Conversion Grant of \$35,000 per unit based on the HAF funding received for Office Conversion Units:

Base funding (\$20,000) plus multi-unit housing near rapid transit (\$15,000) = \$35,000.

Civic Administration recommends not exceeding \$35,000 per unit as this is the maximum value received for an Office Conversion Unit from the Housing Accelerator Fund. A \$35,000 per unit grant results in 263 residential units being created.

The applicant will receive the Construction Conversion Grant after the building permit has been issued. The Grant Program will operate as a forgivable loan and be available first-come first-serve. The full Grant Program details will be available in a future report to the Planning and Environment Committee when Municipal Council approval is sought.

2.5 Application Fees Exemption Program

Urban Insights is recommending the City of London create an Application Fees Exemption Program to help reduce office-to-residential conversion project costs and increase project viability.

Application fees may include, but are not limited to:

- Planning application fees
- Building Permit fees
- Cash-in-Lieu of Parkland fees

The three proposed office-to-residential conversion financial incentive programs are anticipated to generate four to six applications within the three-year HAF funding window. As a result, Urban Insights has estimated the cost of fees (i.e. revenue not received) at \$375,000 for six applications to the financial incentive programs.

The City has two options for financing of the Application Fees Exemption Program:

Option 1 – is to waive the application fees and each affected service areas' budget will not be made whole, but instead will forgo that revenue.

Option 2 – is to have the program funding repay the application fees to each affected City service area. This option makes the service area budget whole but reduces the impact of the budget allocation by the estimated cost of \$375,000 — equivalent to 11 residential units based on the \$35,000 construction conversion grant recommendation.

Urban Insights is recommending Option 1 as it will have minimal impact on revenue (based on the estimated four to six applications) and maximize the number of converted units.

If Municipal Council directs Civic Administration to further investigate an Application Fees Exemption Program, a future recommendation to Municipal Council on what option to move forward with will be presented.

2.6 Air Quality Grant Program (not recommended)

The City asked Urban Insights to undertake an analysis for or against a financial incentive program to support improving air quality when converting Class 'B' and 'C' office space into residential units.

Urban Insights is not recommending a separate Air Quality Grant Program. In their opinion having a separate line item for air quality makes the conversion program more complex and reduces the overall effectiveness of the proposed Construction Conversion Grant Program.

In general, improving air quality will be addressed through the proposed Construction Conversion Grant Program and the required feasibility studies. Updating old building systems during the construction process will result in improved air quality and energy efficiencies.

Civic Administration concurs with these findings and is not recommending a separate Air Quality Grant Program.

2.7 Engagement and Research

Urban Insights along with Gillam and Durrell Communications, undertook an engagement process to ensure that the voices of property developers, local business

owners, and City staff were heard and integrated into the planning and execution phases of the proposed financial incentive programs.

This process included in-person and virtual meetings and workshops that provided platforms for discussion and exchanging of ideas.

Additionally, 14 targeted interviews with industry experts and developers were conducted to refine the proposed programs objectives and strategies, ensuring they align with real needs and opportunities within the downtown.

Key findings from the engagement included:

- A grant to help fund technical studies to assess the feasibility of conversion.
- A grant to bridge the funding gap to help make projects more financially feasible.
- Improvements to energy efficiency would make office buildings more attractive to convert to residential.
- Endorsements to cover energy, development, and tax costs.

Urban Insights also interviewed the City of Calgary about its office-to-residential financial incentive program to inform approaches to use in London.

Further, the consultant team visited six potential conversion sites, and leveraged Gillam's construction management experience to get a better understanding of the construction obstacles property owners face when converting a building.

This proactive engagement strategy made it easier to understand the challenges and potential of converting office spaces into residential units but also created a sense of purpose and buy-in essential to foster success for the proposed programs.

2.8 Pro Forma Analysis

Urban Insights undertook a pro forma (financial feasibility) analysis to support its recommendations.

The key findings from the pro forma include:

- **Viability assessment.** The pro forma analysis reveals that the proposed office-to-residential conversion financial incentives programs are critical in making many potential projects financially viable. Without these programs, the high costs of a conversion project might deter developers.
- **Return on Investment (ROI).** The expected ROI, based on the construction value generated by these projects, is projected to be significant, ranging from 5.6x to 8.4x. This high return is indicative of the substantial economic impact these conversions could have, far outweighing the initial public investment.
- **Cost Savings.** With the programs, developers can see a reduction in overall project costs by approximately 14.3% to 17%, making projects more attractive and financially feasible. This reduction is critical in a market where lower construction costs are necessary to ensure projects will start and finish.
- **Economic Impact.** Beyond direct financial returns, the pro forma suggests substantial broader economic benefits, including increased property values, enhanced tax revenues, and job creation during construction. These factors contribute to the revitalization of the downtown.
- **Risk Mitigation.** The financial modeling incorporates various risk factors, including market volatility and potential cost overruns. The strategic use of financial incentives and structured financial planning within the pro forma helps mitigate these risks, ensuring that the program can adjust to changing economic conditions without compromising its objectives.

2.9 Existing Downtown Office-to-Residential Conversion Grant Program

In March 2024, Municipal Council approved a preliminary Office-to-Residential Conversion (OTR) Grant Program. This existing program (functioning as a forgivable loan) offers eligible office-to-residential conversion projects a grant equal to the amount of applicable development changes based on the number of bedrooms per unit and the total number of residential units created, up to \$2 million per property. In 2024, the applicable grant rates are \$20,777 for a one-bedroom unit and \$28,155 for a two-bedroom unit.

Civic Administration is recommending this existing OTR Conversion Grant Program be amended to increase the grant value to \$35,000 and to remove the \$2 million cap per property. This will help encourage further office-to-residential conversion projects during the period before the Civic Administration can introduce the proposed new financial incentive programs.

2.10 Applicants to the Existing Office-to-Residential Conversion Grant Program

In April 2024, the City of London and 166 Dundas St London Inc. signed an agreement to provide an OTR Conversion Grant of \$414,947 for the conversion of 166 Dundas Street to create 15 new residential units.

This grant is based on the program grant amounts of \$20,777 to \$28,155 per unit. In the interest of fairness and transparency, Civic Administration is recommending 166 Dundas St London Inc.'s OTR Conversion Grant agreement amount be amended upward by \$110,053 to reflect the revised grant value of \$35,000 per unit.

As of writing this report, two additional applications to the existing Office-to-Residential Conversion Grant Program have been approved, but the agreements have not been signed. Civic Administration is recommending that when these agreements are signed (and any potential future applications are approved) before the new Construction Conversion Grant is approved by Municipal Council, the amount of the OTR Conversion Grant amount be amended to reflect the revised grant value of \$35,000 per unit and the \$2 million cap per property be removed.

3.0 Financial Impact/Considerations

3.1 Program Budget

A budget of \$10 million has been established to fund office-to-residential conversion financial incentive programs. This budget is supported by the \$20 million Housing Accelerator Fund application for per unit financial incentives to support multi-unit non-residential conversions. As a result, the proposed programs will have no impact on the tax levy between 2024 and 2026.

If it is desired that any programs are continued beyond the program budget allotted through the Housing Accelerator Fund, the tax-supported Community Improvement Program Reserve Fund would be the proposed funding source. Business Case P-42 Initiative #12 approved through the 2024-2027 Multi-Year Budget includes \$21.1 million in funding for a variety of CIPs and financial incentive programs, including office-to-residential conversions. \$20 million of the funding is from HAF for 2024 and 2026 and \$1.1 million is tax-supported for 2027.

3.2 Stacking Grants and Incentives for Affordable Housing

As noted in various reports on the financial viability of affordable housing projects, the pro forma is sensitive to small changes in market conditions. Project costs can fluctuate based on global demand for materials. Additionally, the construction period can also have an adverse affect on long-term debt of the non-profit housing provider as they carry the financial burden of the project during the construction phase.

Although the City provides several financial incentives, the recent analysis through the Affordable Housing CIP review found that the potential gap in capital funding required

for an affordable housing project ranges from approximately \$139,000 to \$159,000 per unit for a non-profit housing provider. In the case of the Office-to-Residential Construction Conversion Grant Program, the proposed grant of \$35,000 per unit, stacked with the provincially mandated development charge exemption for affordable housing residential units (\$20,777), and a Roadmap to 3,000 grant (\$45,000) can help close the gap in funding required to build more affordable units.

Conclusion

This report recommends Civic Administration be directed to introduce three new office-to-residential financial incentive programs to help downtown private property owners convert their vacant Class 'B' and 'C' office buildings to residential units.

These programs also help the City meet its obligations to the Housing Accelerator Fund and help implement the recommendations of CAVRS and the 5-Year CIP Review.

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Recommended by: **Scott Mathers, MPA, P.Eng.**
Deputy City Manager, Planning and Economic Development

Copy: Alan Dunbar, Manager, Financial Planning and Policy

Appendix A – Urban Insights Final Report: “City of London Office to Residential (OTR) Conversion Financial Incentive Program(s) (OTR-CFIP)”



CITY OF LONDON

OFFICE-TO-RESIDENTIAL (OTR) CONVERSION FINANCIAL INCENTIVES PROGRAM(S) (OTR-CFIP)

FINAL REPORT
JULY 2024



ACKNOWLEDGEMENTS

We would like to thank all community partners and organizations that participated by providing input into the OTR Conversion Financial Incentives Program through interviews, site visits, engagement activities and workshops.

We appreciate the time and participation of local builders and non-profit leaders, and the London Development Institute (LDI) who represents the local building industry. We are thankful for LDI input and support in this program.

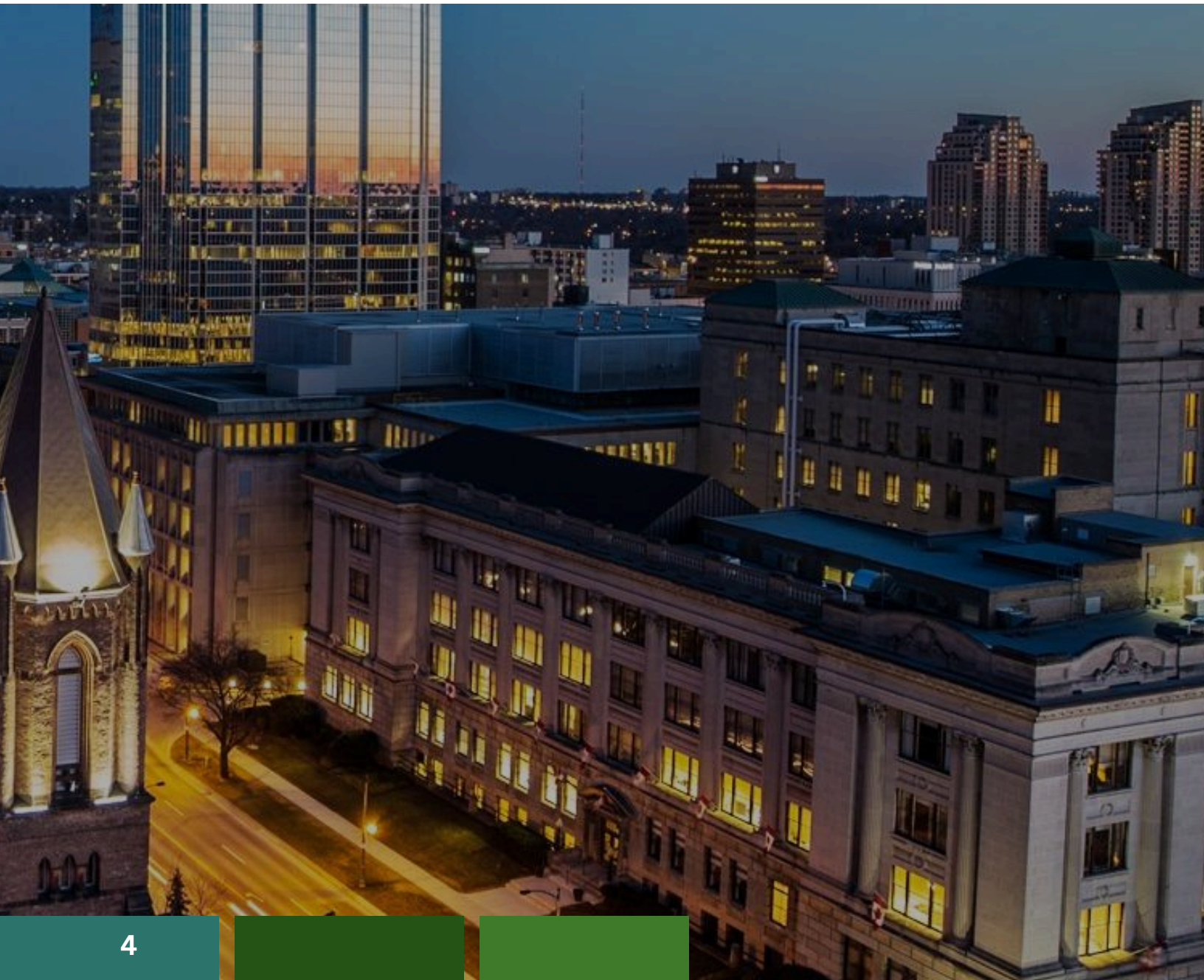
We would also like to thank City staff who contributed directly and indirectly to the completion of this report. This report would not have been possible without their expertise, knowledge, experience, and valuable input.

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EXECUTIVE SUMMARY

This comprehensive report encapsulates the entirety of the Office to Residential (OTR) Conversion Financial Incentive Programs (OTR-CFIP) project, detailing its inception, execution, and anticipated impacts. With an allocation of \$10M from the Housing Accelerator Fund (HAF) and based on available funding, the OTR-CFIP aims to revitalize London’s downtown by converting underused Class B and C office spaces into residential units. This initiative is aligned with the City’s strategic goals to enhance economic growth, culture, and prosperity, and address housing needs by increasing the residential occupancy in the Core Area, and more specifically, the Downtown.





2. BACKGROUND INFORMATION

2.0 BACKGROUND INFORMATION

2.1 Community Improvement Plans (Grants)

A financial grant is an economic incentive offered by a municipality to encourage a specific (or targeted) type of development activity or to guide development in a certain direction. A grant is a sum of money, often linked to specific criteria, which does not need to be repaid by the applicant. Municipal grants can be funded by municipalities in a variety of ways including the annual budget, a reserve fund, and in some cases, a waiver of fee(s) depending on the program. These grants are guided by policy goals such as urban renewal, economic development, affordable housing, legislative authority and Council direction.

As a principle, grants can make projects feasible that might otherwise be unviable due to high costs or low returns. By reducing the financial burden (and time) on developers, these grants encourage investments in areas that serve a broader community interest. Grants can apply to construction activity, technical study and other items as permitted under the framework of Section 28 of the Ontario Planning Act, enabling Official Plan (The London Plan) policies and an approved Community Improvement Plan (CIP).

The London OTR-CFIP introduces three financial incentive programs to incentivize conversion projects based on a defined criteria focused on:

1. Feasibility Study Grant Program;
2. Construction Conversion Grant Program; and,
3. Application Fee Exemption Program.

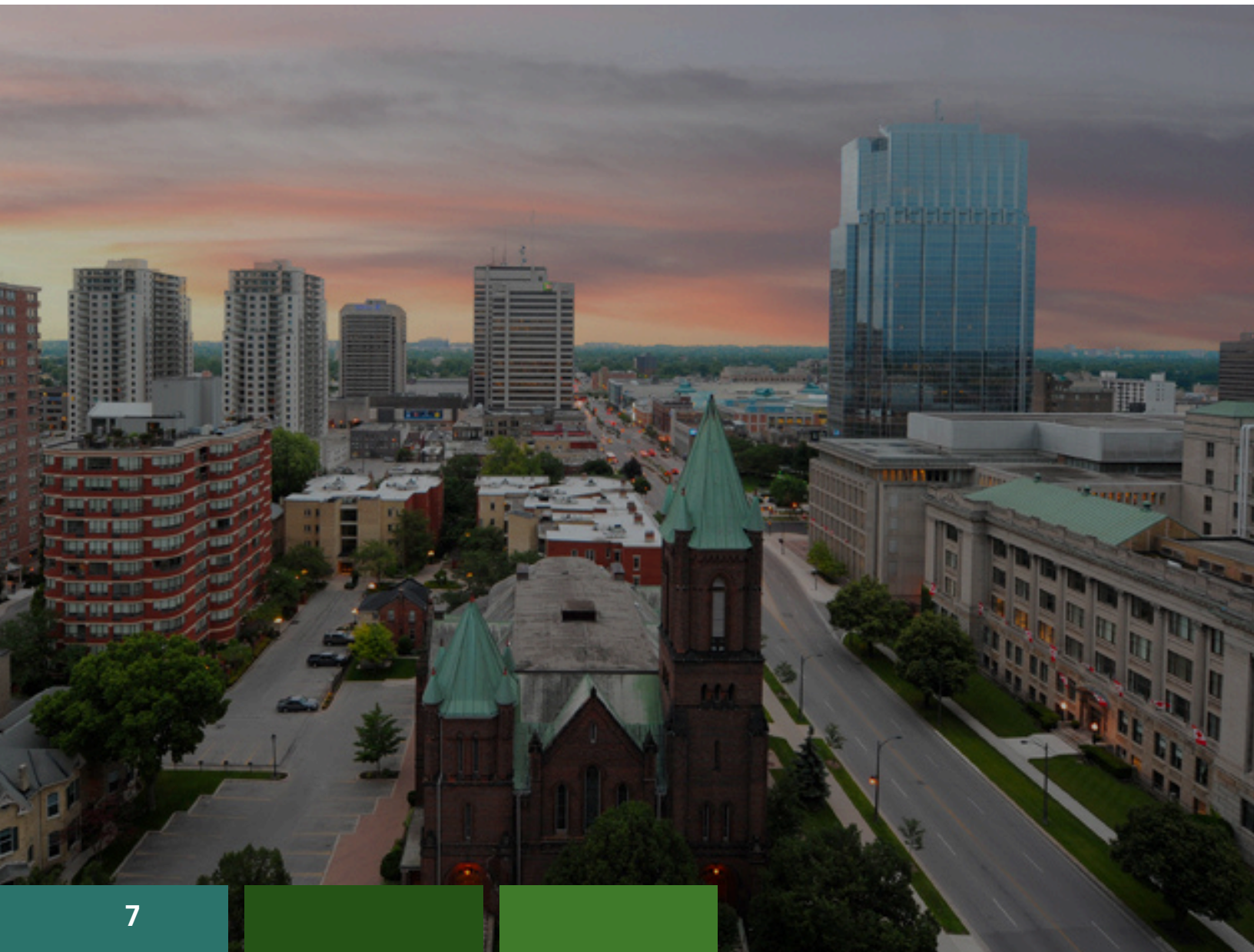
2.2. The OTR-CFIP Deliverables

The City of London Office-to-Residential Conversion Financial Incentive Program(s) (called The OTR-CFIP Request for Proposal) identifies 11 key deliverables outlined in **Appendix 1**. Urban Insights Inc., in collaboration with Durrell Communications and Gillam, have been retained to carry out consulting services to develop OTR-CFIP. The project team has prepared nine reports as part of the required deliverables (Deliverables A-K). This Comprehensive Report provides a complete summary and analysis of Deliverables C-K.

