Metropolitan Centre

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TORONTO REGION BOARD OF TRADE | economic blueprint institute

FROM CRISIS TO OPPORTUNITY:

Challenges Today and Futureproofing for Tomorrow in the **Metropolitan Centre** of Canada's Innovation Corridor

June 2021

Ready for Reopening and Recovery

To develop a path forward for our economy and the businesses that power it, the Toronto Region Board of Trade (TRBOT) launched its Reimagining Recovery Framework in May 2020. The Framework outlined six specialized recovery work tracks, informed in consultation with 25 stakeholder tables comprised of more than 350 individuals, 300 businesses and all three levels of government, as well as 29 recovery events with over 7,100 virtual attendees. Two of these work tracks addressed the pandemic's impact on our physical workplaces. Two others focused on the pandemic's impact to sectors and our economic zone, the Innovation Corridor.[1]

Building on the work and success of this Framework, TRBOT, with support from the Government of Canada through the Federal Economic Development Agency for Southern Ontario, embarked on a journey to solve for the safe reopening, continued operation, and recovery of business districts.

The outputs include five business district reports which examine similarities and differences in mitigation needs and how best to support their recovery. The districts chosen mirror the types of business districts in other parts of Ontario and Canada. These are:

- **Metropolitan Centre**: The dominant urban centre of a region, defined by its density and variety of services – such as finance and professional services, tourism, and retail.
- **Goods, Production and Distribution:** Areas defined by the production and movement of goods — such as manufacturing, warehousing, and logistics.
- **Services and Mixed Use:** Less-dense areas with a mix of activities including professional services, light industrial, and retail.
- **Regional Centres:** Hubs that are home to civic and government institutions, as well as professional and retail services that attract local workers and nearby residents.
- **Knowledge Creation:** Engines of the innovation ecosystem, including post-secondary schools and teaching hospitals.

Additionally, pilot zones were selected in three districts across the Toronto Region. Key organizations were engaged to explore their needs and concerns around continuing to operate safely through the COVID-19 pandemic. For each zone, actionable guides have been created to enable the right conditions to support workplaces in minimizing COVID-19 transmission risk and ensure consistent, clear communications between employers and their workers.

- **Financial District Pilot Zone:** Located in the Metropolitan Centre, the FDPZ is the heart of downtown Toronto. Dominated by financial and business services, this zone employed approximately 118,000 people, 21% of the Metropolitan Centre's 550,000 pre-pandemic workers.
- **Pearson Employment Area Pilot Zone:** In a Goods Production and Distribution District, this zone includes many businesses that have remained open with mitigations in place. Prior to the pandemic, the Pearson Employment Pilot Zone employed more than 200,000 people, 63% of the more than 300,000 workers in and around the Toronto Pearson Airport Employment Zone.
- **Scarborough Centre Pilot Zone:** A Regional Centre, this zone includes many types of workplaces and public-facing spaces—including a mall, a civic centre, library, small businesses, big box stores, and office towers—and employed more than 17,500 workers pre-pandemic.

