City of Richmond

Report to Committee

To:	Planning Committee	**Date:**	December 18, 2021
From:	John Hopkins Director, Policy Planning	**File:**	08-4050-22/2021-Vol 01
Re:	**Referral Response: Review of Office Stratification Regulations**		

Staff Recommendation

1. That no further restrictions on the stratification and airspace subdivision of office space be considered at this time; and

2. That staff continue to monitor the effectiveness of the existing office stratification policy and report back in two years.

John Hopkins
Director, Policy Planning

(604-276-4279)

Att. 2

REPORT CONCURRENCE		
ROUTED TO:	**CONCURRENCE**	**CONCURRENCE OF GENERAL MANAGER**
Economic Development	☑	
Development Applications	☑	
Transportation	☑	
SENIOR STAFF REPORT REVIEW	**INITIALS:**	**APPROVED BY CAO**

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Staff Report

Origin

At the May 13, 2019 Council meeting, the following referral was made:

That staff be directed to conduct public consultation with property owners, the development community and general public regarding whether potential restrictions on stratification and airspace subdivision of office space should be considered, and report back.

This report supports the following strategic focus areas in Council's Strategic Plan 2018-2022:

Strategy #6 Strategic and Well-Planned Growth:

6.0 Leadership in effective and sustainable growth that supports Richmond's physical and social needs.

6.1 Ensure an effective OCP and ensure development aligns with it.

Strategy #7 A Supported Economic Sector:

7.3 Attract businesses to locate in Richmond and support employment and training opportunities in Richmond as we grow.

Strategy #8 An Engaged and Informed Community:

8.2 Ensure citizens are well-informed with timely, accurate and easily accessible communication using a variety of methods and tools.

Findings of Fact

History of City Office Strata Policy and the Referral

In 2018, an application for a mixed industrial/commercial development containing strata offices at 9520 Beckwith Road (just northeast of Highway 99 and Bridgeport) led to consideration of a City Centre Area Plan (CCAP) policy that restricts stratification of offices in exchange for a density bonus. The CCAP policy was adopted by Council on June 17, 2019.

The purpose of the policy passed by Council in 2019 was to encourage the creation of more leasable large floorplate office space close to rapid transit and amenities. It applies within the Village Centre Bonus (VCB) area and the Industrial Reserve (Limited Commercial) and provides a density bonus as an incentive for a developer to restrict the size of strata lots or airspace parcels to a minimum size of 20,000 sq. ft. or an entire floorplate (See Attachment 1 for the policy and a map showing where it applies). The policy is intended to encourage the following types of developments:

- Large floorplate buildings with more than one strata lot per floor of office, as long as each strata lot is at least 20,000 sq. ft.;
- Buildings with either one strata lot or one airspace parcel per floor of office[1]; or
- Buildings divided into airspace parcel(s) consisting of more than one floor – including a single airspace parcel for the whole building.

The tenure of office development is not otherwise regulated in Richmond.

Scope of Work

The Council referral in 2019 requested staff to consider whether further restrictions on stratification and airspace subdivision of office space should be considered, and then to consult with property owners, the development community and general public. In response to this, staff undertook background research, and then conducted consultation to gather insights about the office market and the potential for strata restrictions. Consultation consisted of:

- Interviews with experts in the office market in 2020 and 2021;
- A May 12, 2021 workshop to which potentially affected property owners, potential tenants and the development community were invited;
- A presentation and discussion with the City's Economic Advisory Committee on May 13, 2021;
- A Let's Talk Richmond Survey conducted May 12 to May 24, 2021;
- Market research in summer 2020 and fall 2021; and
- Email correspondence initiated by workshop invitees.

Analysis

Results

The goal of any strata restrictions should be to accommodate businesses needing leased space while ensuring that the needs of all Richmond businesses are met across the city.

Restricting strata implies a desire to enable or encourage leased space, which is assumed to meet important market needs not met by strata space. Indeed, strata and leased offices meet different but overlapping needs:

- Leased offices vary widely in size, so they are well-suited to the needs of both large and small businesses; they are most attractive to firms looking to minimize capital investment and accommodate future growth. Firms in key City economic development targets in sectors like Information Technology, Clean Tech, and Digital Creatives are examples.

[1] An airspace parcel is a three dimensional space owned in fee simple under the Land Title Act. A strata lot is a three dimensional space, often a unit in a building, defined under the Strata Property Act. Strata owners own an individual strata lot and share ownership of common property as a strata corporation.

- On the other hand, the size of most strata offices is between 500 and 1,500 square feet and expansion requires that properties be bought and sold, so strata office offers less flexibility than leased offices. It also requires up-front capital expenditure. This makes strata office well-suited to the needs of smaller businesses, particularly those that prefer long-term security of tenure, anticipate relatively slow growth, have access to capital and/or want to own an asset.