2.3 The OTR-CFIP Purpose

The purpose of the OTR-CFIP is to help accelerate the provision of new housing units in London by the conversion of vacant Class B and Class C office space in London's Core Areas. The expected outcomes of the OTR-CFIP include:

- Reducing the amount of vacant office in London's Core Areas as set out in the Core Area Vacancy Reduction Strategy.
- Helping to increase the overall assessed property value of the Core Area;
- Rebalancing the Core Area's land uses and economic functions; and,
- Assisting in meeting the Housing Accelerator Fund target of 2,187 additional units over three years.






3. RECOMMENDATIONS

3.0 RECOMMENDATIONS

The City of London adopts the following recommendations provided in this Comprehensive Report for the Office-To-Residential (OTR) Conversion Financial Incentive Program(s) (OTR-CFIP):

- Update the Downtown CIP to support three new programs: Feasibility Grant Program; Construction Conversion Grant Program; and Application Fee Waivers.
- Waive application fees as outlined in this report.
- Amend the Parkland-Cash-In-Lieu Bylaw to exempt parkland dedication fees for any OTR-CFIP approved project.
- Monitor the Downtown OTR-CFIP on an annual basis and provide a report back to Municipal Council with updates and recommendations.
- Receive the London OTR-CFIP Brochure for information and implement the Communications Plan as presented in **Appendix 2**.
- Use the Conversion Report (as attached in **Appendix 3**) as the primary evaluation system to evaluate and recommend OTR-CFIP conversion projects to the satisfaction of the Project Review Team.





4. DISCUSSION AND EVALUATION

4.0 DISCUSSION AND EVALUATION

4.1 Conversion Program Overview

The proposed OTR-CFIP was prepared to facilitate the conversion of vacant or under utilized Class B and C offices into residential units. This goal is a founding principle of the 1989 Official Plan which has been extended into and expanded in The London Plan.

The proposed OTR-CFIP is based on an incentive package that provides a direct cash grant to facilitate the conversion of vacant offices. The OTR-CFIP will include a series of other supporting programs that provide funding fee waivers and technical studies to facilitate OTR conversions that meet specific criteria. These financial programs are supported by The London Plan and the Downtown CIP goals and policies.

The London Plan supports the rehabilitation, redevelopment and reinvestment of the downtown, particularly for projects located on transit routes and near services. The London Plan establishes criteria for incentives which the OTR-CFIP meet. Through a strategic use of financial incentives, the primary goal is to convert vacant and under utilized office space into residential units.

This will add vibrancy, consumer spending and transit ridership to the downtown.

Based on the known Class B and C inventory, and current office-to-residential best practices, there is potential for an estimated 8-12 office building conversions in the downtown based on a 20% potential conversion ratio. Given existing lease rates and property status, we assume that 50% of this supply could be available for short-term conversion. These assumptions result in a target of 4-6 office building conversions that would add an estimated 228 to 343 new units and 383 to 576 new residents to the downtown. This target, based on an average of 1.68 people per unit count, would reduce the current office vacancy rate by an estimated 160,000 – 240,000 square feet. Many of the sites have limited, and in some cases no parking.

From a planning perspective, the proposed London OTR-CFIP conform to The London Plan, is enabled by the 1996 Downtown CIP and operates within Section 28 of the Ontario *Planning Act*. Downtown London is at a tipping point; the ability to convert one single building will send a positive signal that the market can support OTR conversions in the downtown.

From a market perspective, 89% of the Core Area office inventory is in the Downtown which is the primary office market, containing 64% of all vacant Class B and C buildings. From a financial perspective, it makes sense to concentrate The London OTR-CFIP in the Downtown where the 1996 Downtown CIP can best accommodate new incentives.

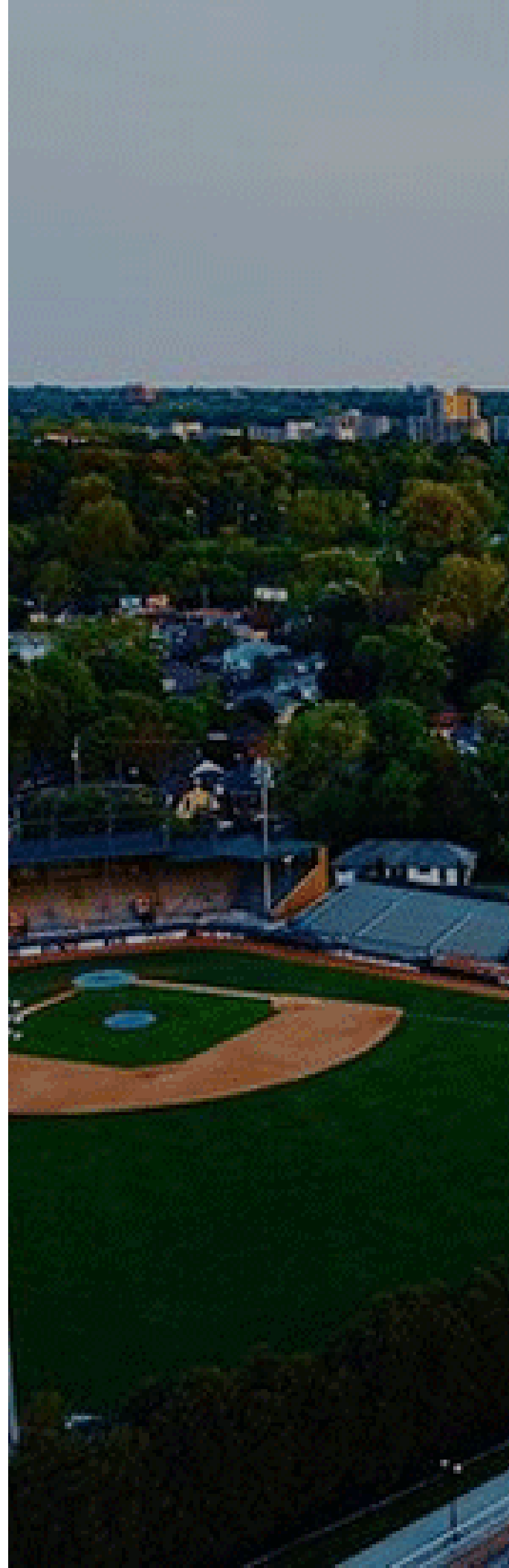
From an implementation perspective, The London OTR-CFIP has the potential to kick-start the market with 4-6 new projects which would have a significant impact on reversing the current trends in the downtown core.

Greater information on the financial tools is provided in the background material related to the Feasibility Study Grant Program Position Report.

The proposed London OTR-CFIP are supported in the Downtown. These programs should remain focused on the Downtown with a monitoring program in place to consider expanding this program pending future opportunities.

4.2. The Grant Program

The OTR-CFIP has been prepared to address a series of goals subject to a defined funding source. A review of the grant program goals, funding allocation and feasibility grant principles are discussed below.



4.2.1. Office-to-Residential Program Goals

The primary goal of the London OTR-CFIP is to determine if the grant programs can effectively stimulate the conversion of vacant/ underused office spaces into viable residential units, thereby aiding in urban renewal and increasing housing supply.

To achieve this goal, the London OTR-CFIP has been organized into three distinct programs starting with the Feasibility Study Grant Program, followed by the Construction Conversion Grant Program and an Application Fee Exemption Program outlined below in Table 1 with program purpose and goals identified.

Table 1: Recommended OTR-CFIP with Program Purpose and Goals

| | |
|----|---|
| A. | Feasibility Study Grant Program. A grant to fund the cost of technical studies and reduce the risk associated with assessing the viability of converting office spaces into residential units. This three-step grant program’s goal is to advance the most viable projects through an evidence-based criteria system and to reduce risk to the property owner and to the City. |
| B. | Construction Conversion Grant Program. Providing a grant to reduce the cost of construction (initial investment burden) to convert vacant office space into residential units. |
| C. | Application Fee Exemption Program. Providing a fee exemption for all planning, building permit and associated fees (e.g. parkland cash-in-lieu) to facilitate the London OTR-CFIP application process through a low-cost entry for property owners and adding to project viability. |

In terms of direct impacts, The London OTR-CFIP Program(s) have the potential to deliver the following targets:

- **Vacancy** - The London OTR-CFIP has the potential to reduce the office vacancy by a projected 160,000 - 240,000 square feet through the conversion of 4-6 office buildings. An average unit size of 700 square feet is assigned for a typical residential unit.
- **Residential Units** - The London OTR-CFIP Program(s) have the potential to add 228-343 new residential units to the downtown that would reverse an upward trend in rising office vacancies depending on uptake and project size. This housing potential

translates to an increase in the downtown population of 383-576 additional residents. The population density is based on 1.68 person per unit as set out in the Development Charges Background Study and could introduce significant activity in the downtown.

- **Assessed Value** - Over time, the London OTR-CFIP have the potential to increase the downtown assessed property value by adding a forecasted (estimated) value range based on a low and high range potential:
 - \$50.4M - \$90M
 - 160,000 sq.ft. x \$315-375 per sq.ft. (low range)
 - 240,000 sq.ft. x \$315-375 per sq.ft. (high range)
- **Housing Accelerator Fund (HAF)** - The London OTR-CFIP will assist in achieving the HAF target by adding 228-343 net new (permanent) residential units, equating to over 10% of the HAF target. The housing unit target is proportionate to the HAF investment proposed for the OTR-CFIP.
- **Return-on-Investment (ROI)** - A \$10M fund has the potential to generate \$50.4M-\$90M in new construction which translates to a 5.0 X to 9.0 X ROI. The ROI is based on an average \$350 per

sq.ft. construction cost assumption which generates an 8.4 X potential ROI.

- **A Renovation Advantage** - On average, a conversion project costs approximately 30% less than a new build project which is estimated to cost \$425-475 per sq.ft. This costing assumption falls in line with current construction practices, the Gensler studies (refer to **Appendix 8**) and, based on Gillam's construction experience (refer to **Appendix 6**). The purpose of the OTR-CFIP is to reduce risk for OTR projects and to make them more attractive for investment.

In addition to the direct OTR-CFIP goals(s), the following principles apply to the three-tiered grant programs outlined below:

- **Best Practices.** The London OTR-CFIP was prepared based on a careful evaluation of best practices, industry engagement, and financial modeling which are in alignment with the Gensler OTR findings. In reviewing the London market, a Scorecard has been prepared by the Project Team for the City of London OTR-CFIP for a "Made In London" solution.

- **Risk Management.** The proposed financial incentive structure (feasibility study grants in coordination with the construction conversion grant and application fee exemptions) mitigates financial risks by reducing the initial investment burden and covering costs to property owners associated with evaluating project viability prior to construction activity.
- **Fairness.** Fairness will be ensured by administering the London OTR-CFIP on a first-come, first-served basis, contingent on available funding. The funding will be assigned to projects within the three-year program duration. Program Fairness is enhanced by having a third-party pre-assessment Scorecard system as part of the application process.
- **Status Quo.** Persisting with the current course of action is expected to exacerbate vacancy rates, which will degrade the social and economic fabric of the downtown area. Without proactive intervention, the opportunity to revitalize the Class B and C office markets in the downtown area will be irrevocably lost, leaving these spaces dormant and contributing to urban decay.

4.2.2. Total Funding For the OTR-CFIP

The London OTR-CFIP will have access to a \$10,000,000 fund allocated from the \$74,058,143 under the Federal Housing Accelerator Fund (HAF). The OTR-CFIP funding represents 13.5% of the HAF funding which is proportional to the units created through the proposed OTR-CFIP (228 units targeted, over 10% of the HAF goal).

If there is any funding that has already been allocated or assigned through the HAF fund, this funding would be reduced from the overall construction grant fund.

The London OTR-CFIP is organized into a three-tier incentive structure based on an 8%-92%-0% financial split between the Feasibility Study Grant Program, Construction Conversion Grant Program and an Application Fee Exemptions Program outlined in Table 2.

In total, the maximum funding for the Feasibility Study Grant Program funding is capped at \$800,000. This budget could facilitate 4-20 grant applications to support a potential of 4-6 candidate conversion projects in the downtown. This budget assumes that a greater number of projects will be eligible for Phase 1 study

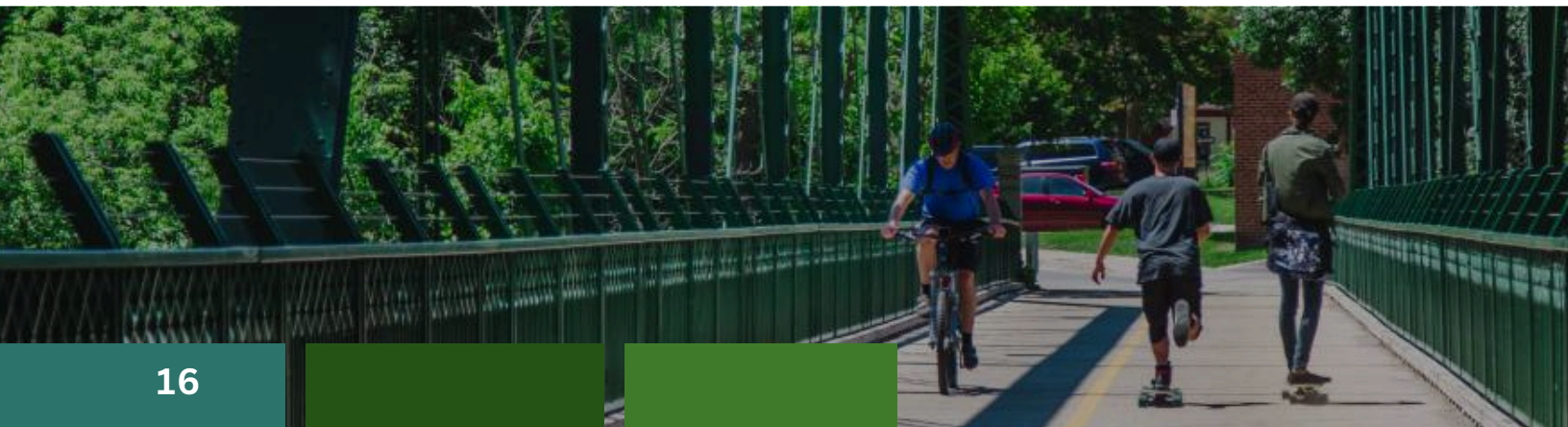
costs and may not proceed to the Phase 2 study phase. There is potential for surplus funds from the Feasibility Study Grant Program that could be redirected to the Construction Conversion Grant Program. Based on the Feasibility

Grant modelling, this leaves \$9,200,000.00 for a Construction Grant Program if the Planning Application Fee Exemption Incentive Program is waived rather than self funded.