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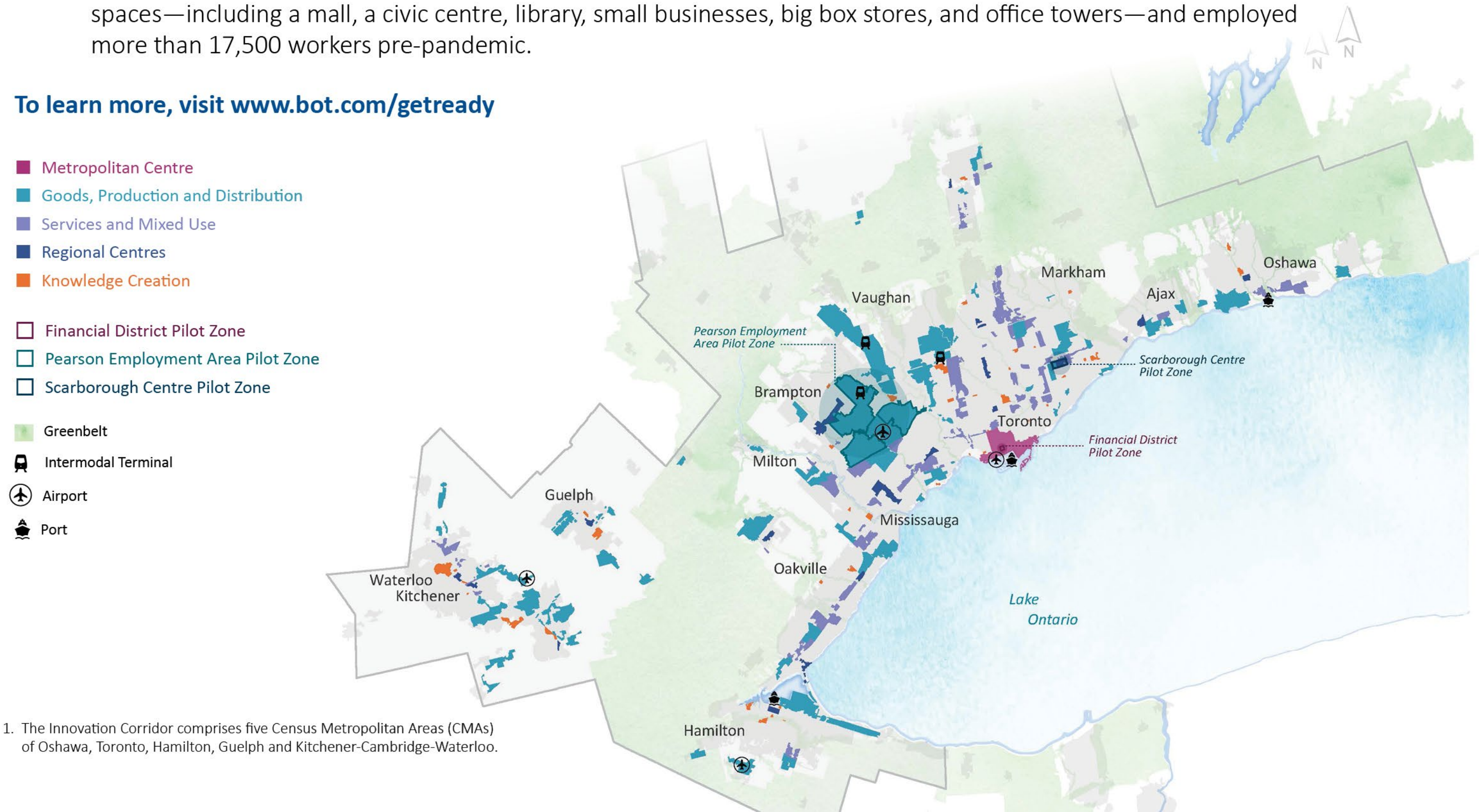


1. The Innovation Corridor comprises five Census Metropolitan Areas (CMAs) of Oshawa, Toronto, Hamilton, Guelph and Kitchener-Cambridge-Waterloo.

Foreword

When the COVID-19 pandemic began in March 2020, all our lives changed. Not just in the practical sense of new routines, new ways of getting around or sharing spaces, but also in the collective way we talked about this historic moment. Terms like “PPE,” “flattening the curve” and “herd immunity” are now used and understood widely. This was because the problem – in this case, a highly contagious virus – threatened each and every one of us, so we needed a shared lexicon to overcome it collectively. In other words, a new language for new times. In this report, one in a series on each of the five types of Business Districts, we deep dive into the conditions unique to the Metropolitan Centre (MC) that will determine a safe re-opening and the economic impacts of the pandemic on the District. The report complements TRBOT’s mitigation playbook for the Financial District which identifies actions that address actual and perceived health and safety concerns to reduce the risk of virus transmission as the vaccine rollout takes place.

In this series of reports that spotlights business districts across Canada’s Innovation Corridor, the Toronto Region Board of Trade introduces a framework for characterizing, understanding and analyzing the region’s economic makeup and assessing the impact of the pandemic. Again, a new language for new times. Because the truth is that the pandemic was not the first existential threat to the Toronto region’s prosperity, nor will it be the last.