A possible concern with strata office is investors holding vacant units while awaiting rising sales values. To assess this possible concern, staff conducted site reviews in 2020 and 2021 and reviewed sales and lease listings and market vacancy rates. Existing strata office buildings appear to be well-used, with vacancy levels in the same range as other buildings in the City Centre. In addition, interviewees indicated that buying and holding vacant strata office is not financially attractive because of property tax rates and commercial property management costs, and because commercial property is not appreciating as quickly as residential property. These results suggest that this concern need not be a goal of potential strata restrictions.

The purpose of office strata restrictions was confirmed as meeting the needs of large, growing businesses, while ensuring that the needs of businesses that prefer strata can still be met.

Outside the City Centre, there is no need for additional restrictions to achieve this goal.

Across Richmond, there is about 3.8 million square feet of office space[2]. Strata makes up about 33% of 1.6 million square feet of office space in the City Centre. Industry estimates suggest that the strata office share is expected to increase by 25% to 50% in the City Centre and to 25% for the whole city. Outside the City Centre, leased office vacancy rates outside the City Centre have varied from 6% to 20% (average 18%) over the last ten years, indicating ample capacity and a tenants' market.

Table 1: Richmond Office Space, 2020

Description	Floorspace (sq. ft.)
Richmond, existing	3.8 Million
City Centre, existing	1.6 Million
for lease	1.0 Million
strata	0.6 Million
City Centre, anticipated development	
for lease	~100,000
strata	~500,000
unconfirmed	~650,000

Therefore, if the City of Richmond were to consider further restrictions on strata office, the restrictions should be structured to support development of leased space in the City Centre.

Within the City Centre, entire buildings close to the Canada Line provide attractive and viable opportunities for leased office space.

Firms in economic development target sectors are particularly interested in high-amenity, transit-oriented locations. These are most attractive to their employees, and avoiding costly employee turn-over is a critical driver of their locational decisions.

In Canadian commercial real estate, large property managers lease a lot of the available space and can provide the flexibility needed by large, growing companies. These property managers

[2] Based on data from the City of Richmond and Colliers International

prefer to manage entire commercial buildings, giving them control over tenant mix, repairs and maintenance, brand, etc.

To meet the needs of firms in target sectors, development of entire leased office buildings close to amenities and rapid transit is important.

It is not clear if there is a need for further restrictions because of COVID-related uncertainty, varied market signals and lack of experience with the current policy.

The long-term impacts of COVID-19 on the office market continue to be unknown. Interviews, industry discussions and news articles throughout the last two years have suggested anything from a need for more office space, driven by safety-related space requirements to a need for less space, driven by remote work. Possibilities such as more demand for suburban space in satellite offices and increased flex space have also been noted. No consensus has emerged, with brokers describing the office market as "confusing."

The policy restricting strata in exchange for a density bonus is aimed to encourage strata developers to bring large, flexible office space to the market, suited to the needs of large, growing tenants that the City is looking to attract. One possibility is that large strata units and floor-by-floor airspace parcels may be sold to investors who can then lease them to large tenants. Alternatively, an entire airspace parcel may be developed as a leased building within a mixed use development. In the two years since the policy was adopted, three developments have come forward, all of which proposed to stratify each building floor as a separate strata unit:

- A project at 9520 Beckwith Road (RZ-18 821103), which has pre-sold about 15% of the space to date.
- A project at 4700 No. 3 Road, which has received third reading of a rezoning application (RZ-14 672055) and is awaiting completion of associated considerations. The developer has advised staff that due to COVID-related uncertainty over the office market and their challenge securing perspective purchasers they will ask that the strata title/airspace parcel subdivision restriction be removed. This request is under staff review and a separate staff report will be brought to Council for consideration.
- A project at 5740/5760/5800 Minoru, which has received third reading for a rezoning and OCP amendment (RZ-18 807640). The OCP amendment allows the project to secure the Village Centre Bonus on condition that all commercial space be office, that additional amenity contributions be made, and that all office space be restricted to the same strata lots / airspace parcel minimum sizes as in the 2019 policy.

The review of market conditions showed that recent experience with strata office in general is very mixed, with higher but widely varied prices, vacancy that differs building to building, and diverse absorption rates (pace of sales).

In summary, experience with the incentive-based restrictions adopted two years ago is limited, showing development activity but with no conclusive results yet, and there is considerable uncertainty in the office market in general as a result of COVID-19 and in the strata market in particular.

Consultation results were clear: restrictions on their own will threaten project viability, putting a halt to all office development. Restrictions coupled with incentives (as in the current policy) would be acceptable.