Table 2: City of London “Tripartite” OTR-CIP Grant Programs

| | Program | Funding Allocation | Purpose | Funding Criteria |
|--------------|---------------------------------------|----------------------|---|---|
| A. | Feasibility Study Grant Program | \$800,000 (8%) | Funding towards a technical feasibility study grant program organized into Three Steps. | Maximum \$80,000 per property (phased criteria guided by the Scorecard) |
| B. | Construction Conversion Grant Program | \$9,200,000 (92%) | Funding towards construction and management costs for eligible projects. | Maximum \$40,350* per unit (based on 228 unit target) |
| C. | Application Fee Exemption Program | \$0.00 (0%) | A fee exemption to facilitate the OTR program and reduce costs to the project. | Foregone Revenue |
| Total | | \$10,000,000 (total) | | |

**The maximum funding potential is recommended to facilitate at least 228 OTR units.*



The City of London has two options for the Application Fee Exemption Program:

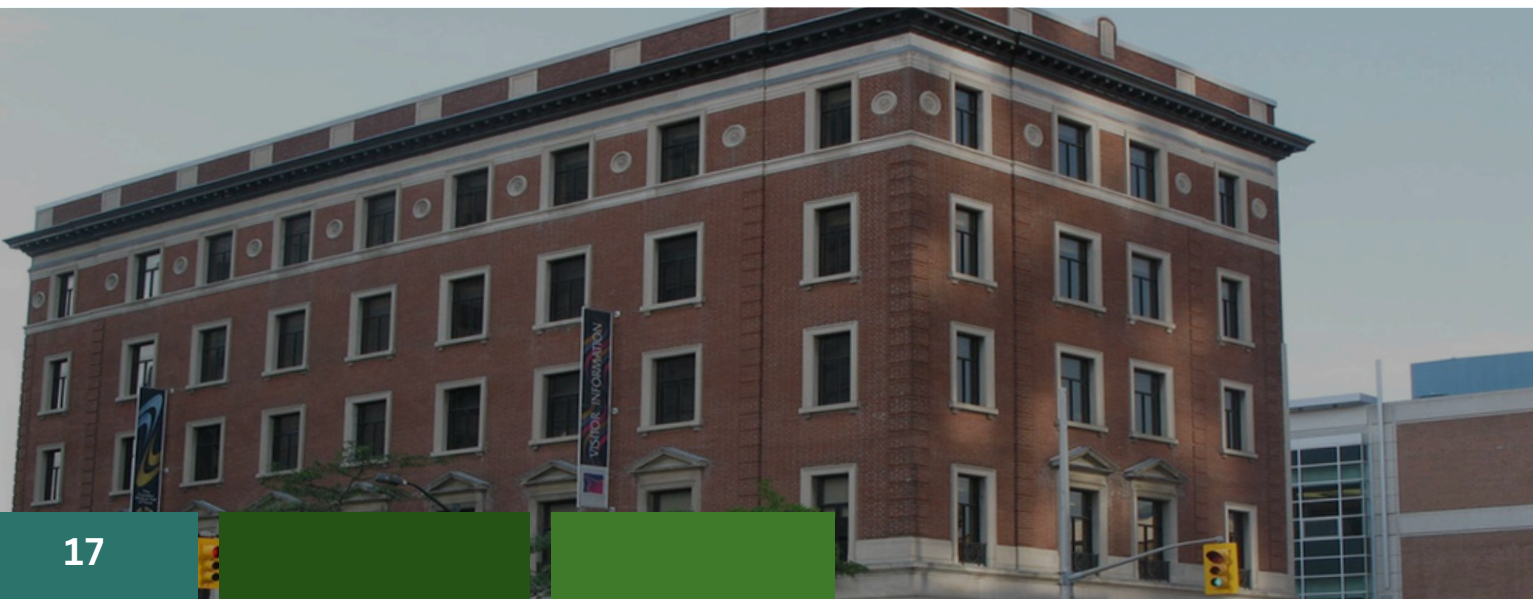
- **Option 1 (Recommended):** Waive application fees as per The OTR-CFIP incentive program. These fees, which include any planning, building permit, and parkland cash-in-lieu fees, represent a relatively minor percentage of the overall application budgets. The OTR-CFIP Programs(s) is anticipated to draw 4-6 applications within the first three years based on the grant funding. This option will have minimal impacts to revenues (as outlined in **Appendix 4**), and will maximize the conversion projects for the HAF housing target.

The proposed application fees involved to support six OTR projects (the high end target) is estimated to cost \$374,094 which is equivalent to nine OTR units. In addition to facilitating nine units through City

fee waivers, this option also reduces administrative time which takes away to deliver response time to other applications that relate and connect to the Provincial Housing Targets.

A major application fee is the development charge (DC) fee. Based on the City's existing stackable CIP programs, and DC rates, it is assumed that any new development charge will be a net neutral cost because the commercial DC rate is greater than the residential DC rate.

In reviewing the application fee financial impacts, Option 1 is recommended to waive targeted City fees to facilitate and leverage the Study Grant and Construction Grant Programs. The incentive fees have a material impact on project visibility and would also send a positive market signal that the City of London is committed to supporting these conversion projects.



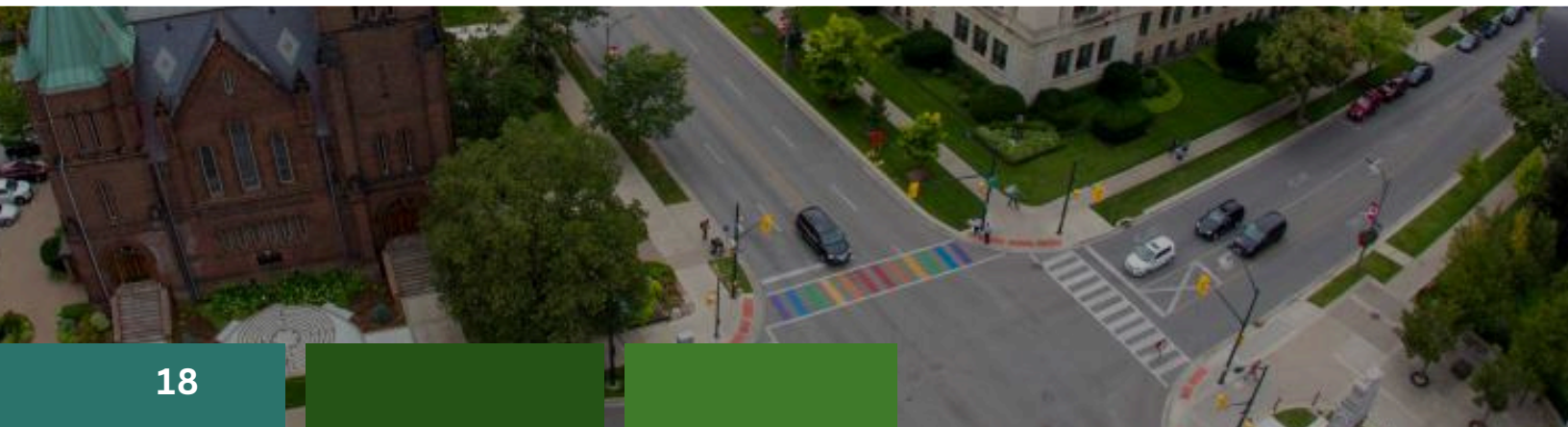
- **Option 2:** The London OTR-CFIP fund repays the application fees to each City division. This option makes the application review process whole; however, it will quickly draw down the construction budget and reduce

the impact of the HAF budget allocation. With some built-in assumptions, the following application fees could be generated from 228 net new units as outlined in Table 3:

Table 3: City of London “Tripartite” OTR CIP Grant Programs

| Fees | Applications | Fee | Amount (estimated) |
|-----------------|-----------------------|-----------------------|--|
| Minor Variance | 6 | \$1,782 | \$10,692 |
| Site Plan | 6 | \$1,485 + 74 per unit | \$25,782 (\$8,910+\$16,872) |
| Parkland | 228 units | 1,250* | \$285,000 |
| Building Permit | 6 (160,000 sq.ft.) | \$3.54 sm | \$52,620 (160,000 sf = 14,864.5 sm) |
| Total | 6 | varies | ±\$374,094 |
| | | | Equivalent to 9.3 units |

**It is assumed the density will range between 75-150 uph for parkland fee calculation.*



4.2.3 Feasibility Study Grant Value

A \$80,000 Feasibility Study Grant is recommended per property (one-time). This grant provides generous funding to complete specific technical studies to facilitate a building conversion. The Feasibility Grant Program incorporates a maximum cap to ensure funding remains available to support 4-20

grant study applications. In some cases, there may be examples of additional study work and more expensive studies. If this occurs, it will be the applicant’s responsibility to cover these costs beyond the \$80,000 per property grant if they wish to proceed. The funding for this grant was developed based on the following cost estimates identified in Table 4:

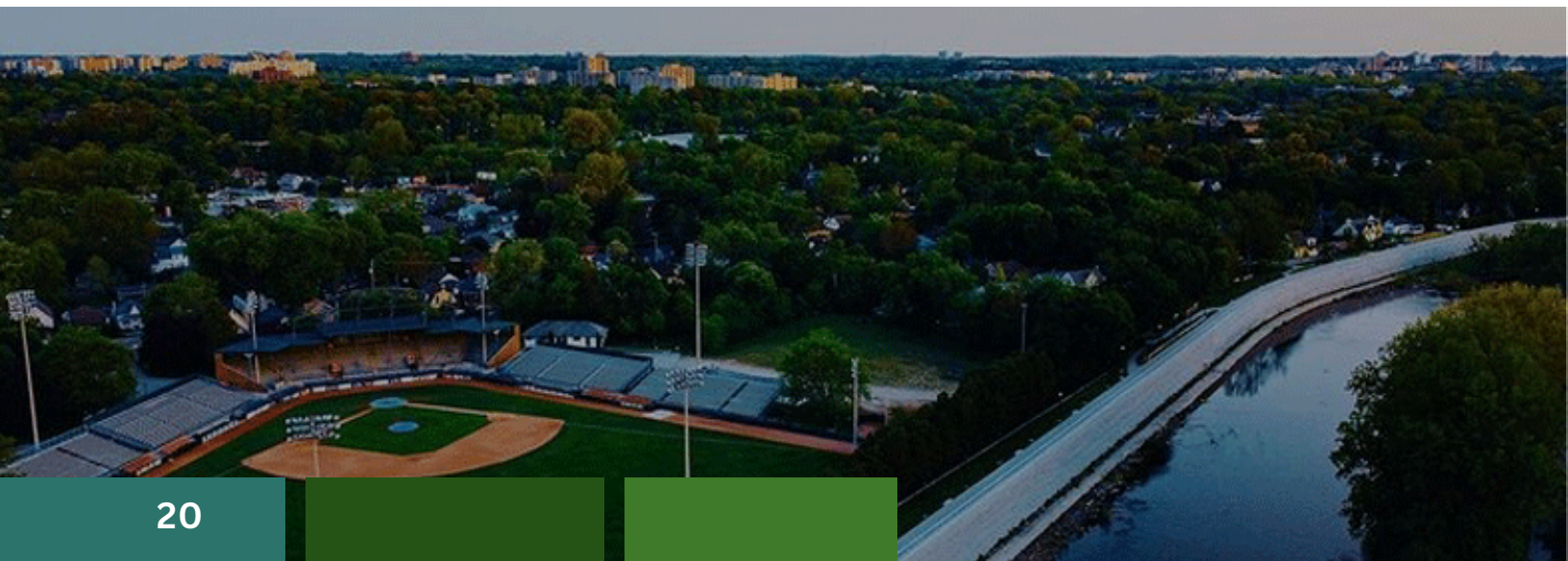
Table 4: Feasibility Study Grant Program Cost Estimates

| Step | Phase | Study | Target |
|------|-----------------|--|----------|
| 1 | Scorecard | To identify general building conditions and candidacy based on a Three-Star Scorecard. | \$3,000 |
| 2 | Phase 1 Studies | A second step to assess key building issues for conversion. If there are major issues, the project may not be viable to move to the next step. | |
| | | Conceptual Floor Plan | \$1,500 |
| | | Hazardous Materials | \$10,000 |
| | | Geotechnical | \$10,000 |
| 3 | Phase 2 Studies | A more detailed assessment of key building functions and features that will impact project viability and success. | |
| | | Structural Assessment | \$15,000 |
| | | Mechanical and Electrical | \$15,000 |

| Step | Phase | Study | Target |
|------|-----------------|---------------------------------|-----------|
| 3 | Phase 2 Studies | Fire Life Safety | \$5,000 |
| | | Envelope and Energy | \$12,000 |
| | | Elevators, Lifts and Escalators | \$5,000 |
| | Maximum Cap | | ±\$80,000 |

The Feasibility Study Grant is a three-step process with eligible funding for defined studies up to a maximum of \$80,000 per property described at a high level below:

- The first step is the Scorecard performed by a third-party consultant. A set \$3,000 fee is assigned for this study requirement. The Scorecard Report will indicate the conversion potential and project viability.
- The second step is the Phase 1 Feasibility Study Assessment involving a floor plan, hazardous materials assessment and geotechnical study. If these studies indicate the building is viable, funding will be available for the third step.
- The third step is the Phase 2 Feasibility Study Assessment involving a structural assessment, mechanical & electrical, fire life safety, envelope and energy, and elevators, lifts and escalators.



4.2.4. Air Quality Program Potential

A key project deliverable involves an analysis supporting a recommendation for or against a financial incentive program to support improving air quality when converting Class B and C office space into residential units. In review, the cost to improve air quality does not fit well within the larger conversion grant program and proposed budget. It is the Project Team's opinion that having separate line item for Air Quality would make the conversion program more complex and will reduce the overall effectiveness of the conversion grant program that will have different investment needs on each project.

The Project Team has developed a Scorecard that will identify the overall condition of the building, and direct the investment priorities as a candidate conversion project. Additional detailed feasibility

studies will be involved and required through the pre-construction assessment study process. The primary goal is to facilitate the building conversion and specific upgrades will be identified and required such as window replacement, HVAC replacement and other envelope and mechanical upgrades or replacements. The conversion process will look after short and mid-term air quality performance.

It is the Project Team's opinion that improving Air Quality will be addressed through the Construction Conversion Grant Program. A general grant is best served to allocate the necessary funding required to convert a Class B and C office building into new residential units. Gillam has provided an opinion on considering a separate Air Quality Program provided in **Appendix 7**. A separate Air Quality Incentive program is not recommended.





5. THE OTR GRANT PROCESS

5.0 FEASIBILITY STUDY GRANT PROCESS

The OTR-CFIP is recommended to provide three grant programs including:

- Feasibility Grant Program
- Construction Conversion Grant Program
- Application Fee Exemption Program

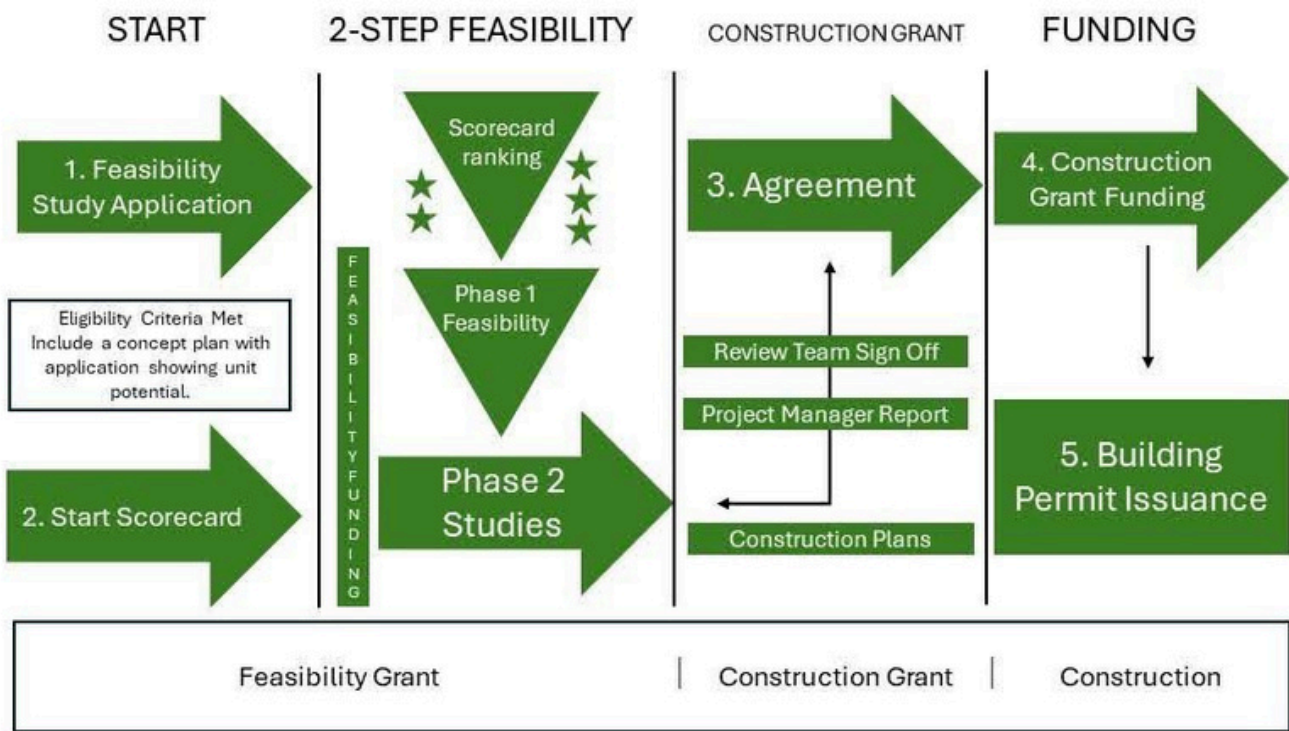
The OTR-CIP process, evaluation criteria, program restrictions,

funding principles, program monitoring, and program expansion are described below.

5.1 The OTR-CFIP Process

The proposed application process is a five-step process illustrated in Figure 1 and described below.

Figure 1: OTR-CFIP Application Process



Step 1. Application. The first step in the OTR-CFIP process is the applicant preparing and to complete a Feasibility Grant Application to request funding for a Class B or C office building conversion into residential units based on an approved application form and eligibility criteria. A basic concept plan is required to identify the potential units (conceptual).
Timing: anticipate 1-2 week turnaround.

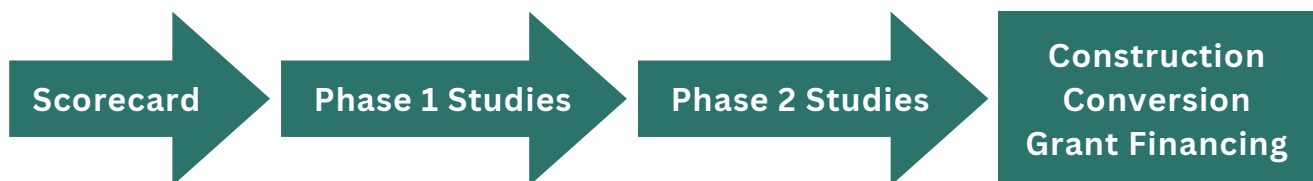
Step 2. Scorecard. The City will receive the Feasibility Study Grant Program Application and schedule a Scorecard meeting with a third-party consultant to conduct a site visit and complete a Scorecard evaluation form. This process will identify the conversion potential with a 1, 2 or 3 Star rating. The Applicant and the City will receive this information for next steps. For projects with a 3-star rating, they can proceed with the full technical study requirements rather than a two-step feasibility study process and move more directly to the Construction Grant Application

Timing: anticipate 1-2 week turnaround

Step 3. Feasibility Studies.

