



Committee of the Whole Report

For the Meeting of April 11, 2024

To: Committee of the Whole **Date:** March 28, 2024

From: Karen Hoesel, Director, Sustainable Planning and Community Development

Subject: **Future of Victoria's Employment Lands – Key Considerations**

RECOMMENDATION

That Council receive the findings outlined in this report for information.

EXECUTIVE SUMMARY

The City recently completed two land economic and market studies focused on Victoria's employment lands, including the Rock Bay industrial lands, to provide a sense of the current health, capacity and potential for growth. Findings from these studies inform emerging strategic policy directions for the Industry, Arts and Innovation District Action Plan and the 10-year update of the Official Community Plan (OCP).

Recent projections forecast employment growth in the range of approximately 19,000 to 40,000 new jobs by 2050 which underscores the importance to plan for future employment needs.

Both studies recognize that Victoria has a highly limited industrial land base compounded with strong demand resulting in very low vacancy rates and some of the highest lease rates in the country. The strong demand for industrial employment lands is likely to remain in the future due to the increasing needs of existing and emerging employment sectors combined with the attractive location of these lands close to the downtown and with direct access to the broader capital region, through land and marine based transportation networks.

Victoria's office market has maintained relatively healthy vacancy rates in a post-pandemic environment unlike other Canadian cities that have seen significant increases to their office vacancy rates. It is also anticipated that Victoria will experience increased demand for newer Class A office space while older Class B and Class C office buildings may see less demand from traditional office users. This trend creates an opportunity for the City to explore the potential to accommodate other employment generating uses in these spaces (such as makerspace, artist production studios or other forms of low impact light industrial uses) to support, diversify and grow the local economy.

Other key employment sectors that are notable in Victoria include arts and culture, which often struggle to find stable and affordable spaces and are sometimes prone to being displaced through redevelopment of older buildings. The tourist accommodation sector is recovering from the pandemic and expects increasing demand, at a time when many hotel rooms have been lost due

to redevelopment. These challenges have created a notable shortage of hotel space to support the needs of tourism and business travel.

Only 7.4% of Victoria's developable land base is designated for exclusively employment purposes through the OCP urban place designations, while over 90% of the land base allows for residential uses. This land use disparity is exacerbated by the ongoing risk of employment land lost through rezoning applications that seek to convert existing employment lands to residential. Therefore, important emerging policy and regulatory directions in both the Industry, Arts and Innovation District Action Plan and the OCP will seek to protect and intensify existing employment lands and consider opportunities to intensify and expand these lands.

However, until these updated policies are in place, the findings in this report are provided to inform Council decision making, including consideration of opportunities to protect and enhance Victoria's employment lands through potential rezoning applications.

PURPOSE

This report provides Council with key findings and information related to the current and forecasted economic health of the city's employment lands. These findings are being used to inform the development of emerging land use and economic policy directions for the Industry, Arts and Innovation District Action Plan and will help guide the 10-year update of the City's Official Community Plan (OCP). This information may also be of interest as Council considers rezoning applications that may impact the city's limited supply of employment lands.

BACKGROUND

Staff are currently working on two planning initiatives that will guide the future of Victoria's employment lands in the coming decades:

- The *Industry, Arts and Innovation District Action Plan* (Action Plan) is being developed and will provide comprehensive strategies and actions to transform and strengthen the employment lands north of the downtown into a forward-looking district that retains and attracts critical, growing and innovative industries. This initiative is directed through *Victoria 3.0*, the City's economic action plan, to help achieve several objectives including to protect, maintain and make more efficient use of the city's scarce industrial land supply which is heavily concentrated in the Rock Bay area. The draft Action Plan is expected to be released for consultation later this spring before being presented to Council for consideration.
- The *Official Community Plan Update* will consider broader land use policies that provide capacity and guidance for industrial and other employment uses through 2050. The intent of these policies is to help ensure that Victoria remains and grows as the employment and cultural centre of the region, as described in the Regional Growth Strategy, supporting sustainable mobility and economic opportunities.

The emerging land use policies and strategic directions for both initiatives will be informed through the findings from two current land economic studies. An industrial market study was prepared in 2022 by Colliers Consulting. More recently, the City engaged Urban Systems Consulting to complete an employment lands analysis (employment study) to gain a better understanding of:

- current state and health of the office market
- potential future demand for varying types of office space
- shifting work and industry patterns (including post-pandemic trends, work from home mandates, and evolving practices in current and emerging sectors).

ISSUES & ANALYSIS

Employment Growth

Victoria is projected to add between 19,000 to 40,000 new jobs by 2050, based on preliminary results of the Urban Systems study. Service sectors, including professional, scientific and technical services, health care and social assistance, accommodation and food services, are expected to be the major sectors that will drive employment growth in Victoria.

Industrial Market

The Capital Region continues to have a long-standing scarcity of industrial space, with vacancy rates consistently among the lowest in the country, remaining close to 0% since 2019. Victoria also continues to have lower vacancy rates than the surrounding region with rates dipping as low as 0.1% in 2022. Minimal supply of new industrial property in the region has only slightly increased the vacancy to 0.9% at the end of 2023. Industrial lease rates are the second highest in Canada and have continued to increase with a current average rate of approximately \$20 per square foot.

Consultation through the Industry, Arts and Innovation District engagement process highlighted that many companies struggle to find suitable light industrial space to start and to grow in Victoria. Many firms would like to be in the core of the region, central to workforce and customer base, and close to downtown and amenities. Some industries benefit from access to Victoria's deep-water harbour, reducing reliance on trucking materials through the region. Additional space is needed to support emerging Victoria industrial sectors, such as biotechnology and the blue economy (which delivers products, services and technology for the sustainable use of oceans). Spaces are also needed for growing traditional industries such as food and beverage processing, artisan and artist production.