In May 2021, staff consulted with property owners, the general public and the development community through an on-line workshop and survey. The potential for strata restrictions was also presented and discussed with the Economic Advisory Committee. The purpose of consultation was to gather further insights about office market dynamics in Richmond and consider the potential for strata restrictions. Sixty-six people responded to the survey and 17 people participated in the workshop. Participants included at least 60 Richmond residents, three property owners, seven potential office tenants and 10 developers.

Key insights included:

- varied opinions about the impacts of COVID;
- emphasis on the importance of amenities for commuters and residents as well as tenants, higher profile post-secondary education, and housing costs;
- the value of a critical mass of tenants to drive further demand;
- a cultural preference for ownership in Richmond;
- the value of leased offices for start-ups and young entrepreneurs; and
- the importance of meeting the needs of both small and large businesses.

Ideas related to incentives included:

- parking reductions;
- streamlined development application processes;
- development corporations or public-private partnerships to finance leased office development;
- tax incentives; and
- improved transit access to eastern parts of the region.

When asked about the potential for strata restrictions, participants generally agreed that the focus of any restrictions should be on large, flexible (easy to adjust layout and size) office spaces close to the Canada Line. While a preference for regulatory certainty was expressed by some, there was a concern that if projects were not viable (i.e. competitive with strata), a firm restriction could slow or halt office development. To ensure that office projects are viable and help maintain Richmond's competitiveness in the region, participants emphasised the need for financial incentives should the City of Richmond consider strata restrictions.

More details may be found in the Consultation Results Report (Attachment 2).

Consistent with staff's technical analysis, the consultation found that potential restrictions on strata office are not needed outside the City Centre. If the City of Richmond were to consider restrictions on strata office in the City Centre, the restrictions should:

- Focus on providing large, flexible space, specifically in amenity-rich locations close to the Canada Line; and

- Be coupled with incentives that can support more viable development.

Summary of Consultation and Research

Consultation and research show that:

- There is considerable uncertainty in the local strata office market in terms of price, absorption, and pace of sales, and COVID remains a major source of uncertainty in the whole office market, affecting demand for and cost of leased and strata space.
- A mix of strata and leased offices is expected from anticipated development City-wide, meeting the needs of Richmond's diverse businesses. Strata offices are well-suited to small businesses, who are buying and using them.
- Strata restrictions are not needed outside the City Centre. Within the City Centre, market signals are unclear, adding to COVID-related uncertainty.
- If further restrictions on strata office in the City Centre were to be considered, the restrictions should target entire office buildings, be applied close to the Canada Line, and be coupled with incentives that support the viability of resulting development.
- Experience with the current policy is limited so far and its implementation has been affected by COVID-19, so more time is needed to understand its effects.

Consideration of Financial Incentives

Staff did explore financial incentives such as density bonuses and parking reductions to determine what would be needed to offset a restriction of strata and support development of the desired large, leasable spaces near the Canada Line. The analysis conducted by an external land economist indicated that substantial increases in density and reductions in parking would be required to create an attractive incentive under current market conditions. The necessary density increases may be feasible for commercial buildings, but not for mixed-use buildings, due to height and massing constraints. Significant compromises to urban design principles would also be required without any certainty that this type of incentive would attract large leasable office space near the Canada Line.

Based on a review of relevant local and North American precedents, it would be possible to consider some parking reductions as part of future development, subject to a site specific parking study. The purpose of such study would be to substantiate the appropriate parking needs and any associated opportunities and transportation demand management measures to reduce parking for this use. A separate report on potential parking reductions for projects that include transportation demand management measures in the City Centre will be brought forward in the first quarter of the New Year.

Based on market research, technical analysis, and consultation results, staff do not recommend further restrictions on the stratification and airspace subdivision of office space at this time. The current office strata policy which utilizes a density bonus approach has not had enough time to determine if the policy is successful in attracting large office space in the City Centre. In the context of an uncertain and dynamic office market, a review of the potential to refine restrictions is recommended in two years.

Financial Impact

None.

Conclusion

Research and consultation with property owners, the general public and the development community was conducted on the potential for office strata restrictions. The results were that:

- there is considerable uncertainty in the local strata office market;
- there is limited experience with the current incentive-based office strata policy; and
- any further restrictions should be matched with incentives, as in the current policy approach.

It is recommended that no further restrictions on the stratification and airspace subdivision of office space be considered at this time and that staff review the potential to refine restrictions again in two years.