If the building has viability, a two-step feasibility study analysis will start to be funded by the City through the Feasibility Grant program if the project has a 1, or preferably, a 2 Star rating. The first three studies of the Phase 1 Feasibility include: 1) a detailed floor plan drawing; 2) a structural report; 3) a Hazardous Study completed by a QP. The Applicant will forward these studies to the City for review and direction. If these studies identify viability, a Phase 2 Feasibility Study Grant will be issued for the remaining technical studies.

Technical studies are required for several reasons, including bank financing (project funding and viability) and due diligence for building permit issuance. Gillam has identified these studies, in consultation with other industry experts, and has prepared a Scorecard Report and a PreAssessment Feasibility Study Report. The Scorecard and Feasibility Study Reports have been consolidated in “The City of London – OTR Conversion Report” provided in **Appendix 3**. This Report forms part of the formal London OTR-CFIP Application Process.



Timing: anticipate 6-8 week turnaround for each Phase.

Step 4. Review, Approval and Agreement. The studies will be emailed to the Program Manager, with, a Construction Grant Application prepared by the applicant. This Application will confirm the studies completed, and, add additional information including an estimated construction cost for the building conversion. The Program Manager will review the application, and provide a recommendation to the Review Team for final decision. The review team is recommended to include:

1. Economic Services and Supports
 2. Building Division
 3. Finance Supports
- The Review Team will provide the final recommendation to proceed with a Construction Conversion Grant Agreement to provide funding based on the application information with oversight and issuance provided by the Manager of Core Area & Urban Regeneration.

Timing: anticipate 1-2 week turnaround.

Step 5. Building Permit. Once an Agreement is finalized and signed, the Applicant can proceed with the building permit application while the funding is being processed. Timing: anticipate 3-4 week turnaround.

5.2. Evaluation Criteria

The evaluation criteria are to include:

- Must be located within the Downtown CIP Boundary.
- A Class B or C office building.
- A 2 or 3 star scorecard rating recommended.
- Meets applicable law (Ontario Building Code, zoning bylaw regulations).
- Property taxes paid.
- Applications and studies prepared by a Qualified Professional.
- Applications subject to funding availability.

5.3. Exclusions and Restrictions

The following exclusions and restrictions are proposed, and in some cases, required:

- Funding. Program is subject to available funding.
- Building. Must be a Class B or C Office Building.
- Location. Must be located within the Downtown CIP Boundary.
- Permits. Subject to Applicable Law (eg. Ontario Building Code).
- Heritage. If designated, construction materials may be subject to Heritage Study requirements.

- Demolition. At least 50% of the total building facades must be retained.
- Feasibility studies. Feasibility Study costs are not retroactive – must be submitted following an Application save with an exception for conversion projects which have received HAF funding.
- Consultants. All consultants must be a qualified professional (a QP).
- Contractors. Must be a licensed and/or, bonded contractor.

5.4 Funding Principles

Based on the OTR project goals, targets, and assumptions, it is recommended that 8% of the total HAF budget be allocated to the Feasibility Study Grant Program, 92% of the project budget allocated to the Construction Conversion Grant Program, and, 0% be directed to the Application Exemption Fees program. These funding principles will determine the available funding for each program. If the ratios are amended, there will be a direct and proportionate change to the studies funding and units created (yield).

A simple funding formulae is recommended for the Feasibility Study Grant Program with total program funding capped to a maximum \$800,000. The funding formulae for the Construction Conversion Grant Program is more

complex, and, is based on the following assumptions:

- Target number of units: 228
- Per unit funding recommendation: \$40,350.80 per unit

The Project Team has identified a target range of 228-343 units for the programs. The lower target range is recommended to maximize the per unit funding allocation and for optimum contribution established through the pro forma analysis. If the residential unit target is increased to 343 units, this would generate \$26,822 per unit which is considered a non-viable incentive. The market viability of the OTR conversions have been evaluated through a series of proformas, industry consultation and through the Urban Insights-Gillam team.

Funding to support the entire grant program has been developed based on the following principles:

- Fairness. The OTR-CFIP will be administered on a first-come first-serve basis based on available funding. The goal is to have the funding assigned to projects within the three-year program duration. The program includes a third-party preassessment score card system as part of the application process.

- Status Quo. Persisting with the current course of action is expected to exacerbate vacancy rates, which will degrade the social and economic fabric of the downtown area. Without proactive intervention, the opportunity to revitalize the Class B and C office markets in the downtown area will be irrevocably lost, leaving these spaces dormant and contributing to urban decay.

5.5 Application Exemption Fees

Application fees form part of the project pro forma and impact project viability. Like any incentive program, there is a financial cost involved to attract a specific type of investment. In London, the following fees are associated with the Application Fee Program identified in Table 6:

Table 6: Current Application Fees (2024)

| Fee | Cost | Note |
|---------------------------------------|---------------------------------------|-----------------------------|
| Pre-Consultation (Refunded) | \$348 | Fee refunded. No change. |
| Official Plan and Zoning Bylaw | \$24,276.00 | Use likely permitted |
| Zoning Bylaw Amendment | \$13,872.00 | Use likely permitted |
| Minor Variance (lot/yard requirement) | \$1,782.00 | Possible (unit size relief) |
| Site Plan: 1-5 units | \$1,485.00 | Likely exempt |
| Site Plan: over 5 units | \$1,485 plus \$74 per unit | Assume 40 unit average |
| Parkland Cash-In-Lieu Fee: | | |
| Less than 75 units per ha | \$2,200 | |
| 75-150 units per ha | \$1,250 | |
| >150 units per ha | \$1,150 | |
| Building Permit Fee | \$3.54 sq.m. (Group C Dwelling Units) | |

Source: <https://london.ca/by-laws/parkland-dedication-law-cp-25>

<https://london.ca/sites/default/files/2023-12/2024%20Development%20Application%20Fees.pdf>

<https://london.ca/living-london/building-renovating/building-permits>

Based on the Fee’s by-law, and historical development activity trends, there is a relatively modest cost related to incenting any development in the downtown.

A summary of development activity indicates, there has been limited development activity in the downtown reflected in Table 7:

Table 7: Downtown Development Activity (2021-2023)

| Application | Downtown | City Wide | % of city activity |
|---------------------|----------|-----------|--------------------|
| Residential Permits | 1 | 1,435 | <1% |
| Units Issued | 266 | 8,271 | 3.2% |
| Permit Value | \$42M | \$2.57B | 1.63% |
| OPA-ZBAs | 2 | 180 | 1.1% |
| Site Plans | 7 | 359 | 1.9% |

In review, the downtown represents <1 to 3.2% of development activity in the city. Development activity is limited in the downtown, and the London OTR-CFIP is forecasted to generate 4-6 permits.

in the downtown. Based on this analysis, the financial costs are outlined in Table 8 for information based on a median target of 40 units per application:

Table 8: Application Grant Implications (4-6 applications / 228 units / 160,000 square feet)

| Fees | Applications | Fee | Amount (estimated) |
|-----------------|--------------------|-----------------------|---------------------------------------|
| Minor Variance | 6 | \$1,782 | \$10,692 |
| Site Plan | 6 | \$1,485 + 74 per unit | \$25,782 (\$8,910+\$16,872) |
| Parkland | 228 units | 1,250* | \$285,000 |
| Building Permit | 6 (160,000 sq.ft.) | \$3.54 sm | \$52,620(160,000 sf = 14,864.5 sm) |
| Total | 6 | varies | ±\$374,094 |
| | | | Equivalent to 9.3 units |

Note 1: The Ontario Planning Act was amended to exclude 10 units or less from site plan control.

Note 2: For site plan control, apply \$1,485 per application plus \$74 per unit. As previously noted, the OTR-CFIP was developed on the assumption that there will be no net new development charge fees

applied to a conversion project.

The OTR-CFIP is anticipated to draw 4-6 applications within the first three years based on the grant funding. The fees associated to facilitate 228 units are estimated to cost up to \$375,000 shown in Table 9.

Table 9: Application Grant Implications (228 units / 160,000 square feet)

| Fees | Applications | Fee | Amount (estimated) |
|-----------------|--------------------|-----------------------|------------------------------------|
| Minor Variance | 6 | \$1,782 | \$10,692 |
| Site Plan | 6 | \$1,485 + 74 per unit | \$25,782 (\$8,910+\$16,872) |
| Parkland | 228 units | 1,250* | \$285,000 |
| Building Permit | 6 (160,000 sq.ft.) | \$3.54 sm | \$52,620(160,000 sf = 14,864.5 sm) |
| Total | 6 | varies | ±\$374,094 |
| | | | Equivalent to 9.3 units |

**It is assumed the density will range between 75-150 uph for parkland fee calculation.*

As a major fee, a parkland cash-in-lieu fee incentive should be included as part of the London OTR-CFIP. Parkland cash-in-lieu is an expensive fee that could apply to an OTR conversion and has a direct impact on project viability. A "parkland cash-in-lieu fee," also known as a "cash-in-lieu of parkland dedication fee," is a charge levied by municipalities on developers during the building and permitting process.

This fee is an alternative to the requirement that developers set aside a portion of their development land for public parks and recreational spaces. The idea behind this fee is to enable the municipality to fund the acquisition, development, or enhancement of public park facilities elsewhere within the community. In most cases, the cost of parkland cash-in-lieu fees is a major fee collected at building

permit issuance stage. This fee represents a barrier to entry for an OTR project, and, should be exempt.

Given the niche focus of the London OTR-CFIP, a low entry barrier is required to leverage, and attract, this type of development activity. For this reason, and given the median size of development (40 units per project), all of the application fees should be waived by The City as a Made In London, “all hands on deck” strategy based on the following rationale:

1. To stimulate economic development. Offering exemptions from fees can make a project financially more attractive to developers. By reducing the overall cost of development, cities might stimulate investment and accelerate the conversion of under utilized office spaces into residential units. This can contribute to revitalizing downtown areas, especially in cities where there is an excess of office space due to shifts in working patterns, like increased remote work. Fee exemptions will elevate the City of London as a competitive community to invest in.

2. To encourage housing supply. Many urban centers face housing shortages, which can drive up rent and real estate prices, making living in city centers unaffordable for many people. By exempting parkland

fees, municipalities can lower the barriers to entry for residential developments, potentially leading to an increase in the housing supply, which might help stabilize or reduce housing costs.

3. To revitalize underused properties. Downtown areas with vacant or underused office buildings can suffer from economic stagnation and reduced vitality. Encouraging the conversion of these spaces into residential units can bring more permanent residents to the area, supporting local businesses and services, and contributing to a more vibrant urban environment.

4. To support urban renewal and density. Urban density is often seen as a key component of sustainable urban development. By converting office buildings to residential use and exempting these projects from additional fees, cities can support a more compact and efficient urban form. This density supports public transit, reduces per capita infrastructure costs, and can lead to more sustainable urban living.

5. To address equity concerns. Exemptions might be particularly justified in cases where developments include affordable or mixed-income housing. In such instances, exempting the parkland fees can help offset the costs associated with providing affordable

a units, thereby supporting broader social equity goals.

6. To leverage existing infrastructure. Office buildings in downtown areas are often located in parts of the city with well-developed infrastructure, including roads, utilities, and public transit. Encouraging residential use of these spaces can be more cost-effective for cities than developing new residential areas, which might require significant new investments in infrastructure.

7. To provide a quick response to market changes. Offering incentives like fee exemptions can be a responsive tool for municipalities to quickly adapt to market changes, such as the increased vacancy rates in office buildings due to changes in work habits post-pandemic. This adaptability can help maintain the economic resilience of urban centers.

As an alternative, persisting with the current course of action is expected to exacerbate vacancy rates, which will degrade the social and economic fabric of the downtown area. Without proactive intervention, the opportunity to revitalize the Class B and C office markets in the downtown area will be irrevocably lost, leaving these spaces dormant and contributing to urban decay.

5.6 Monitoring and Review

The grant programs will be monitored and reviewed by city staff administered by a designated Project Manager. It will be the Project Manager's responsibility to keep an organized data table of each application metrics in an Excel table. This will allow for efficient annual updates based on the program launch date. Each year, a project monitoring report will be prepared which can be presented to the Planning and Environment Committee if deemed appropriate.

5.7 Program Expansion

Based on the City of London's office vacancy rates which are concentrated in the Downtown, and with some potential in the other Core Areas (Old East Village and Midtown), there is an opportunity to expand the London OTR-CFIP further outside the existing Downtown as a second tier zone to capture other vacant office buildings based on the following rationale:

1. Expanding the Core Areas. The Core Areas (outside the Downtown) have the largest supply of known Class B and C Office Buildings. Downtown has 11 other office buildings (four Class A, six Class B and two Class C) located outside the defined boundary; a boundary

expansion could increase the number of buildings eligible for the OTR-CFIP. A maximum 500 m buffer around the existing CIP Core Areas would capture additional buildings while still maintaining the intent of the Official Plan policies (e.g., Downtown revitalization and promote transit supportive development);

2. Process. The Core Areas require a formal amendment to introduce the proposed London OTR-CFIP – expanding this program to the Core Areas could include a boundary adjustment to include a larger geographic area capturing additional office buildings.

3. Timing. The London OTR-CFIP has funding between 2025 to 2027 (3 years). To maximize any opportunity to deploy this funding, an update to the London OTR-CFIP should occur 1 year after the program launch.

4. Demand. Based on the Project Team engagements, there was one property owner who expressed an OTR conversion just outside the Downtown Core Area boundary.

This engagement demonstrates that there is demand outside the current boundaries and there could be an opportunity to expand the program pending demand uptake and funding availability.

Compared to the urban submarket, the City of London has a lower office vacancy in the suburban markets. To maintain the City’s employment function, these office spaces should be maintained for continued job growth opportunities and trends. A more expansive employment strategy is recommended if suburban locations are to be considered.

The Project Team recommends that the Core Area Community Improvement Project Area be reviewed after the first year of The London OTR-CFIP and to expand the boundary by 500 metres if there is market demand pending available funding and market interest illustrated in **Appendix 5**.





6. THE PRO FORMA

6.0 The pro forma (financial feasibility analysis and modelling).

The financial modelling is provided in **Appendix 4**. The financial modelling prepared offers a comprehensive analysis of the economic viability and potential returns of converting office spaces into residential units. This pro forma is required for assessing the financial feasibility of the projects under the program and ensuring that the investments align with the broader economic and development goals of the City of London.

Key Variables of the pro forma include:

- **Construction costs.** A primary variable in the pro forma is the estimated construction cost per square foot, which is set at \$315 to \$375. These figures are crucial as they directly influence the overall project budget and the financial incentives needed to ensure viability.
- **Loan-to-value-ratio.** The pro forma assumes an LTV ratio, typically around 65%, which affects the amount of debt financing that developers can secure for the projects.
- **Interest rates and loan terms.** Assumptions about the interest

rates (around 7.5%) and loan terms (commonly 12 months for construction loans) are made to calculate financing costs, which impact the project's total financial outlay and feasibility.

- **Grant amounts.** The pro forma incorporates the impact of the proposed \$40,350 per unit grant from the OTR-CFIP, assessing how this financial assistance affects the project's economic returns and lowers the investment risk.
- **Vacancy rates.** Assumptions about vacancy rates post-conversion are used to estimate potential rental income, which is vital for determining the project's revenue streams and overall financial health.

The key findings from the pro forma include:

- **Viability assessment.** The pro forma analysis reveals that the financial incentives provided by the OTR-CFIP are critical in making many potential projects financially viable. Without these grants, the high costs of conversion might deter developers due to the slim profit margins.
- **Return on Investment (ROI).** The expected ROI, based on the construction value generated by

- these projects, are projected to be significant, ranging from 5.6 x to 8.4x. This high return is indicative of the substantial economic impact these conversions could have, far outweighing the initial public investment.
- Cost Savings. With the grant, developers can see a reduction in overall project costs by approximately 14.3% to 17%, making projects more attractive and financially feasible. This reduction is critical in a market where lower construction costs are necessary to ensure project initiation and completion.
- Economic Impact. Beyond direct financial returns, the pro forma suggests substantial broader economic benefits, including increased property values, enhanced tax revenues, and job creation during construction. These factors contribute to the revitalization of the downtown area and support sustainable urban development.
- Risk Mitigation. The financial modeling incorporates various risk factors, including market volatility and potential cost overruns. The strategic use of grants and structured financial

planning within the pro forma helps mitigate these risks, ensuring that the program can adjust to changing economic conditions without compromising its objectives.

In conclusion, the pro forma analysis provides a robust framework for understanding the economic underpinnings of the London OTR-CFIP. By carefully analyzing construction costs, financing details, and the impact of municipal grants, the pro forma offers a compelling case for the financial viability and substantial economic benefits of converting under utilized office spaces into residential units. This analysis is instrumental in guiding the City of London's decisions and strategies for downtown revitalization through the OTR-CFIP.

An important pro forma variable is the average or expected construction cost. Research shows that (on average), construction cost for an office conversion is about 70% cost of a new residential build. This assumption has been confirmed by Gillam and has provided an opinion on construction cost assumptions provided in Appendix 6.





7. ENGAGEMENT

7.0 ENGAGEMENT

The consultation and engagement process for the London OTR-CFIP has been a comprehensive and inclusive effort, designed to gather insights and feedback from a broad range of interested parties.

Urban Insights Inc., along with collaborators Gillam and Durrell Communications, have spearheaded this initiative, ensuring that the voices of property developers, local business owners, and city officials are heard and integrated into the planning and execution phases of the program. This process has included a series of in-person and virtual meetings, workshops, and public forums that have provided platforms for discussion and exchange of ideas.

Additionally, targeted interviews with industry experts and interested parties have been conducted to refine the program's objectives and strategies, ensuring they align with the real needs and opportunities within the downtown core.