Industrial vacancy in the region is expected to remain low even with anticipated new supply in the Westshore and peninsula, which is not enough to address the strong demand. It is anticipated that lease rates will continue to increase in the core of the region based on the limited supply of property and the strong locational demand.

Office Market

Victoria's overall office vacancy rate of approximately 6% is considered low to normal for a relatively healthy office market. This contrasts with a Canada-wide downtown post-pandemic vacancy rate of 19.4% and some cities such as Calgary experiencing vacancy rates over 30%.

Current trends show remote and hybrid work is stabilizing as workers return to the office post-Covid. According to a recent study from Statistics Canada, in November 2023 only 20% of Canada's employed labour force worked primarily from home. Although higher than the 7% rate prior to the pandemic, it is a notable drop from the peak of 40% during the pandemic. Trends in BC largely mirror the national trend.

The local office market is expected to remain stable in 2024 as tenants "right-size" space, with a preference for newer and higher-quality office space (i.e. Class A). Demand is expected to pick up in the medium-term as available supply is absorbed. While the nature of office spaces may shift as companies opt to offer more shared spaces, meeting spaces and amenities in place of individual workspaces, it is not clear that demand for overall space will decline.

In the short term, there is likely to be lower demand for older (Class B and C) office spaces. This near-term trend may lead to pressure to convert employment lands to residential uses, particularly

where we have traditionally seen office uses. However, given the broad range of employment spaces needed, these lands should also be considered as valuable opportunities for a diversity of employment and economic uses. This would include new companies or emerging sectors seeking affordable rents in good locations or low-impact production that is currently categorized as light industrial, and, therefore, unnecessarily adding to the strain on industrial land supply. Existing Class B and C office spaces in lower demand may also provide opportunities for arts and cultural uses because of their relatively lower rent and adaptability.

Other Employment Needs

Arts and Culture – Professional artists account for 2.3% of Victoria’s workforce (twice the national average) and cultural workers account for an additional 8.5%. Existing arts spaces in the city face increasing rents and redevelopment pressures and there is a significant need for affordable arts and culture spaces including studios, production facilities and events venues.

Tourist Accommodation – The need for tourist accommodation is growing; however, since 2003 Victoria has lost an estimated 1,400 full-service hotel rooms, which does not take into account accommodation loss resulting from the Provincial Short-Term Vacation Rental Act. As a result, there is both a current urgent and continued need for thousands of additional hotel rooms within the city in the coming years. Destination Greater Victoria will be completing a master plan by summer 2024 that will further outline these and other needs over the next ten years.

Employment Land Base

Victoria’s existing land base, as defined by zoning and land use policies, provides limited locations for future employment. Key findings related to the local employment land base include:

- 7.4% of Victoria’s developable land base is designated for employment purposes through the Official Community Plan urban place designations (3.6% Industrial and 2.9% General Employment). The remaining land (over 90%) is in areas with urban place designations that allow residential uses. While this creates a potential barrier to the outward expansion of existing employment lands, it highlights the need to consider other innovative approaches to land use such as accommodating light industrial activities on upper floors of industrial buildings (vertical integration) or permitting forms of low-impact light industrial in other areas of the city that currently permit commercial activities.
- An additional 10.6% of Victoria’s land base is in mixed-use urban place designations that support a mix of commercial and residential use, including in urban villages, town centres and the Central Business District.
- The Central Business District (1.3% of the city’s land base), which is anticipated to accommodate much of the non-industrial employment base, allows for a significant proportion of residential uses.
- Business and industrial uses on the limited industrial and employment lands provide over 46% of the City’s property tax revenue.
- There is an overarching risk that the City’s industrial and employment land base may continue to be eroded through rezoning applications seeking to develop non-employment uses and activities such as residential.

2023-2026 Strategic Plan

The findings outlined in this report will inform the emerging policy directions for the forthcoming Industry, Arts and Innovation District Action Plan and the OCP update. Both initiatives will seek to reinforce, maintain and intensify Victoria's limited employment land base as the basis to realize several key actions of the *2023-2026 Strategic Plan* related to transportation, truth and reconciliation, arts and culture, and economic health and community vitality. Specific actions include 'realizing complete, compact communities', 'accelerating Victoria 3.0 to create a strong, resilient, local economy', 'developing new ways to partner with the Songhees Nation and Esquimalt Nation in economic development opportunities', and 'building the Victoria Arts and Innovation District with a focus on spaces for performance venues, rehearsal spaces, street activation and artist residences'.

Impacts to Financial Plan

The Industry, Arts and Innovation District Action Plan and the Official Community Plan will both provide strategic direction and actions that Council may consider through future financial planning and budgeting.

Official Community Plan Consistency Statement

The proposed emerging policy directions outlined in this report to reinforce, maintain, and intensify Victoria's limited employment land base are consistent with current *Official Community Plan, 2012* (OCP) Regional Context Statement strategic directions including: 1. Keep Urban Settlement Compact and 8. Realize the Region's Economic Potential. The strategic planning for the City's future employment needs is also consistent with the OCP's Land Management and Development framework (Section 6) and the Economy framework (Section 14).

CONCLUSIONS

Victoria's employment lands are critical for realizing economic prosperity and sustainability objectives and meeting future employment needs. The City is currently studying land use needs to support a vibrant economy well into the future through updated land use policies and development regulations. These findings may also help inform Council's decision-making on land use and development applications.

Respectfully submitted,

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Report accepted and recommended by the City Manager