Peter Whitelaw

Peter Whitelaw, MCIP, RPP
Planner 3
(604-204-8639)

PW:cas

Att.
1: City Centre Area Plan Policy Adopted in June 2019
2: Consultation Results Report

City Centre Area Plan Policy Adopted in June 2019

CCAP policy is located in Appendix 1 – Definitions (pages A-2 and A-3), as follows:

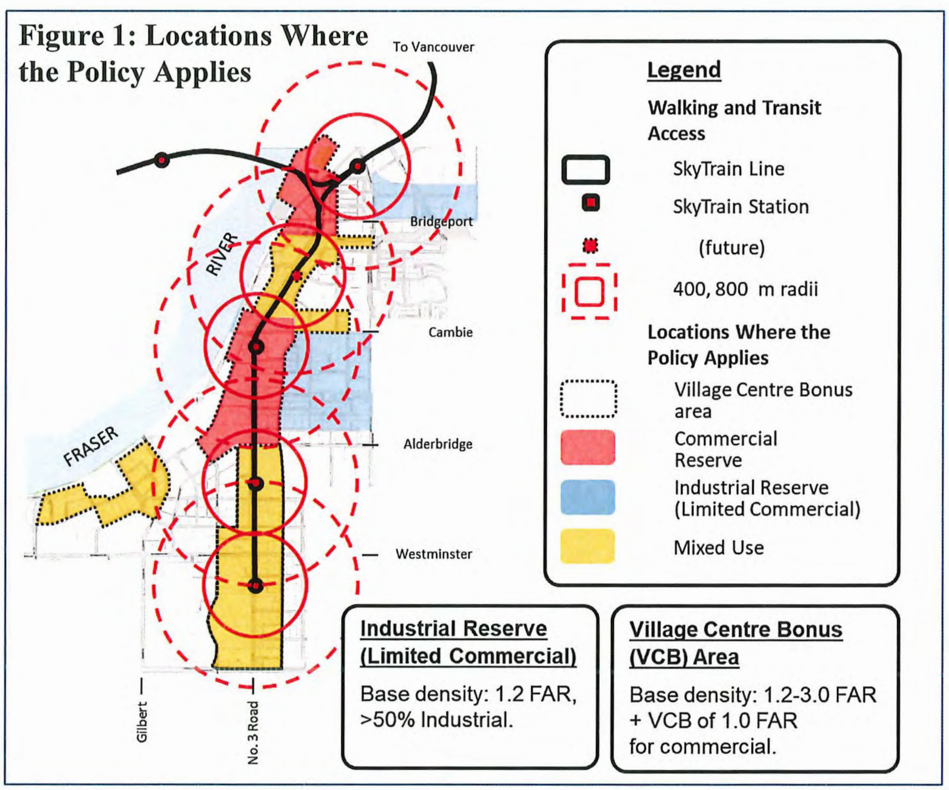
- The Industrial Reserve – Limited Commercial overlay "provides for additional density over and above that permitted by the underlying Transect, provided that …

  b) the floor area of non-industrial uses on the development site does not exceed that of industrial uses, unless otherwise determined to the satisfaction of Council; …

  e) the subdivision of any floor area within a building (including floor area over and above that permitted by the underlying Transect) that is used for office shall be limited to one strata lot or air space parcel per storey of the building or per 1,858 m^2 (20,000 ft^2) of office floor area, unless otherwise determined to the satisfaction of Council."
- The Village Centre Bonus (VCB) overlay "provides for additional density for non-residential uses over and above that permitted by the underlying Transect, provided that …

  for development sites where the Village Centre Bonus permits additional density for non-residential uses to exceed 1.0 FAR, the subdivision of any Village Centre Bonus floor area within a building (including floor area over and above that density permitted by the underlying Transect) that is used for office shall be limited to one strata lot or air space parcel per storey of the building or per 1,858 m^2 (20,000 ft^2) of office floor area, unless otherwise determined to the satisfaction of Council."

Figure 1 shows where the policy applies.



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City of Richmond

Consultation Results Report

This document provides results of formal consultation on office strata policy completed in May 2021. The consultation consisted of:

- Results of a Let's Talk Richmond Survey conducted May 12 to May 24, 2021. Notifications were sent to all LTR users and via City Facebook and Twitter channels.
- A May 12th workshop to which potentially affected property owners, potential tenants and the development community were invited;
- Email correspondence initiated by workshop invitees.
- The City's Economic Advisory Committee, to whom a presentation was given on May 13, 2021

In each consultation, staff presented information and requested input on the following topics:

- Context for office development and policy
- Current office stratification policy
- Alternatives to the current approach

Summary of Results

In response to the overview of the office market presented to them, participants shared a number of additional insights about the market. These included:

- Widely varied opinions about the impacts of COVID-19.
- Amenities in the City Centre are critical, including diverse retail and services serving residents and commuters as well as tenants.
- Key factors affecting tenant decisions include certainty about when they can take possession of their space, the presence of higher profile post-secondary education and high housing costs.
- A critical mass of office users will help to drive further demand for office space and help Richmond compete with other hubs of office activity in the region.
- Strata restrictions are oriented to the needs of large businesses, but small businesses are also an economic engine.
- Chinese culture and business connections influence the market in Richmond, including a general preference for ownership.
- There have been some sales of large strata offices; however these have been very slow.
- Bonus density (at the levels discussed/assumed by participants) may not be an adequate incentive for leased offices.