Historic population growth, driven by strong immigration and job creation, left our region as one of the world’s most expensive places to buy a home with some of most congested roads, highways and subways. Our fastest growing sectors – like construction, AI, cleantech – are facing a shortage of skilled workers. Businesses that start in the region aren’t able to scale here, or they find themselves unable to access new consumer markets.

The ways we’ve historically tackled such issues are also coming up short. Piecemeal, project-by-project investments by federal and provincial governments can’t keep up with the region’s expanding list of needs. A legacy funding model fiscally straps municipalities, of which there are 34 across the Corridor, within their own city limits. Yet drivers of our economy – the smooth flow of people and goods, a highly-skilled workforce, a competitive and trading market – transcend municipal boundaries. Now, more than ever, we require more data nuanced ways to understand, plan for and address barriers to growth in our regional economy.

The Business District Report Series, which this report belongs to, are that guide. The reports use research and insights from our data-driven Economic Blueprint Institute to deep dive into five types of business districts first debuted in the Board’s 2020 regional recovery playbook, Shaping Our Future. Five ways to view, understand and analyze parts of the Innovation Corridor defined not just by where but by what.

By mapping and profiling these districts we better understand how they’ve been impacted by the pandemic and what each requires to recover. For instance, financial services offices in downtown Toronto have different needs than warehouses and e-commerce fulfillment centres around Pearson Airport. Because recovery is a global endeavour, this Business District Report Series also provides a methodology for others to apply to their own regions.

After all, when it comes to managing COVID-19 and planning for recovery there is no one-size-fits-all solution. Studying the unique, place-based structure of our economy can give us the map to navigating out of this pandemic-fuelled recession – and seizing on the region’s still untapped potential.