This proactive engagement strategy has facilitated a deeper understanding of the challenges and potential of converting office spaces into residential units but has also fostered a sense of purpose and buy-in essential for the program's success.

Feedback gathered through these consultations has been crucial in shaping the financial incentive structures, with particular attention given to making the application and implementation processes as user-friendly and transparent as possible. The engagement efforts have underscored the importance of maintaining ongoing dialogue with all parties involved, ensuring that the OTR-CFIP remains responsive to evolving market conditions and community expectations. As the program moves forward, this foundation of robust community engagement will continue to inform and guide the development of strategies to revitalize London's Downtown effectively.

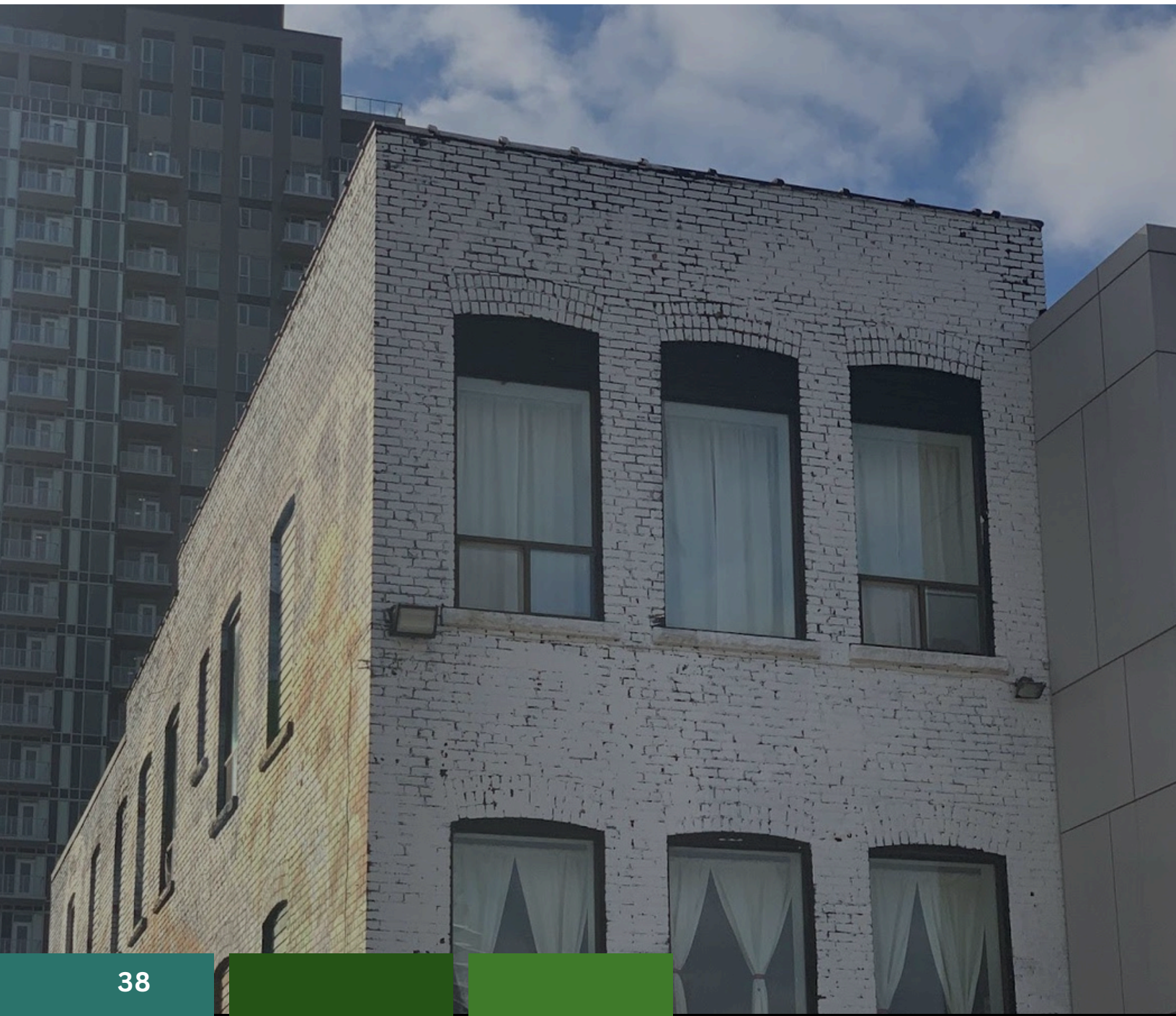
Durrell Communications was charged with the engagement process. In total, Durrell Communications was able to interview 14+ parties. Key findings included:

- Grant-funded technical study to assess the feasibility of conversion.
- Cash grant to bridge the funding gap and make the project more financially feasible Municipality to fund a portion of conversion construction costs; cash grant

would enable the project to succeed.

- For projects to gain momentum, many agree that improvements to energy efficiency would make this space more attractive to convert into residential.
- Endorsement to cover energy, development and tax costs.

The project team has reviewed the pro forma findings with London Development Institute, and, has received support with the London OTR-CFIP findings and funding strategy.





8. FINANCIAL IMPACT & CONSIDERATIONS

8.0 FINANCIAL IMPACT & CONSIDERATIONS

The London OTR-CFIP is a strategic initiative designed to rejuvenate underused urban spaces by transitioning them into residential units.

1. Budget Allocation and Funding Sources. The OTR-CFIP is supported by a \$10 million budget sourced from the Housing Accelerator Fund (HAF). The budget is distributed as follows:

- \$9.2M (92%) is allocated to the Construction Conversion Grant Program.
- \$800,000 (8%) supports the Feasibility Study Grant Program.
- \$0 (0%) is allocated for the Application Fee Exemption Program, which will be absorbed by the City as foregone revenue (which represents 9 residential units).

This funding structure is designed to maximize the impact of the financial resources available by focusing heavily on the actual conversion process, which is the most significant financial barrier to project initiation.

2. Economic Benefits and Return on Investment (ROI). The financial strategy underpinning the OTR-CFIP

is expected to yield substantial economic benefits:

- Construction Value. The projected construction activity associated with the program is estimated to generate between \$50 million and \$90 million in new construction value, depending on the actual costs per square foot (\$315 to \$375). This represents a significant infusion into the local economy.
- ROI. Based on the construction values, the expected return on investment ranges from 5.04 to 9.0 times the initial fund, highlighting the program's capacity to leverage public funds effectively for economic gain.
- Property Value Increase. By converting vacant office spaces into residential units, there is an anticipated increase in property values not only for the converted buildings but also in the surrounding areas due to enhanced vibrancy and reduced vacancy rates.

3. Financial Risks and Mitigation Strategies. Several risks could affect the financial outcomes of the OTR-CFIP:

- Market Volatility. Real estate

markets are subject to fluctuations which could impact the costs of construction and the final value of the converted properties. Mitigation includes regular market assessments and adjustable grant amounts to remain aligned with current conditions.

- **Project Feasibility.** Some properties may not be viable for conversion due to structural limitations or excessive renovation costs. This risk is mitigated by the initial feasibility studies funded by the program, ensuring that only viable projects receive further funding.
- **Excess Demand.** There could be greater demand to convert vacant office buildings than the project is funded for. To mitigate this risk, the program includes stringent budgeting processes and contingency funds within the allocated budget.

4. **Cost Benefit Analysis.** The cost-benefit analysis for the OTR-CFIP considers both direct financial outputs and the broader economic impacts:

- **Direct Costs.** Includes the grants for construction and feasibility studies, and the foregone revenue from waived application fees.

- **Indirect Benefits.** Enhanced economic activity from construction jobs, increased household spending from new residents, and improved tax revenues from higher property values.
- **Social Benefits.** Increased housing supply contributes to social stability and diversity in the downtown area, aligning with broader city goals of inclusivity and vibrancy.

5. **Long-Term Financial Health.** The long-term financial health of the OTR-CFIP depends on its ability to be self-sustaining through increased tax revenues and ongoing private investment in the downtown area. The initial public investment is designed to catalyze further development, potentially leading to a self-reinforcing cycle of growth and investment.

The financial structure of the London OTR-CFIP is robust, with a clear focus on maximizing the impact of public funds to stimulate private development. The program is well-positioned to generate significant economic returns through direct construction activity and indirect benefits such as increased property values and economic revitalization.



9. CONCLUSION

9.0 CONCLUSION

The London Office-to-Residential Conversion Financial Incentive Program(s) stands as a transformative initiative aimed at revitalizing London's downtown core by converting under utilized office spaces into vibrant residential units.

In the development of the London OTR-CFIP, a collaborative, 'all-hands-on-deck' approach is essential. The Project Team has taken a strategic approach to defining the grant amount per property, considering factors such as the size of the property, the complexity of the conversion, and the anticipated benefits to the community. When all combined, The London OTR-CFIP provides a unique framework to facilitate vacant office space into residential units; by integrating a full spectrum of incentives and setting realistic targets, this program is poised for enhanced success, ensuring it effectively meets the unique challenges and opportunities of the real estate market.

The OTR-CFIP strategically address multiple urban development challenges faced by the City of London:

- **Vacancy Reduction.** By targeting Class B and C office spaces, the program directly addresses the persistently high vacancy rates in

the downtown area. This initiative not only aims to decrease these rates but also seeks to prevent the economic stagnation associated with long-term unused urban spaces.

- **Economic Revitalization.** Converting office spaces to residential use is expected to increase foot traffic and consumer spending in the downtown area, thereby supporting local businesses and services. This shift is anticipated to catalyze broader economic activities and attract new investments into the city.
- **Enhanced Property Values.** The program is projected to increase the overall assessed property value within the Downtown contributing to the city's economic health and potentially increasing municipal revenues through property taxes.

The financial incentives structured within the OTR-CFIP—comprising feasibility study grants, construction conversion grants, and application fee waivers—are designed to mitigate investment risks and lower the entry barriers for developers. This financial model is both robust and attractive, ensuring that projects are not only initiated but also completed to a high standard. The allocation of \$10M from the Housing Accelerator Fund underscores the City's

commitment to making substantial investments that are expected to yield high returns in terms of community value and economic growth.

Through its implementation, the OTR-CFIP is an evidence-based program focused on:

- Targeted Residential Growth. The program supports the City's Housing Accelerator Fund goal of adding 2,187 units over three years, with a specific focus on adding 228 units through the OTR-CFIP in the downtown core.
- Economic Stimulus. Preliminary assessments suggest that the conversion projects could generate between \$50.4M and \$90M in construction value, translating into a significant economic boost for the city.
- Social Benefits. By increasing downtown residential density, the program contributes to a more vibrant, inclusive, and sustainable urban centre, aligning with modern urban planning principles that prioritize mixed-use developments and active street fronts.

There are challenges and mitigation strategies involved. While the program's design is comprehensive, several challenges require ongoing attention:

- Market Fluctuations. The success of the OTR-CFIP is somewhat dependent on broader economic conditions. A downturn could affect the real estate market, potentially dampening the enthusiasm for new residential conversions.
- Regulatory Hurdles. Ensuring that projects move through the planning and approval stages efficiently requires continuous oversight and potentially further streamlining of municipal processes.
- Engagement. Continuous engagement with developers, residents, and business owners is crucial. Their feedback is necessary to refine the program and ensure it meets the evolving needs of the community.

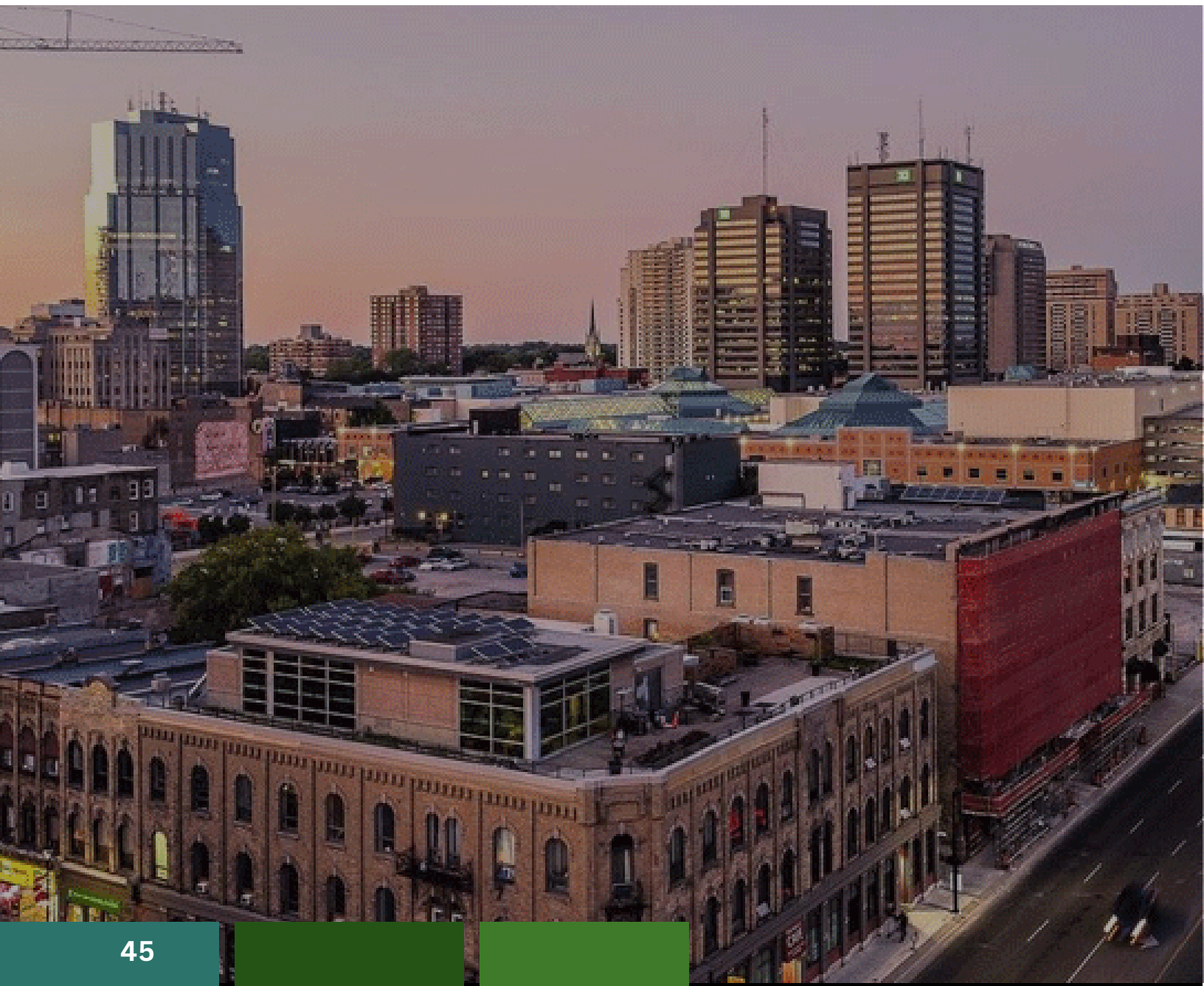
To build on the current successes and address potential challenges, several actions are recommended:

- Implement an effective monitoring program to track the program's impact over time, allowing for data-driven adjustments and scaling. Consider extending the incentive programs beyond the initial target area to include adjacent neighbourhoods, thereby amplifying the benefits of increased residential density.
- Strengthen the mechanisms for community feedback and

Participation in the planning stages of future projects to ensure that development aligns with the community's needs.

In conclusion, the London OTR-CFIP represent a pivotal step towards a dynamic and economically vibrant downtown. By converting under utilized spaces into homes and active commercial environments, the program not only combats current

urban decay but also sets a precedent for sustainable urban development. The City of London's proactive approach—through strategic financial investments and dedicated program management—ensures that this initiative has the potential to significantly transform the cityscape, enhancing livability and economic prosperity for all residents.



APPENDICES:

Appendix 1: OTR-CFIP Deliverables

Appendix 2: OTR-CFIP Brochure

Appendix 3: OTR-CFIP Conversion Report

Appendix 4: Financial Modelling

Appendix 5: Proposed Expanded Boundary

Appendix 6: Expert Construction Cost Opinion

Appendix 7: Expert Air Quality Incentive Program Opinion

Appendix 8: Gensler Study Best Practice Review

Appendix 9: Engagement Results

APPENDIX 1 - OTR-CFIP DELIVERABLES

The London OTR-CFIP establishes a series of deliverables in the RFP outlined below:

Deliverable A: A mix of virtual and in-person meeting.

Deliverable B: Meeting notes and summary.

Deliverable C: Planning Justification Report.

Deliverable D: Review of existing financial incentive programs.

Deliverable E: Financial Incentive Program Report

Deliverable F: Development of a new grant program.

Deliverable G: The pro forma (financial feasibility analysis and modeling)

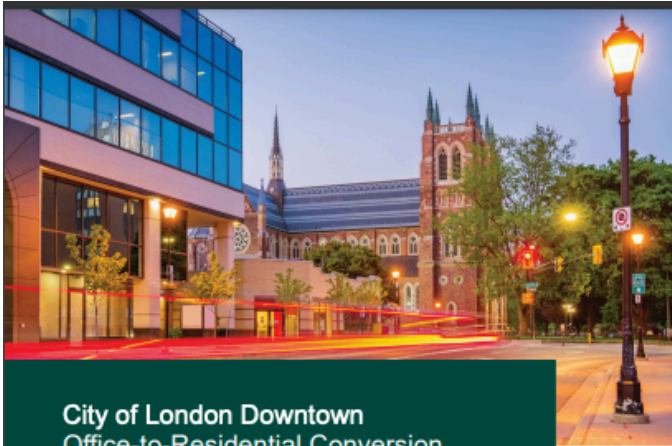
Deliverable H: Air quality incentive program.