In their responses, participants also suggested ideas for the City's consideration, if the City were to further restrict strata:

- Two ideas highlighted by the development industry:
  - Further reduce minimum parking requirements close to the Canada Line.
  - Streamline the process of considering development applications to improve certainty and reduce project timelines, including possibly pre-zoning commercial sites for offices.
- Other ideas mentioned by participants:
  - More narrowly define office/commercial areas to help create a more attractive area for office users, e.g., only in commercial "villages" in the City Centre.
  - Set up a development corporation to buy space and then operate as a landlord. This would enable the City to support non-profits that need affordable office space as well, e.g., through a shared services model.
  - Set up P3 partnership to finance leased office buildings.
  - Focus on factors influencing tenant location decisions and giving Richmond a competitive edge, e.g., through analysis and/or consultation.
  - Provide property tax incentives.
  - Improve transit access to offices to the eastern part of the region, where lower cost housing is located.

In general, participants appeared to hold a range of overarching views that informed their comments, including that the City:

- should not get involved in shaping the private market;
- has a critical role in shaping the private market to deliver community benefits; and
- should not pursue growth unless it benefits existing residents.

A shift to focus on large leased office spaces close to the Canada Line was generally supported in both workshops and survey results. Although the importance of ownership was acknowledged as a driver of interest in strata in Richmond, the importance of more flexible leased space was also emphasised as an important factor for tenants from young entrepreneurs and start-ups to larger users.

Participants were split on whether a voluntary, flexible approach or specifying a requirement is better. For either approach, the most common rationale was support for the City's objectives or vision. The most common trade-off was between flexibility and effectiveness: too much flexibility could make the policy an ineffective tool to encourage leased offices, but if leased offices are not viable (or competitive with other options), a firm requirement could slow office development.

Participants acknowledged the City's dilemma of trying to support leased space while also supporting viable development.

Appendix: Detailed Consultation Results

To inform policy development, the City consulted the public, property owners, potential tenants and the development industry via:

- A Let's Talk Richmond survey, from May 12 to May 24;
- An on-line workshop, held May 12th; and
- A presentation to the City's Economic Advisory Committee on May 13th.

In addition, email correspondence was received from individuals who were invited to the workshop but were unable to attend.

This Appendix provides detailed results from this consultation.

Survey

A Let's Talk Richmond survey was available to the public between May 12 and May 24, 2021. Its content and results are summarized in this section.

Survey Content

The survey consisted of background information about office stratification policy, coupled with the following questions:

1. Please add any insights [about the current situation] that will help the City understand the situation fully.
2. Please offer any additional insights about what has happened under the current policy.
3. Do you have any comments on the preliminary [policy] directions?
4. What do you think of the first alternative: shift the policy to require leased offices and maintain the current voluntary, flexible approach? [permitted responses: Definitely agree; Somewhat agree; Neutral; Somewhat disagree; Definitely disagree; Not sure]
5. Tell us why. This is critical to help us understand the situation and help shape policy.
6. What do you think of the second alternative: Strengthen the policy by requiring all office developments receiving the VCB be for lease? [permitted responses: Definitely agree; Somewhat agree; Neutral; Somewhat disagree; Definitely disagree; Not sure]
7. Tell us why. This is critical to help us understand the situation and help shape policy.
8. Please let us know if you have any other comments, questions or suggestions.

Respondents were also asked what perspective(s) made them interested in office policy, and how they heard about the consultation.

Survey Results

Respondents are almost all Richmond residents who heard about the survey directly through Let's Talk Richmond.

- Sixty-six people completed the survey. Of respondents, 60 are Richmond residents. Seven consider themselves potential tenants, two own property in the City Centre and one is a real estate professional.
- All but one respondent heard about the survey through the Let's Talk Richmond email notification.

A thematic analysis was completed for responses to questions asking for insights about the current office market context and the impact of the current policy (questions 1 and 2), and the final question requesting general comments (question 8). Themes from responses to these questions overlapped, so they are presented together. They capture commonly mentioned responses.

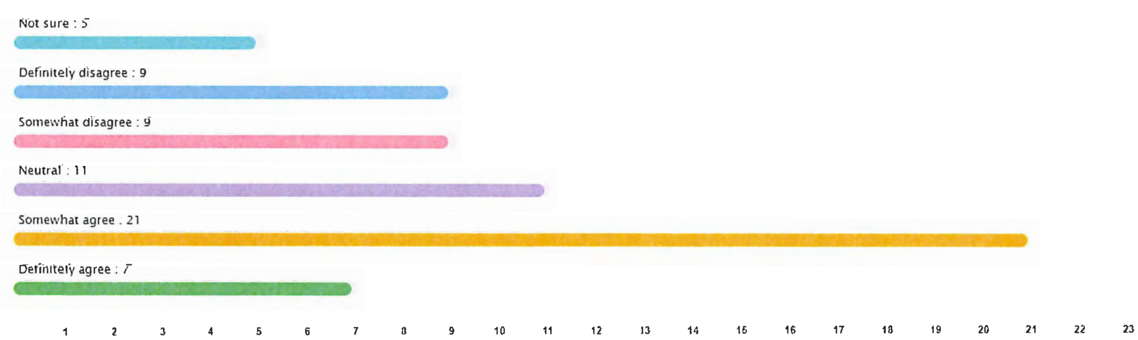
- Insights about the current situation and policy
    - There were widely varied opinions about COVID impacts and how to respond.
    - The importance of amenities in the City Centre was reinforced, including diverse retail and services serving residents and commuters as well as tenants.
    - High profile post-secondary education was mentioned as an important draw for new businesses.
    - Some respondents prefer a laissez-faire approach, while others strongly support government action.
    - Some respondents see no benefit from growth and would prefer that the City work to benefit existing residents and businesses, not new ones.
    - High housing costs are a deterrent to employees.
    - More narrowly defining office/commercial areas may help create an area more attractive to new tenants.
    - A critical mass of office users will help to drive further demand for office space and help Richmond compete with other hubs of office activity in the region.
    - The policy is oriented to the needs of large businesses over small businesses, but small businesses are also an economic engine.
- Ideas for possible solutions
    - City could set up a development corporation to buy space and then operate as a landlord. This would enable the City to support non-profits that need affordable office space as well, e.g., through a shared services model.
    - P3 partnership to finance office buildings.
    - Focus on factors influencing tenant location decisions and giving Richmond a competitive edge, e.g., through analysis and/or consultation.
    - Consider tax incentives.
    - City needs to carefully guard its reputation in relation to fair and consistent treatment of businesses.
    - Pre-zone commercial sites for offices.
    - Improve transit access to the east, where lower cost housing is located.
- Other
    - Development, including office development, should benefit the community.

A thematic analysis was also completed for responses about focusing on large leased office spaces within five minutes walk of the Canada Line (question 3):

- Ten responses were supportive, but most did not provide reasons why. Related comments included that despite uncertainty, there is enough information to warrant a shift in policy; that density should be pursued to reduce pressure on farmland and green space; that mixed use is supported and that leased space could be made a requirement.
- Four responses were not supportive. Two respondents generally do not believe the City should attempt to influence the market; one believes vehicular access is most important for offices and cannot be provided adequately in the City Centre; and the other did not provide a rationale.
- Consider focusing only in commercial areas within 10-15 min walk of Canada Line and not in mixed use areas.
- Be flexible in zoning, especially for mixed industrial/office areas.
- Support for bricks-and-mortar retail is key in context of on-line competition.
- Transit access is critical, especially with competitive advantage near the casino and the airport as well as employment in the southern part of the region.

Respondents were asked their opinions on two alternative approaches for the Village Centre Bonus (VCB) area: to shift the policy to focus on leased office but maintain a voluntary approach; or to require all office developments receiving the VCB to be for lease (questions 4-7). Responses to both alternatives were spread across the range from definite disagreement to definite agreement, with about 60% agreeing and 40% disagreeing with each direction. People who agreed with one did not necessarily disagree with the other.