Deliverable I: Planning Application Fee Incentive Programs.

Deliverable J: Incentives beyond the Core Area.

Deliverable K: Comprehensive Report.

APPENDIX 2 - OTR-CFIP BROCHURE



City of London Downtown Office-to-Residential Conversion Financial Incentive Programs

Overview

London is embarking on a transformative journey to revitalize its Downtown as the cultural, civic, retail, and economic heart of London, and as a great place to live and work. Through innovative financial incentives, the City will offer strategic opportunities for investment to attract increased public and private investment to help ensure the city's vibrant future in its Downtown.

Contact us:
 Email: cipincentives@london.ca
 Phone: 519-930-3500

london.ca



Purpose

The City of London, much like the rest of Canada, is experiencing a housing crisis and a slow return to work resulting in elevated downtown office vacancy rates. The City of London has a large Class B and Class C Office inventory in its Downtown that could be converted to residential units. The City of London's Office-to-Residential (OTR) Conversion Financial Incentive Programs aims to address both challenges - accelerate new housing units by converting vacant office space in London's Downtown.



Our Goals

- ⊕ Accelerate the new housing units in London by the conversion of vacant Class B and Class C office space in London's Downtown CIP Area.
- ⊕ Reduce the amount of vacant office in London's Downtown Area.
- ⊕ Increase the overall assessed property value of the Core Area;
- ⊕ Rebalance the Core Area's land uses and economic functions; and,
- ⊕ Assist in meeting the Housing Accelerator Fund (HAF) target of 2,187 additional units over three years



What are Financial Incentive Programs?

Through the creation of financial incentives to encourage development activity in the Downtown, the City of London is helping accelerate the provision of new housing units. Property owners and tenants located in the Downtown Project Area (see map) can apply for grants under a number of programs.



Available Programs

Three Downtown Financial Incentive Programs

- ⊕ Feasibility Study Grant
- ⊕ Construction Conversion Grant Program
- ⊕ Application Fees Program

Other Stackable Programs

- ⊕ Façade Improvement Loan
- ⊕ Upgrade to Building Code Loan
- ⊕ Residential Development Charges Grant
- ⊕ Rehabilitation and Redevelopment Tax Grant



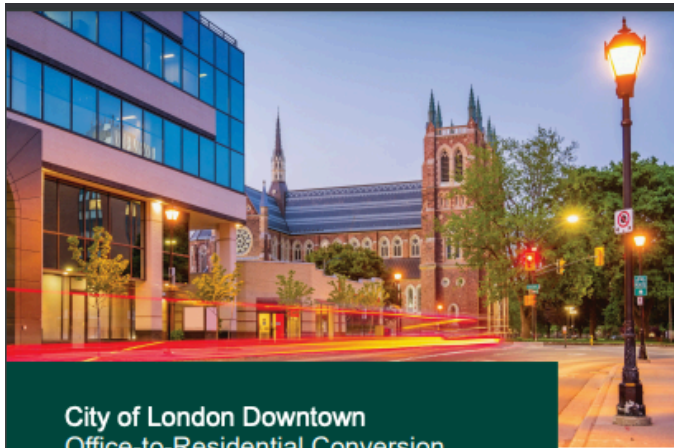
Are you interested in financial incentives for Downtown property investments?

Review the program summaries, and the Link for the CIP Conversion Report, in this handout to determine if you are eligible. Individuals should contact the City's Economic Services and Supports Department* at 519-930-3500 or cipincentives@london.ca to discuss details of making an application under these programs.

Program Details

The Downtown London OTR – CFIP is a unique program to convert vacant (eligible) office spaces into new housing units. This process starts with a Feasibility Study process involving three steps, a Scorecard to evaluate the building for conversion, followed by a Phase 1 Feasibility Study Grant step, and if the building shows good opportunity, a Phase 2 Feasibility Study Grant step to ensure the building (or spaces) are a good conversion candidate.

APPENDIX 2 - OTR-CFIP BROCHURE



City of London Downtown Office-to-Residential Conversion Financial Incentive Programs

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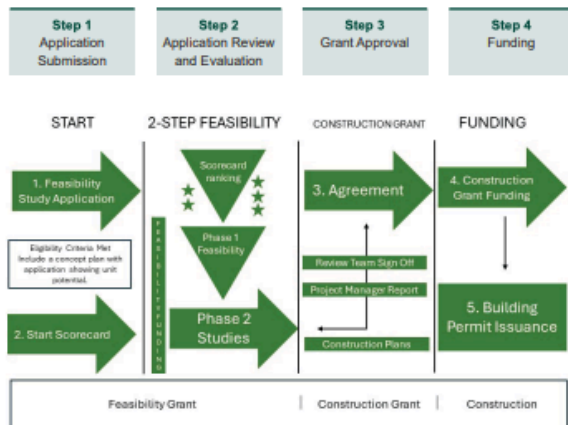


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- ④ Rebalance the Core Area's land uses and economic functions; and,
- ④ Assist in meeting the Housing Accelerator Fund (HAF) target of 2,187 additional units over three years



Application Process



Learn More

Our vision is for a robust and thriving core. Contact us to learn more about how we can build it together.

Email: cipincentives@london.ca
Phone: 519-930-3500

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APPENDIX 3: OTR-CFIP CONVERSION REPORT



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PLAN PERFORM INSPIRE



1.0 INTRODUCTION

The purpose of this report is to outline the pre-construction requirements when converting office space into residential space. Converting office space into residential units has become a popular option, especially in urban areas where there is a high demand for housing. This report will provide an overview of the key considerations and steps that need to be taken before commencing the conversion process.

It is important to note that there is no exact formula to conversion. Each existing building will have its own set of challenges and obstacles making it unique from the rest. Size of building, age of building and type of materials used during construction will all play roles into the amount of rework that needs to be considered.

It is imperative that when a building is targeted for conversion a thorough and detailed analysis of the building is performed prior to final design drawings. A detailed investigation should yield parameters that will need to be met in the final design, such as changes to the structure, addition of mechanical & electrical equipment, replacement of glazing units etc.

2.0 OBJECTIVE

In collaboration with Urban Insights Inc., develop a comprehensive system for identifying buildings that have the potential for conversion from office to residential space, specifically to fulfill the needs and conditions for the City of London and the Community Improvement Plan. This objective stems from the need to address the increasing demand for housing in the city while also repurposing underutilized office buildings. The system will consider various factors, such as the structural integrity of the building and the feasibility of conversion. By implementing this system, the City of London will optimize urban space and contribute to the creation of new housing options for its residents. The Gensler report for the city of Calgary serves as a valuable reference, providing insights that can be adapted to suit London's specific context and requirements. However, the Gensler report was specifically designed for the City of Calgary and although they face a similar scenario with the City of London, a specialized and specific scorecard and approach is needed for London.

1. Create a Scorecard

From the list of existing office buildings provided by the City of London, identify those buildings that are generally receptive for conversion from office space to residential living and create a scoring system to focus on the buildings that possess the most potential.

- Quick turn around
- Reduced cost impact
- Calculated and controlled approach

2. Identify Reporting Requirements

Target the specific reports that need to be generated to help expose inadequacies that cannot be seen through a visual non-intrusive review of the existing building.

3. Phasing Plan

Recommend a system to phase the consultants reports to help reduce costs when the first or second report discoveries might eliminate a building from undertaking the conversion process.

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PLAN PERFORM INSPIRE



3.0 OFFICE TO RESIDENTIAL (OTR) SCORECARD

Having a specialized scorecard and points system to identify optimal buildings for conversion from office to residential offers several conveniences. Firstly, it allows for a systematic and objective evaluation of various buildings based on specific criteria. By assigning scores and points to different factors such as building condition, infrastructure, and potential for conversion, decision-makers can quickly assess the viability of each building. This saves time and resources compared to manual assessments or subjective judgments.

Secondly, a personalized scorecard and points system provide a standardized framework for evaluating buildings. This ensures consistency and fairness in the assessment process, enabling a fair comparison between different buildings. It also helps in setting clear benchmarks and targets for building conversions, facilitating effective planning and decision-making.

Additionally, a personalized scorecard and points system can prioritize key considerations for building conversions. For example, factors such as structure, ease of conversion, serviceability and community impact can be given higher weights in the scoring system, aligning with the city's goals and policies. This helps in promoting sustainable and inclusive development while maximizing the benefits of building conversions.

Finally, the use of a personalized scorecard and points system enables efficient data management and analysis. It allows for the collection and organization of relevant information about each building.

Overall, a personalized scorecard and points system offer the convenience of a streamlined and objective approach to identify optimal buildings for conversion from office space to residential living. It enhances efficiency, consistency, and transparency, ultimately contributing to the successful implementation of building conversion initiatives.

In contemplating the needs of a scorecard and considering the needs of the City of London, a system was developed to quickly outline several key Parts.

- Part A - Configuration & Structure
- Part B - Envelope
- Part C - Servicing & Practicality
- Part D - Overall Score & Recommendations

PART A - Configuration of Structure:

Because the general vicinity of buildings being considered as possible conversions has already been predetermined by the City of London, it is generally agreed that more weight needs to be focused on the physical properties of each building, with location being only a potentially mild deciding factor.

When undertaking a conversion of an existing building there are many factors to be taken into consideration. Ultimately the idea is to keep production high and costs low. The strategy is to target buildings that are square or wedged in shape. Buildings configured in this manner are optimal for interior redesign, giving architects and engineers lots of opportunity to shape the inside of the building in a way that capitalizes on floor space yielding competitive square footage costs as well as end user satisfaction.

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PLAN PERFORM INSPIRE

APPENDIX 3: OTR-CFIP CONVERSION REPORT

GILAM

3.1 SAMPLE: OFFICE TO RESIDENTIAL (OTR) SCORECARD

PART A: CONFIGURATION & STRUCTURE

Municipal Address of Building: _____
 How many levels above ground? _____
 How many levels below ground? _____

Configuration of Building

| | |
|---|---|
| <input type="checkbox"/> Square | 2 |
| <input type="checkbox"/> Wedge | |
| <input type="checkbox"/> Rectangle | 1 |
| <input type="checkbox"/> L or U - Shape | |
| <input type="checkbox"/> Odd Shape | 0 |

Structure of Building

| | |
|--|---|
| <input type="checkbox"/> Concrete, Precast or Steel | 2 |
| <input type="checkbox"/> Combination of Concrete, Precast & Steel | |
| <input type="checkbox"/> Combination of structural Block, Steel & Concrete | 1 |
| <input type="checkbox"/> Wood | 0 |
| <input type="checkbox"/> OTHER | |

Do the floors sag or seem sloped? YES (0) NO (2)

What is the visual condition of the exterior of the building?

| | |
|--|---|
| <input type="checkbox"/> RESILIENT: few signs of cracks in exterior finishes and foundation | 2 |
| <input type="checkbox"/> WEATHERED: visible signs of building stress, defacing of exterior finishes, brick face spalling in localized areas | 1 |
| <input type="checkbox"/> NEGLECTED: large stress cracks in exterior finishes & foundation, sections of exterior finishes missing, brick work crumbling and missing mortar | 0 |

PART A:

| | | | |
|-----------------------|---|---------------------|--|
| Total Possible Points | 8 | Total Actual Points | |
|-----------------------|---|---------------------|--|

Note: requires a minimum score of 5 to pass Part A

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PART B: ENVELOPE

Building Roof Type:

| | |
|---|-----|
| <input type="checkbox"/> Flat with Modified Bitumen or EPDM membrane | 1 |
| <input type="checkbox"/> Flat with TPO (Thermoplastic Polyolefin) or Asphalt Rolled | 0.5 |
| <input type="checkbox"/> Sloped with shingles | 0 |
| <input type="checkbox"/> OTHER: | |

Are there windows on the North face? NO YES Windows on at least 3 sides 2
 Are there windows on the South face? NO YES
 Are there windows on the West face? NO YES Windows on only 2 sides 0.5
 Are there windows on the East face? NO YES

Are the windows operable? NO (0) YES (1)

Building Exterior Type:

| | |
|---|---|
| <input type="checkbox"/> Brick or Architectural Precast Concrete (or combination of both) | 2 |
| <input type="checkbox"/> Siding | 1 |
| <input type="checkbox"/> EIFS (Exterior Insulation and Finish System) | |
| <input type="checkbox"/> Mix of any combination Brick, Siding, EIFS | |

Is the Main Building Mechanical Room located on the:

| | | |
|-----------------------------------|--|------------------------------------|
| <input type="checkbox"/> Roof | Are there any MAJOR visual challenges to adding or replacing mechanical equipment and RTU's? | <input type="checkbox"/> NO (2) |
| <input type="checkbox"/> Basement | | <input type="checkbox"/> YES (0.5) |
| <input type="checkbox"/> Other | | |

PART B:

| | | | |
|-----------------------|---|---------------------|--|
| Total Possible Points | 8 | Total Actual Points | |
|-----------------------|---|---------------------|--|

Note: requires a minimum score of 4 to pass Part B

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3.1 SAMPLE: OFFICE TO RESIDENTIAL (OTR) SCORECARD

PART A: CONFIGURATION & STRUCTURE

Municipal Address of Building: _____
 How many levels above ground? _____
 How many levels below ground? _____

Configuration of Building

| | |
|---|---|
| <input type="checkbox"/> Square | 2 |
| <input type="checkbox"/> Wedge | |
| <input type="checkbox"/> Rectangle | 1 |
| <input type="checkbox"/> L or U - Shape | |
| <input type="checkbox"/> Odd Shape | 0 |

Structure of Building

| | |
|--|---|
| <input type="checkbox"/> Concrete, Precast or Steel | 2 |
| <input type="checkbox"/> Combination of Concrete, Precast & Steel | |
| <input type="checkbox"/> Combination of structural Block, Steel & Concrete | 1 |
| <input type="checkbox"/> Wood | 0 |
| <input type="checkbox"/> OTHER | |

Do the floors sag or seem sloped? YES (0) NO (2)

What is the visual condition of the exterior of the building?

| | |
|--|---|
| <input type="checkbox"/> RESILIENT: few signs of cracks in exterior finishes and foundation | 2 |
| <input type="checkbox"/> WEATHERED: visible signs of building stress, defacing of exterior finishes, brick face spalling in localized areas | 1 |
| <input type="checkbox"/> NEGLECTED: large stress cracks in exterior finishes & foundation, sections of exterior finishes missing, brick work crumbling and missing mortar | 0 |

PART A:

| | | | |
|-----------------------|---|---------------------|--|
| Total Possible Points | 8 | Total Actual Points | |
|-----------------------|---|---------------------|--|

Note: requires a minimum score of 5 to pass Part A

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PART B: ENVELOPE

Building Roof Type:

| | |
|---|-----|
| <input type="checkbox"/> Flat with Modified Bitumen or EPDM membrane | 1 |
| <input type="checkbox"/> Flat with TPO (Thermoplastic Polyolefin) or Asphalt Rolled | 0.5 |
| <input type="checkbox"/> Sloped with shingles | 0 |
| <input type="checkbox"/> OTHER: | |

Are there windows on the North face? NO YES Windows on at least 3 sides 2
 Are there windows on the South face? NO YES
 Are there windows on the West face? NO YES Windows on only 2 sides 0.5
 Are there windows on the East face? NO YES

Are the windows operable? NO (0) YES (1)

Building Exterior Type:

| | |
|---|---|
| <input type="checkbox"/> Brick or Architectural Precast Concrete (or combination of both) | 2 |
| <input type="checkbox"/> Siding | 1 |
| <input type="checkbox"/> EIFS (Exterior Insulation and Finish System) | |
| <input type="checkbox"/> Mix of any combination Brick, Siding, EIFS | |

Is the Main Building Mechanical Room located on the:

| | | |
|-----------------------------------|--|------------------------------------|
| <input type="checkbox"/> Roof | Are there any MAJOR visual challenges to adding or replacing mechanical equipment and RTU's? | <input type="checkbox"/> NO (2) |
| <input type="checkbox"/> Basement | | <input type="checkbox"/> YES (0.5) |
| <input type="checkbox"/> Other | | |

PART B:

| | | | |
|-----------------------|---|---------------------|--|
| Total Possible Points | 8 | Total Actual Points | |
|-----------------------|---|---------------------|--|

Note: requires a minimum score of 4 to pass Part B

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3.2 RANKING THE BUILDING

Using the data collected from the OTR Scorecard, buildings will be classified into an identifiable ranking system, creating a streamlined approach, discarding buildings that will not convert or convert easily and targeting buildings that are most receptive for a conversion. Focus is on reduced times and efficient usage of funds.

THREE STAR:

Three Star Building = 25-27 Points accumulation

| |
|---|
| Square or Wedged shaped Building |
| Structurally sound – Concrete, Precast or Steel or a combination of any of these |
| Firm floors – not sagging or showing signs of fatigue |
| Resilient exterior – few signs of cracks in exterior finishes and foundation |
| Flat roof with either EPDM or Modified roof (more resilient / less risk of water damage) |
| Windows on at least 3 sides of the building |
| Exterior cladding of brick or architectural precast (or combination of both) |
| No major challenges adding new Mechanical equipment such as Roof Top Units (RTU) |
| Elevators centrally located |
| Minimum 2 stairwells at opposite ends of the building |
| On site parking available |
| Constructed after 1980 (less risk of discovering hazardous materials) |
| Will not need a lot of effort to separate any commercial or retail from residential space |
| Minimum 25 Points accumulated, from possible total 27 Points |
| Refer to OTR Scorecard |

TWO STAR:

Two Star = 17-24 Points accumulation

| |
|--|
| Rectangles or U-I shaped building or better |
| Structure derived from Combination of structural block, steel & concrete or better |
| Firm floors – not sagging or showing signs of fatigue |
| Weathered exterior – visible signs of building stress, defacing of exterior finishes, brick face Spalling in localized areas |
| Flat roof with TPO or Asphalt Rolled membrane or better |
| Windows on at least 3 sides of the building |
| Exterior cladding of either Siding or EPS or any combination of Siding, EIFS & Brick |
| No major challenges adding new Mechanical equipment such as Roof Top Units (RTU) |
| Elevators not located centrally |
| Minimum 2 stairwells at opposite ends of the building |
| No on-site parking available |
| Constructed prior to 1980 (greater risk of discovering hazardous materials) |
| May need some effort to separate any commercial or retail from residential space |
| Minimum 17 Points accumulated, from possible total 27 Points |
| Refer to OTR Scorecard |

ONE STAR:

One Star = 14-16 Points accumulation

| |
|--|
| Rectangles or U-I shaped building or better |
| Structure derived from Combination of structural block, steel & concrete or better |
| Firm floors – not sagging or showing signs of fatigue |
| Weathered exterior – visible signs of building stress, defacing of exterior finishes, brick face Spalling in localized areas |
| Flat roof with TPO or Asphalt Rolled membrane or better |
| Windows on at least 2 sides of the building |
| Exterior cladding of either Siding or EPS or any combination of Siding, EIFS & Brick |
| Challenges expected adding new Mechanical equipment such as Roof Top Units (RTU) |
| Elevators not located centrally |
| Minimum 2 stairwells not located conveniently (re-work required to satisfy By-laws/Codes) |
| No on-site parking available |
| Constructed prior to 1980 (greater risk of discovering hazardous materials) |
| Is currently occupied |
| May need some effort to separate any commercial or retail from residential space |
| Minimum 14 Points accumulated, from possible total 27 Points |
| Refer to OTR Scorecard |

4.0 EXISTING CONDITIONS REPORT

Completing a series of investigative reports on an existing building prior to undertaking a conversion from office to residential space is important for several reasons:

- Building Assessment:** assess the structural integrity, condition, and suitability of the building for conversion. Uncover any potentially hazardous materials. Provide detailed information about the building's foundation, load-bearing capacity, electrical systems, plumbing, HVAC, and other essential components. This assessment helps identify any potential issues or limitations that may arise during the conversion process and enables proper planning and mitigation strategies.
- Compliance with Regulations:** building codes, zoning regulations, and other legal requirements. They provide an understanding of the building's current status and identify any necessary modifications or upgrades needed to meet residential building standards. This helps prevent legal issues, penalties, and delays in the conversion process.
- Cost Estimation:** uncover any hidden problems or deficiencies that may require additional investments. This allows for proper budgeting and resource allocation, minimizing the risk of unexpected expenses or cost overruns during the conversion process.
- Risk Assessment:** identify any environmental hazards, structural weaknesses, or safety concerns that may pose risks to future residents. This information enables the development of appropriate risk management plans and strategies to ensure the safety and well-being of occupants.

PART C: SERVICING & PRACTICALITY

How many Elevators does the building have? 1 2 3 4 More than 4

How are the elevators oriented within the building structure?

| | |
|---|---|
| <input type="checkbox"/> Centrally | 2 |
| <input type="checkbox"/> Adjacent to an exterior wall | 1 |

How many stair wells does the building have?

| | | |
|--|-----------------------|---|
| <input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> More than 4 | At least 2 stairwells | 2 |
| <input type="checkbox"/> At opposite ends of the building from each other | | 1 |

Does the building have any available parking within the property lines? NO (0.5) YES (1)

When was the building constructed? Before 1980? (0.5) 1980 or After? (1)

Is the building currently occupied? YES (0.5) NO (1)

Does the building have retail space attached to it (store or restaurant)? YES (0.5) NO (1)

Will the building need to be separated between residential space and commercial / retail space as part of the conversion? YES (0.5) NO (1)

PART C:

| | | | |
|-----------------------|----|---------------------|--|
| Total Possible Points | 10 | Total Actual Points | |
|-----------------------|----|---------------------|--|

Note: requires a minimum score of 5 to pass Part C

PART D: OVERALL SCORE & RECOMMENDATIONS

| | |
|--|----|
| Part A – Actual Points | |
| • Minimum 5 required | |
| Part B – Actual Points | |
| • Minimum 4 required | |
| Part C – Actual points | |
| • Minimum 5 required | |
| Total Actual Points from Parts A + B + C | |
| Minimum number of total points required from Parts A + B + C to recommend moving forward to PHASE 1 of the Existing Building Conditions Survey | 14 |

Building Classification:

- 24 – 26 Points = Three Star
- 17 – 23 Points = Two Star
- 14 – 16 Points = One Star

E. Design and Layout Planning: Insights into the building's existing layout, space utilization, and design possibilities. They assist in determining the optimal use of available space, identifying potential areas for improvement or modification, and incorporating necessary amenities and features for residential purposes. This helps in creating functional and desirable living spaces that meet the needs and preferences of future residents.

In summary, completing a series of investigative reports on an existing building prior to undertaking a conversion from office to residential space is crucial for informed decision-making, compliance with regulations, accurate cost estimation, risk assessment, proper design & layout planning and overall project feasibility. It helps ensure a successful and seamless conversion process, resulting in desirable residential spaces that meet all necessary requirements.

The following assessments are recommended:

- Hazardous Materials and Substances
- Geotechnical
- Structural
- Mechanical & Electrical
- Fire Life Safety
- Envelope & Energy
- Elevators, Lifts, Escalators

4.1 HAZARDOUS MATERIALS & SUBSTANCES ASSESSMENT

Conducting a Hazardous Materials and Substance Investigation of an existing building before any selective demolition begins is crucial for several reasons:

- **Safety Precautions:** Identifying and assessing hazardous substances such as asbestos, lead paint, mold, or other contaminants in the building helps in implementing proper safety measures to protect the health of workers, nearby residents, and the environment during demolition.
- **Compliance with Regulations:** Many jurisdictions have regulations and laws governing the handling and disposal of hazardous substances. By conducting an investigation, you can ensure compliance with these regulations and avoid potential legal liabilities.
- **Risk Management:** Knowing the presence of hazardous substances allows for the development of a comprehensive risk management plan. This includes proper handling, containment, removal, and disposal of the substances to prevent exposure and contamination.
- **Cost Estimation:** Identifying hazardous substances early on helps in estimating the costs associated with their removal and disposal. This information is essential for budgeting and planning the demolition project effectively.

- **Environmental Protection:** Hazardous substances can have long-term negative impacts on the environment if not handled properly. Conducting an investigation helps in minimizing environmental contamination and ensuring responsible disposal practices.

There are several hazardous substances that must be identified and assessed before a building can begin to plan the demolition phase.

Some common examples include:

- **Asbestos:** Asbestos-containing materials were commonly used in construction before its health risks were known, typically buildings constructed prior to 1980. Disturbing asbestos during demolition can release harmful fibers into the air, posing serious health risks to those exposed.
- **Lead-Based Paint:** Buildings constructed before 1978 may contain lead-based paint, which can be hazardous when disturbed. Lead exposure can lead to serious health issues, especially in children and pregnant women.
- **Mold:** Moisture issues in buildings can lead to mold growth, which can cause respiratory problems and other health issues. Mold spores can become airborne during demolition, posing a risk to workers and nearby residents.
- **Polychlorinated Biphenyls (PCBs):** PCBs were commonly used in building materials, such as insulation and caulking, before being banned due to their toxicity. Identifying and properly handling PCB-containing materials is crucial to prevent environmental contamination.
- **Mercury:** Mercury-containing devices, such as thermostats, switches, and fluorescent light tubes, may be present in older buildings. Mercury exposure can have harmful effects on human health and the environment.
- **Pesticides and Herbicides:** Buildings used for agricultural or industrial purposes may contain residues of pesticides and herbicides. Proper identification and handling of these substances are essential to prevent exposure during demolition.
- **Chemical Contaminants:** Industrial buildings or laboratories may have stored chemicals that can be hazardous if released during demolition. Identifying and safely disposing of these chemicals is important for worker safety and environmental protection.

Identifying and assessing these hazardous substances before demolition is crucial to ensure the safety of workers, nearby residents, and the environment. Proper handling and disposal of these substances are essential to prevent health risks and environmental contamination during the demolition process.

4.2 GEOTECHNICAL ASSESSMENT

The purpose of a Geotechnical Investigation is to determine the soil and groundwater conditions in the area of the proposed development and provide preliminary geotechnical engineering recommendations for site servicing, foundations, floor slabs, and pavement design. This becomes even more important if there are to be structural changes to the existing structure.

The data/recommendations from the Geotechnical Investigation report that is most relevant is the allowable soil bearing pressure. This parameter determines the size of the various footings (walls, columns, etc.). "Load Bearing Values" are based on different material classifications of soils which in addition to the allowable vertical foundation pressure includes the lateral bearing pressure and the lateral sliding resistance (i.e., coefficient of friction).

Since building foundation repairs are typically very expensive, if not impractical, the liability associated with the integrity and quality of the geotechnical investigation report is critical to any construction project.

It is noted that at the time of a Geotechnical Investigation there will probably not be any preliminary or conceptual designs for the site, and thus the Geotechnical Investigation is being completed for due diligence purposes to determine if the site is generally suitable for development and to highlight any potential issues from a geotechnical perspective. Additional geotechnical work may be required once the site designs have been finalized.

Geotechnical Investigation Report should include inspections and testing as a minimum on the following items:

- Soil Conditions
- Groundwater Conditions
- Site Preparation
- Site Servicing
- Excavations and Dewatering
- Foundation Design
- Concrete Slab-on Grade Floors
- Pavement Structure
- Curbs and Gutter and Sidewalks

When considering the cost of a Preliminary Geotechnical Investigation Report there are several factors to consider:

- Height of the existing buildings. Higher loaded multi-storey buildings will require deeper boreholes
- Presence of underground parking structures. This will also dictate deeper boreholes to ensure the investigation extends below the founding depths
- Site access constraints. In a downtown location, it might be necessary to advance some boreholes within the basement level of an existing structure, which would generally require low-clearance drill rigs which does increase the duration of the work
- Depending on the location of the buildings, it should be considered to combine the fieldwork from multiple sites, to reduce the mobilization costs for carrying out each investigation separately, providing some cost savings.

4.3 STRUCTURAL ASSESSMENT

Before starting a conversion, a thorough structural assessment of the building should be conducted to determine if any modifications are needed to support the change. This assessment will help identify any potential issues with load-bearing walls, foundations, or structural integrity that may need to be addressed during the conversion process.

In general, structural conversion from office space to residential space is usually fine depending on various factors including when the original structure was built, type of construction and materials. One additional big item comes down to finishes (whether if be for aesthetics or for acoustics).

When it comes to loading, residential loading is less than office (with a few exceptions):

- Typical Office Design Live Loading
 - Ground Floor (or first floor/lobby area): 4.80 kPa [100 psf]
 - Floors Above: 2.40 kPa [50 psf]
- Residential Live Load = 1.90 kPa (40 psf)

The big difference comes with balconies/terraces and corridors. For residential buildings, corridors, balconies and terraces are designed for 4.80 kPa [100 psf]. Usually this does not pose much of a problem however, may require some local reinforcing in a corridor. If balconies or terraces get very large, then this would usually facilitate reinforcing.

There should be thought given to current and future finishes. For example, an office space might only have carpet tile and a drywall ceiling. If the change to residential space is desired, there might need to be additional drywall, fancier floors (thick marble or granite, etc.) which increases the floor loading. Typically, if this falls within the 0.50 kPa difference between office/residential loading it is fine, but there are obviously limitations to this as well.

4.4 MECHANICAL & ELECTRICAL SYSTEMS

Converting office space into residential units typically involves significant modifications to the plumbing and electrical systems. It is crucial to assess the existing systems and determine if they need to be upgraded or replaced to meet residential requirements. This may include adding bathrooms, kitchens, and ensuring adequate electrical capacity for residential use.

The mechanical & electrical (M&E) assessment report will detail the existing systems and their condition and/or life expectancy, along with a set of recommendations and requirements on what needs to be done to convert office buildings to a residential building.

Inspections should include detailed reports on the following items:

- Mechanical Systems
 - Sanitary
 - Storm
 - Natural Gas
 - Domestic Water
 - HVAC

Electrical Systems

- Power
- Fire Alarm
- Lighting & life-safety
- Communications

4.5 FIRE LIFE SAFETY

- **Compliance with Regulations:** Residential buildings have different safety requirements compared to office spaces. Conducting a Fire Life Safety review helps ensure that the building meets all the necessary regulations and codes for residential occupancy.
- **Risk Assessment:** The review helps in identifying potential fire hazards and risks specific to residential spaces. It allows for the implementation of appropriate safety measures to mitigate these risks and enhance the overall safety of the building.
- **Occupant Safety:** Residential spaces are occupied differently than office spaces, with people spending more time in their homes. The review helps in assessing the evacuation routes, fire detection systems, and other safety measures to protect the residents in case of a fire emergency.
- **Insurance Requirements:** Insurance companies may require a Fire Life Safety review before providing coverage for residential spaces. Compliance with safety standards not only ensures the safety of occupants but also helps in obtaining insurance coverage.
- **Other considerations include:** travel distances for the fire hose and fire extinguisher, condition of the standpipe & risers, Age of any pumps, fire ratings separations floor to floor, age of equipment for new integrated systems, wet vs dry sprinkler system.

4.6 ENVELOPE & ENERGY

The objective of a Building Envelope Assessment Report is to determine the current condition of an existing building's envelope systems and provide general repair and restoration strategies to address any deterioration of the building's envelope, cladding or veneer.

The report should focus on the following major items:

- Roof Systems
- Cladding Systems (brick veneer, siding, EIFS etc.)
- Window Systems
- Door Systems

The report should also include the following:

- Detailed review of existing drawings, written specifications, maintenance records, and any historical major repairs & replacement records provided, which pertain to the building envelope systems
- Interview with site building operations staff
- A detailed non-destructive visual assessment of each major building envelope element
- Arms-length review of exterior wall and window systems from elevated access platform

4.7 ELEVATORS, LIFTS & ESCALATORS

The purpose of an Elevator Condition Assessment inspection is to report on the current equipment condition and any upgrades that should be budgeted for over the next 10 years. The safety aspects of an elevator are not typically reviewed and are reserved for the jurisdiction of the Technical Standards and Safety Authority (TSSA).

The report should include:

- Thorough inspection of current condition
- Detailed inspection of service history
- Interview with current elevator service provider
- Study on residential usage vs office usage
- Any future requirements
- Life expectancy

Additionally, this type of report will outline pedestrian traffic routes, number of passenger elevators vs density, future requirements and any technological upgrades required vs current codes.

5.0 PHASING PLAN

Ultimately, any building undergoing a transformation from office to residential use will require a full set of Existing Conditions Reports. These reports will make up the foundation of the construction process, helping identify what can and cannot be achieved while satisfying Federal, Provincial and Municipal building codes and practices. The cost of these combined reports could range anywhere from \$60,000 to \$80,000 depending on factors such as height of building, age and location.

What if one of the reports identifies issues in the existing building that would be costly to correct, thus changing the ranking of the building from either a three, two or one star to non-receptive due to the excessive cost?

For this reason, it is suggested that the reports be broken into PHASES, so that the highest risk factors are investigated and any major issues identified prior to allocating funds to completing all the reports, in the event the conversion becomes nonviable. In a perfect setting the reports would be delivered one after the other, so that if a negatively impacting discovery was made, the process could be halted while it is determined if the conversion should move forward or not. Unfortunately, this way of processing the reports could only potentially save costs but will add a large chunk of time to the overall process.

The exception would be a building that achieves the best ranking of three star, unless it was constructed prior to 1980. A building achieving the three-star ranking should be reasonably considered to either have only potentially

minor issues or be free from hazardous materials and substances and geotechnical discrepancies. In this instance, it would be logical to proceed with the full set of Existing Conditions Reports simultaneously reducing wait time between PHASE 1 & PHASE 2

It is recommended that for buildings achieving a one star or two-star ranking, the Existing Conditions Reports are broken into two (2) phases with the highest risk reports (the reports most likely to discover a negative factor) included in PHASE 1 and the lesser at-risk reports in PHASE 2

PHASE 1

- Hazardous Materials & Substances
- Geotechnical

PHASE 2

- Structural
- Mechanical & Electrical
- Fire Life Safety
- Envelope & Energy
- Elevators, Lifts, Escalators

Reports in each phase should run simultaneously. It is generally believed that this approach will add a level of control in the reporting process to help mitigate potential loss of funds in the event one of the reports discovers a negative factor. At the end of PHASE 1 the decision can be made to either move forward to PHASE 2 or halt the reporting process. Structuring the reports in this way should also still maintain a manageable time frame.

6.0 SUMMARY

This report focuses on the conversion of office space into residential space. It proposes the use of a scorecard system to identify the most suitable targets for conversion. The scorecard system ranks the targets as one star, two star, or three star based on their potential for successful conversion. Additionally, the report suggests obtaining Existing Condition Reports in a phased system to assess the current state of the office spaces and plan for the conversion process effectively.

This comprehensive approach aims to optimize the conversion preparation process and ensure successful allocation of special funding and efficient repurposing of office spaces for residential use.

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| | | |
|---|---|---|
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|---|--|

APPENDIX 4: FINANCIAL MODELLING

A simple financial pro forma for a building renovation project starts by estimating how much the building costs to buy and how much the renovations will cost. This includes expenses for materials, labour, and any necessary permits. Then, you estimate how much more the building will be worth or how much more rent you can charge after the renovations are done. By comparing the total costs of buying and renovating the building with the expected increase in value or rental income, you can see if the project will make money. You also create a timeline to show when you'll spend money and when you'll start making money, helping to ensure the project is financially viable.