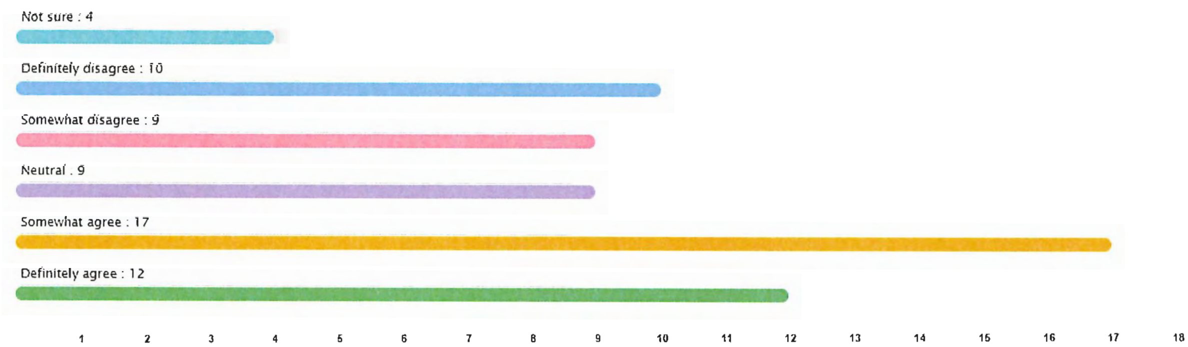
1. Alternative 1: Shift the policy to require leased offices and maintain the current voluntary, flexible approach



Respondents noted the following reasons for their response:

- Too much flexibility may make policy ineffective (8 responses)
- Prefer a flexible/voluntary approach (7)
- Too cumbersome (1)
- Helps achieve the goal of attracting target businesses (5)
- Constraints on business will not be successful, are not an appropriate City role, or may be counter-productive (3)
- Leased space is good for young entrepreneurs or smaller businesses (2)

2. Alternative 2: Strengthen the policy by requiring all office developments receiving the VCB be for lease



Respondents noted the following reasons for their response:

- Certainty is preferred (5 responses)
- Too restrictive, would be a disincentive to developers and make Richmond less competitive for development (4)
- Support City action in support of long-term vision (3)
- Flexibility would be better (2)
- Density bonus is ineffective (2)
- Not attractive to potential large users (1)
- Simple formula and fast permitting will encourage development you want (1)
- Less flexibility coupled with less financial incentive is not an attractive combination (1)
- Should be room for user/owned development (1)

On-line Workshop

An on-line workshop was held by invitation to property owners in the City Centre and representatives from the development industry. Metro Vancouver was invited as an observer. A presentation covering the following items was made, with Q&A at points throughout:

- Context for office development and policy
- Current office stratification policy
- Alternatives to the current approach

Attendees (17): Eric Aderneck (Metro Vancouver), Dan Roche, Wilson Chang, Toby Chu (CIBT), Jeff Fisher (UDI), Grace Lam (Fairchild Development), Rob Hall (Keltic Development), Paul Williams, Don Mussenden (Real Estate Board of Greater Vancouver), Colleen Arndt (DigiBC), Pedro Tavares (NAIOP), Jaz & Nigel (Costco), David Chung (Dava Development), Jun Nan (Keltic Development), Max Gordichuk (Wesgroup Properties), Peter Martin, Danny Chu (Dacosa Properties)

City Staff: Peter Whitelaw, John Hopkins, Steve Gauley, Cathy Swan

General Questions:

When is the report going to Council? Will the slides be available?

- The report is scheduled to go to Council in the late summer/early fall. The slides will be sent to attendees via email. Most of the information that is shared today can be found on Let's Talk Richmond.

Comments and Questions – Context

- If there is low vacancy in downtown (which indicates good demand be it for owners or tenants), why is there concern about strata development?
- The problem is the length of time to develop and construct a viable project in Richmond. Not about strata or with developers. Greater efficiency would help.
    - In today's environment, tenants want a level of certainty to take possession, not a MAYBE five year, six years or ten years.
    - To attract the right type of development, with the right type of the future tenants, the planning system needs to be attractive for developers.
    - The current state of investment sentiments, more policies will only reduce investment interest, causing less ownership, and more strata units.

Comments and Questions – Current Policy

- How many projects that are being built that are strata took advantage of the Density Bonus (DB) for larger spaces?

Comments and Questions – Alternatives

- Is the focus on sky train station within 400 m radius only? What about main crossroads within Richmond like No. 5 Road and Cambie?
- As a Richmond Resident, traffic density along the No. 3 Road corridor is an issue as well as the Sky Train being crowded at the best of times, especially during rush hours.
- Parking could be a useful incentive
    - Parking is a difficult issue. How to balance the needs of everyone.
    - A parking study would be really worthwhile – parking cost is perhaps the greatest hindrance for development.
    - Parking regulations are high for IT, education uses – can they be reduced.
    - Metro Vancouver parking review found 30-35% oversupply for residential. Not sure about commercial rates. Worth a look.
    - Many of the younger workers in the fields that we are trying to attract do not drive, or even own a vehicle. Does this impact parking need?
- Development review processes
    - Pre-zoning would speed up the process.

  - There is too much uncertainty and long timelines associated with the City development review processes and that creates risk for developers, making it hard to offer tenants certainty as to when their space will be available. It is especially challenging to attract international tenants in this context. Would like to see the City improve efficiency and timelines for development review.
  - There seems to be a disconnect between City Council and staff. Staff will support a proposal but Council rejects it and sends it back to staff for more work. A project that the speaker is involved with has taken 5 years to get approval and it is still not built. This is for a project that is close to the Canada Line.
- With the current state of investment sentiment, more policies will only reduce any interest in investment causing less ownership and more strata units.

Alternative approaches within the Village Centre Bonus area

Two polls were run to gauge participants' opinions about two alternative approaches presented: a flexible, voluntary approach or a defined density bonus in the Village Centre Bonus area.

- Poll # 1 – level of support for maintaining an incentive-based approach
  - About ¾ of respondents were neutral or had no opinion.
  - Other respondents were split.
- Poll # 2 – level of support for strengthening the approach to make leased office a requirement to obtain the VCB bonus.
  - About ¾ of respondents were neutral or had no opinion.
  - Opinions expressed by respondents were spread from strongly disagree to strongly agree, but on balance were slightly more in agreement with the stronger approach.

These results suggest participants do not have a strong preference for either a negotiated incentive-based policy (as in the 2019 policy) or a more defined bonus requirement in the VCB.

Email correspondence from workshop invitees

Email correspondence was received from three individuals who were invited to the on-line workshop but were unable to attend it. This correspondence has been anonymized to protect the privacy of these individuals.

- Sales of our large strata office units have been very slow, but we have sold 15% of the space to date.
- Richmond has a very high percentage of ethnic Chinese population. A lot of the businesses done in Richmond is Chinese related and at this point most of those businesses are far from being substantial in size. By the same token a lot of the Chinese strata office buyers are interested to purchase smaller units to conduct their business.
- As a smaller city with limited amenities, Richmond is not expecting to draw a lot of interest from international corporations. A lot of the developers end up selling small strata office units because this is their best proforma scenario.

- Chinese people like to own instead of leasing and they would pay more to own.
- Timing is important to leasing to big corporate entities. It is a very risky proposition to build and wait for a large, one-floor tenant to lease up all the space in one floor in a small city like Richmond. To get that kind of tenant for Richmond we need significant incentives from the City to lure them. Just having the office space available is far from being enough. Lowering their portion of property taxes could be a useful incentive.
- As a developer, I find that incentives such as bonus floor area ratio (FAR) often do not really work. You really do not want to build anything to have it vacant even if the cost appears to be cheaper.
- The best way is to leave to the developer to make the decision to do what is best for them and most of them are savvy enough to know the market. The best the City can do is to provide the bonus/incentives (big or small depending on its perceived significance). If there is a demand for big rental space there will be developers building it for the need. It is always a supply/demand relationship. The more the control the less will be the supply and higher the price and less the choice.
- A focus on leased office is a huge positive for the City. Strata office almost always ends up ballooning the price of office development sites, as it has downtown Vancouver, and causes major property managers (e.g., pensions / lifecos) to not participate in purchasing office development sites. This can result in not just fragmented office suites, but substandard buildings and landlords, as the best in class developers chose not to chase the low yields the strata investors seem OK with.
- The same capital scrutiny that exists on residential purchases does not exist on office strata purchases, so there is a lot of potential hot money with little concern for economic returns in this sector.
- Thinking about the whole market, the office market is as low as 10%, so maybe wait to make changes, e.g., to 2022, 2023.
- If you build a leased building, government or a big investor would need to be the landlord. Government needs to lead, and other tenants will follow.
- Don't spread the area out so much: start at the centre of the city centre, e.g., No. 3 and Westminster, and work outwards.

Economic Advisory Committee (EAC)

A presentation was made to the EAC on May 13th providing context for office stratification policy and outlining preliminary directions and the consultation program. The following comments and questions were discussed following the presentation:

- There is an inability to have large continuous space as a result of land values being bid up by land developers. The City is on the right track keeping it near transportation arterials.
- Investors don't want companies to buy buildings, they want the flexibility of leasing. Important for us to challenge how to drive more lease space so we can attract more nimble, fast growing, tech and software companies that do not want to buy buildings.
- Regarding shared work spaces:
    - Q: Where does WeWork fit in to all of this?

- A: We have smaller coworking spaces in Richmond. We have spoken with WeWork, who are in a wait and see approach, wanting to assess demand in Richmond.
- WeWork's vision was to buy the buildings they were in, but do not appear to be doing so now.
- CBRE and Oxford have seen the opportunity to adopt a similar business model, and are doing shared office spaces using the same model. This inflates the price of space.
- A key issue for the City is how to keep a cap on lease rates and therefore land values.