Key Assumptions for Financial Modelling:

- Loan To Value Ratio: 65% (financial institution funds 65% of project, owner funds remaining balance).
- Loan Rate: Assume 8%.
- Loan Term: Assume 1 year (12 months).
- Average Unit Size: 700 square feet.
- Rental Revenue: \$2.5 per square foot.
- Construction Cost:
 - 70% of new build construction (\$450 per square foot)
 - \$315 per square foot average construction conversion cost.

Other Costs:

- Development Charge Fee: \$20,777 per unit (if applicable)
- Parkland Fee:
 - \$2,200 per unit (less 75 units per ha)
 - \$1,250 per unit (75-150 units per ha, if applicable)
- Building Permit Fee: \$3.54 per square metre
- Construction Management Fee: Assume 1.5% of construction budget

APPENDIX 4: FINANCIAL MODELLING

Incentive:

- Construction Grant Fee: \$40,350 per unit
- Study Grant Fee: \$80,000 (per property)

Table 1: Pro Forma Scenario – Without Incentives

| Project Example | 15 Unit | 50 units | 100 | 228 |
|------------------------------|---------------|----------------|----------------|----------------|
| Units | 15 | 50 | 100 (107) | 228 |
| Building Floor Area (sq.ft.) | 10,500 | 35,000 | 75,000 | 160,000 |
| Potential Soft Costs*: | | | | |
| Technical Studies* | \$80,000 | \$80,000 | \$80,000 | \$80,000 |
| Development Charges* | \$311,655 | \$1,038,850 | \$2,226,107.1 | \$4,749,028 |
| Parkland Fee* | \$18,750 | \$62,500 | \$133,928.6 | \$285,714.3 |
| Building Permit Fee* | \$3,453.1 | \$11,510.3 | \$24,665 | \$52,618.6 |
| Site Plan Fee* | \$2,225 | \$4,815 | \$9,043.6 | \$18,029.3 |
| Total Soft Cost | \$416,083.1 | \$1,197,675.3 | \$2,473,744.2 | \$5,185,390.7 |
| Construction Cost (base) | \$3,307,500 | \$11,015,000 | \$23,625,000 | \$50,400,000 |
| Total City Soft Cost | \$416,083.1 | \$1,197,675.3 | \$2,473,744.2 | \$5,185,390.7 |
| Construction Management | \$49,612.50 | \$165,375 | \$354,375 | \$756,000 |
| Total Project Cost | \$3,773,195.6 | \$12,388,050.3 | \$26,473,744.2 | \$56,341,390.7 |
| 65% bank Financed | \$2,452,477.1 | \$8,052,232.7 | \$17,194,527.5 | \$36,621,904 |

APPENDIX 4: FINANCIAL MODELLING

Table 1: Pro Forma Scenario – Without Incentives

| | | | | |
|--------------------------------|---------------|----------------|----------------|----------------|
| Cost to Borrow | \$196,206.2 | \$644,178.6 | \$1,375,562.2 | \$2,929,752.3 |
| Total Loan Cost for ROI | \$2,648,783.3 | \$8,696,411.3 | \$18,570,089.7 | \$39,551,656.3 |
| | | | | |
| Down Payment (Owner) | \$854,922.9 | \$2,972,767.3 | \$6,430,472.5 | \$13,778,096 |
| Total Developer Cost | \$1,467,212.1 | \$4,814,621.2 | \$10,279,778.9 | \$21,893,239.1 |
| | | | | |
| Annual Revenue | \$315,000 | \$1,050,000 | \$2,250,000 | \$4,800,000 |
| Gross Revenue (after loan) | \$118,793.8 | \$405,821.4 | \$874,437.8 | \$1,870,247.7 |
| | | | | |
| ROI (bank financing) | 4.5% | 4.7% | 4.7% | 4.7% |
| Developer Leveraged ROI | 8.1% | 8.4% | 8.5% | 8.5% |
| | | | | |
| Total Project Cost (with fees) | \$3,773,196.6 | \$12,388,050.3 | \$26,453,119.2 | \$56,341,390 |
| City Soft Cost (% of project) | 11% | 9.7% | 9.4% | 9.2% |
| Incentive Project Cost | \$2,886,015.8 | \$9,649,864.5 | \$20,678,281.1 | \$43,356,226.3 |
| Incentive Impact (saving) | 23.5% | 22.1% | 21.8% | 23% |
| | | | | |
| Viability | Non-Viable | Non-Viable | Non-Viable | Non-Viable |

APPENDIX 4: FINANCIAL MODELLING

Table 2: Pro Forma Scenario – With Full Incentives

| Project Example | 15 Unit | 50 units | 100 | 228 |
|------------------------------|---------------|---------------|----------------|----------------|
| Units | 15 | 50 | 100 (107) | 228 |
| Building Floor Area (sq.ft.) | 10,500 | 35,000 | 75,000 | 160,000 |
| Potential Soft Costs*: | | | | |
| Technical Studies* | 0 | 0 | 0 | 0 |
| Development Charges* | 0 | 0 | 0 | 0 |
| Parkland Fee* | 0 | 0 | 0 | 0 |
| Building Permit Fee* | 0 | 0 | 0 | 0 |
| Site Plan Fee* | 0 | 0 | 0 | 0 |
| Total Soft Cost | 0 | 0 | 0 | 0 |
| Construction Cost (base) | \$3,307,500 | \$11,025,000 | \$23,625,000 | \$54,400,000 |
| Total City Soft Cost | 0 | 0 | 0 | 0 |
| Construction Management | \$49,612.5 | \$165,375 | \$354,375 | \$756,000 |
| Total Project Cost | \$3,357,112.5 | \$11,190,375 | \$23,979,375 | \$51,156,000 |
| 65% bank Financed | \$1,788,710.6 | \$5,962,368.8 | \$12,776,504.5 | \$26,788,542.9 |
| Cost to Borrow | \$143,096.9 | \$476,989.5 | \$1,022,120.4 | \$2,143,083.4 |
| Total Loan Cost | \$1,931,807.5 | \$6,439,358.3 | \$13,798,624.8 | \$28,931,626.3 |

APPENDIX 4: FINANCIAL MODELLING

Table 2: Pro Forma Scenario – With Full Incentives

| | | | | |
|----------------------------|---------------|---------------|----------------|----------------|
| Down Payment | \$393,412.5 | \$1,311,375 | \$2,819,089.3 | \$6,462,857.1 |
| Total Developer Cost | \$536,509.4 | \$1,788,364.5 | \$3,832,209.6 | \$8,605,940.6 |
| | | | | |
| Construction Grant | \$605,250 | \$2,017,500 | \$4,323,214.3 | \$9,942,857.1 |
| New Construction Cost | \$2,702,250 | \$9,007,500 | \$19,301,785.7 | \$40,457,142.9 |
| New Cost To Borrow | \$143,096.9 | \$476,989.5 | \$1,022,120.4 | \$2,143,083.4 |
| Other Soft Costs | \$49,612.50 | \$165,375 | \$354,365 | \$756,000 |
| New Total Project Cost | \$2,894,959.4 | \$9,649,864.5 | \$20,678,281.1 | \$43,356,226.3 |
| | | | | |
| Annual Revenue | \$315,000 | \$1,050,000 | \$2,250,000 | \$4,800,000 |
| Gross Revenue (after loan) | \$171,903.1 | \$573,010.5 | \$1,227,879.6 | \$2,656,916.6 |
| | | | | |
| ROI (bank financing) | 8.9% | 8.9% | 8.9% | 9.2% |
| Developer Leveraged ROI | 32% | 32% | 32% | 30.9% |
| | | | | |
| Viability | Viable | Viable | Viable | Viable |

Table 2 introduces two financial incentives which reduces the project cost. The construction conversion grant has a leveraged effect of reducing the financial borrowing costs which further reduces the project costs. The pro forma shows the sensitivity of interest rates, as well as, incremental city soft costs. The waiver (elimination) of select city soft costs has a material impact on project viability.

APPENDIX 6: EXPERT CONSTRUCTION COST OPINION



36 Northline Rd. Unit 3
Toronto, ON
M4B 3E2

May 13, 2024

To Whom it may concern,

Re: Office Conversion Cost vs. New Construction – City of London

Gillam Construction Group Limited is a multi-disciplinary construction management firm. We are writing to demonstrate the current market trends in cost as it relates to existing office to residential conversions. Generally speaking, converting an existing building versus building from the ground up is typically about 30% less.

As a range, we would typically see a conversion between \$315 - \$375 / sf with an assumed average cost of \$350/sf. In a new building, the risk of unforeseen conditions is significantly reduced, and we would see a range of \$425 - \$500/sf depending on the finishes.

Please feel free to reach out if you have any.

Regards,

A handwritten signature in black ink, appearing to read "CB", written over a light blue rectangular background.

Chris Bell
Vice President - Preconstruction
Gillam Construction Group Ltd.
416-455-7336
cbell@gillamgroup.com

APPENDIX 7: EXPERT AIR QUALITY INCENTIVE PROGRAM OPINION



February 21st, 2024

via: Email

Urban Insights Inc.
Waterloo, Ontario

Attention: Ryan Mounsey
via: email ryanolivermounsey@outlook.com

Re: CIP City of London, Air Quality Improvements

Dear Ryan,

Regarding our discussions about introducing incentives for air quality improvement through the office to residential (OTR) conversion process.

It is Gillam's opinion that generally, the majority of the Mechanical equipment will need to be updated or replaced. Items such as Chillers and Boilers are often undersized when it translates from office to residential. Additionally, regarding HVAC servicing, at best, only main lines will remain such as a the Make Up Air (MUA) shaft. Lines that branch from the original supply line will need to be new. It is assumed that in most cases the building floors that are being converted will be stripped back to the exterior walls and all new rough ins will be required.

Based on the OTR scorecard, which will identify basic issues, such as windows and roofing and relying on the expert detailed Existing Building Reports any advantages for improved air quality will be managed during the design and construction phase of the conversion process.

Regards,

A handwritten signature in black ink that reads 'J. Collett'.

Jeff Collett GSC / LEAN
Project Director
Gillam
330 Trillium Dr, Unit E
Kitchener, ON N2E 3J2
C: 289-257-6676
jcollett@gillamgroup.com



APPENDIX 8: GENSLER OFFICE TO RESIDENTIAL BEST PRACTICE SUMMARY

Founded by Arthur (Art) Gensler, Gensler is a global architecture, design and planning firm with 53 locations across Asia, Europe, Australia, the Middle East, and the Americas. Gensler is headquartered in San Francisco, California and is the largest architecture firm in the world by revenue and number of architects. As one of its emerging areas of expertise, Gensler has developed an algorithm that accelerates the process of offices for residential conversions. Gensler has worked in several large cities and is considered an industry leader in the office-to-residential conversion field.

A summary of key findings is provided below and provide a framework for the City of London:

- Gensler has developed an Office to Residential Conversion Algorithm based on a weighted criteria of: 10% site context 30% building form 30% floor plate 10% envelope 20% servicing.
- Gensler has analyzed over 1,300 buildings in 130 cities.
- 30% of building will be suitable for conversion.
- The construction period for conversions is 50% less than equivalent ground-up buildings.

In addition to these findings, Gensler studies from other cities (case studies) include:

- San Francisco:
 - In 2022, studied 36 buildings in downtown San Francisco.
 - Found 12 candidates that rates well for conversion.
 - The ratio of buildings to possible candidates has been consistent.
- Toronto:
 - 70 office buildings have been assessed with 25-30% as candidates for conversion.

APPENDIX 8: GENSLER OFFICE TO RESIDENTIAL BEST PRACTICE SUMMARY

- City of Calgary:
 - Calgary had a vacancy rate approaching 35%.
 - Used algorithm to score 6 million square feet of buildings in the downtown.
 - To date, 5 office conversion projects are under construction and 10 more in development.
 - The office conversions will increase the residential units in the city's core by 24%.
 - Using data from CoStar, Gensler supported \$75 per sq.ft. incentive program with zoning amendments to make conversions an easier process.
- Data reveals only 25% of buildings scored make for suitable candidates for conversion.
- Office conversion results in 30% lower cost than new construction.

Links:

- Gensler Office to Residential Services: <https://www.gensler.com/office-to-residential-services>
- Gensler findings: <https://www.gensler.com/blog/what-we-learned-assessing-office-to-residential-conversions>
- San Francisco Conversions: <https://www.gensler.com/blog/office-to-residential-conversions-revitalize-san-francisco>
- Toronto Conversions: <https://toronto.urbanize.city/post/closer-look-genslers-ambitious-plans-office-residential-conversions>
- Storeys Interview with Steven Paynter: <https://storeys.com/steven-paynter-gensler-interview-office-residential-conversion-adaptive-reuse-algorithm/>

APPENDIX 9 - ENGAGEMENT RESULTS

In order to guide the findings of the report, the consulting group required a better understanding of the issues, challenges and opportunities associated with developing property in Downtown London. Survey criteria pertained to the core areas of Downtown London including Old East Village and Midtown, while prospective sites were classified as B or C vacant office buildings.

Interviews with key stakeholders including real estate developers, community leaders and local government officials took place over a 2 week period of time. The goal of the interviews was to find innovative solutions to maximize the potential of these underutilized properties.

Interview Questions:

PROPERTY OWNER OFFICE TO RESIDENTIAL CFIP SURVEY

1. Do you have vacant office space?
2. How much square feet / floors of vacant space do you have?
3. How many buildings have vacant office space (if applicable)
4. What challenges do you have or face with vacant space?
5. What are your short and long terms plans for the vacant space:
6. What are your thoughts on converting office into residential:
 - a. Not interested
 - b. Want to learn more
 - c. Interested
 - d. Ready now
7. Are you willing to convert vacant space into residential?
8. How many units do you think can fit within this space?

APPENDIX 9 - ENGAGEMENT RESULTS

9. Do you see adding residential to the core area helpful to the core?

- a. Y
- b. N
- c. comments

10. What incentives would make this attractive to convert into residential (select all applicable):

- a. A technical study grant to determine if you building can be converted
- b. A cash grant to fund a portion of affordable housing conversion construction cost
- c. New energy efficiency / sustainability improvements
- d. Other

11. What minimum amount of funding would be helpful to convert vacant office into residential:

- a. Add value
- b. Do not know
- c. Would like to learn more

12. Do you think adding more people to your building would be helpful for your retail/ground floor space?

- a. Yes
- b. No
- c. Not applicable

13. You would like to be involved with future updates and engagements with the City of London Office to Residential CIP program.

- a. Yes, add email:
- b. No thank you

APPENDIX 9 - ENGAGEMENT RESULTS

Survey Responses:

Based on the collection of responses from key stakeholders, it is evident that vacancies are an increasingly common concern, with many respondents discussing the high vacancy rates among B and C buildings. Survey respondents also identified risks associated with renovating and repurposing older office buildings for residential use, recognizing the costliness of remodelling older buildings to meet current codes. There were also concerns that partial occupancy presents issues with development, as performing invasive construction causes disruption to tenants and office workers.

The safety concern of Downtown London was also heavily communicated, conveying that many potential residents are reluctant to live in a place they do not feel safe. Survey respondents noted that their short and long term plans involve conversions, however developmental costs, parking concerns and regulatory compliance with CMHC generates reluctance. The majority of respondents (64.3%) expressed willingness to convert vacant office spaces into residential units, but noted that they do not not have the resources or capacity at this time.

Respondents also mentioned affordability as a hindrance to conversion. Some developers stated their conversion capacities range from one to two commercial buildings with 150- 200 units. However, older buildings are much more difficult to convert from office to residential. Challenges include aged infrastructure, outdated HVAC systems, windows, floor plates, plumbing and parking.

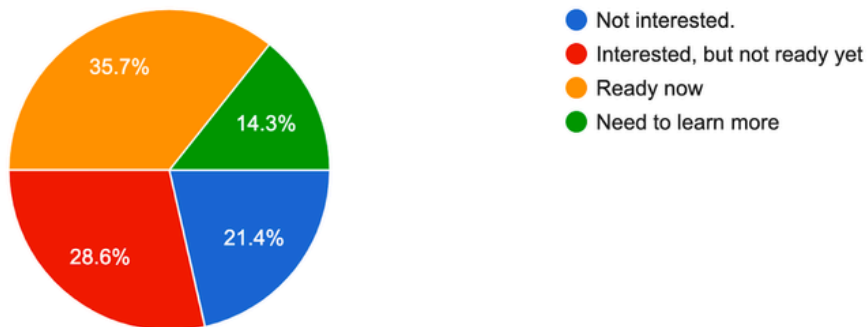
APPENDIX 9 - ENGAGEMENT RESULTS

In order to incentivize conversion from office to residential, survey respondents recommended the following:

- Grant-funded technical study to assess the feasibility of conversion.
- Cash grant to bridge the funding gap and make the project more financially feasible Municipality to fund a portion of conversion construction costs; cash grant would enable the project to succeed.
- For projects to gain momentum, many agree that improvements to energy efficiency would make this space more attractive to convert into residential.
- Endorsement to cover energy, development and tax costs.

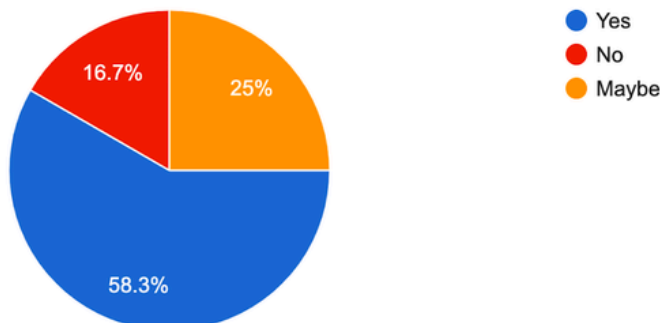
3a. Are you willing to convert vacant office space into residential units?

14 responses



Depending on the incentive, would you be interested in buying / acquiring a vacant building and convert into residential units? Y / N

12 responses



APPENDIX 9 - ENGAGEMENT RESULTS

Do you think the a conversion program will be helpful to add vitality to the downtown?

13 responses