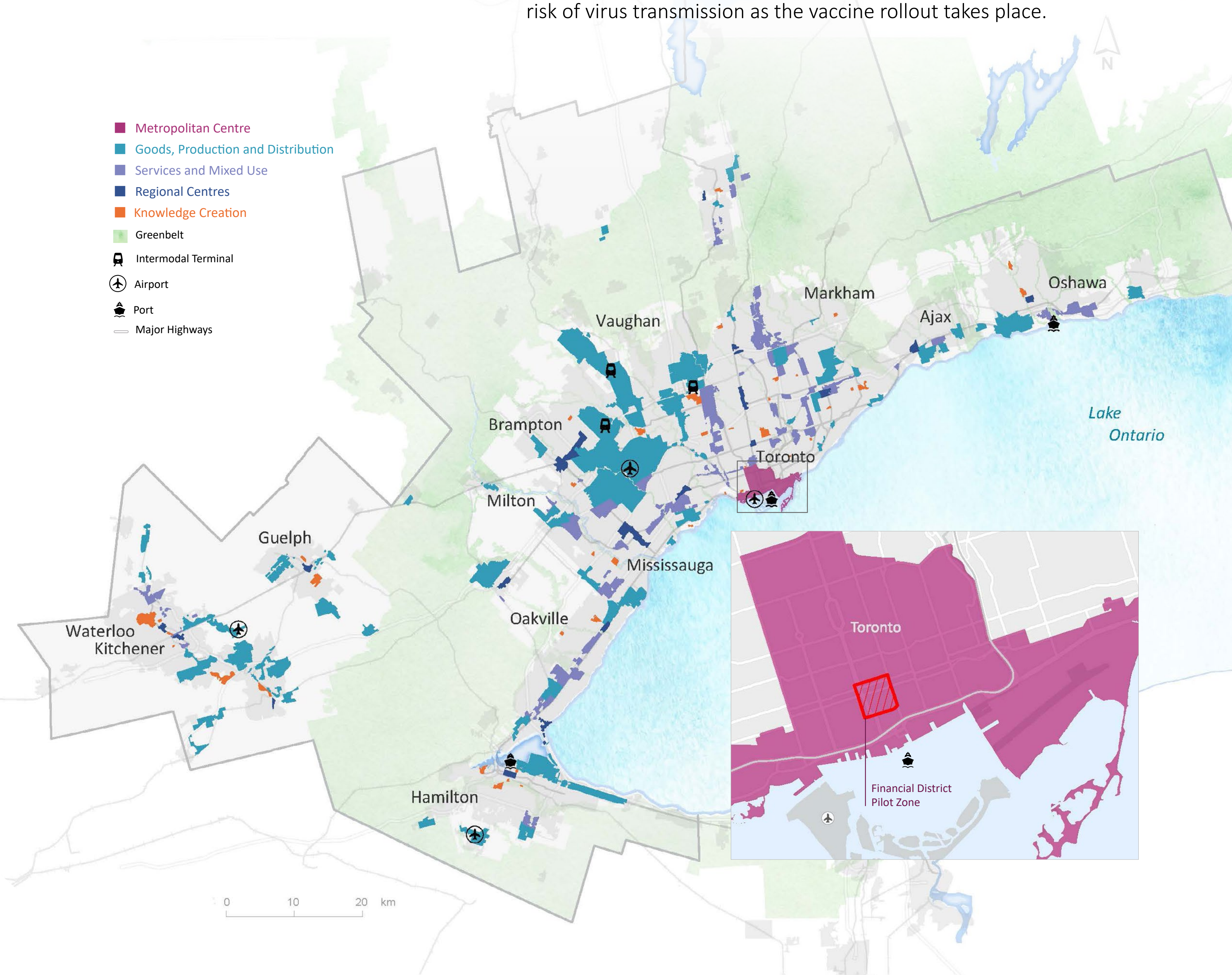
Janet De Silva

Jan De Silva
President & CEO,
Toronto Region Board of Trade

Executive Summary

In *Shaping Our Future*, the Toronto Region Board of Trade (TRBOT), through its Economic Blueprint Institute (EBI) introduced a Business Districts framework to measure and track regional economic recovery. These Districts transcend the boundaries of the 34 municipalities that make up the Innovation Corridor (the "Corridor") because this economic zone functions regionally.

In this report, one in a series on each of the five types of Business Districts, we deep dive into the conditions unique to the Metropolitan Centre (MC) that will determine a safe re-opening and the economic impacts of the pandemic on the District. The report complements TRBOT's mitigation playbook for the Financial District which identifies actions that address actual and perceived health and safety concerns to reduce the risk of virus transmission as the vaccine rollout takes place.



Economic Health in the Corridor

More than a year after the pandemic, the negative impacts to the economy persist. As of March 2021, employment in the Corridor has fallen by 243,000, or 5% since the start of the pandemic.[1] There are also notably fewer operational businesses across the Corridor – the number of active businesses declined by 5% between February and December of 2020.[2]

However, the pandemic-induced economic crisis has not prompted widespread bankruptcies. In fact, according to The Office of the Superintendent of Bankruptcy, consumer and business insolvencies dropped 30 and 24 per cent in 2020, respectively, relative to 2019 levels.[3] A similar story is conveyed in Dun & Bradstreet's data on financial stress scores, which have not changed significantly for businesses across the Corridor.

Fiscal support from governments and a formidable pivot in business practices have gone a long way in enabling businesses to stay afloat. Curb side pick-up was quickly established as a norm, and programs such as Digital Main Street and TRBOT's Recovery Activation Program (RAP) have helped businesses go digital and build resilient business processes. Still, to weather the storm businesses have racked up substantial debt. Small businesses in Ontario have taken on an additional $66.7 billion in debt due to the pandemic – an average of nearly $208,000 per business.[4] As government supports wind down, it will be crucial for policy makers to continuously assess the fiscal health of businesses and respond accordingly.

Economic Health in the Metropolitan Centre

When the COVID-19 pandemic and the ensuing lockdowns to prevent its spread struck our region, the streets and offices of the MC, the region's dominant central Business District, emptied out and fell silent. Most of the hundreds of thousands of workers who spilled out of the subways, buses, trains and cars which brought them to work each weekday moved to working from home.[5]

The sudden shift to remote work is not surprising given that our analysis shows that 67% or more than 370,000 of workers in this District have the capacity to work from home, by far the largest proportion across all Business Districts in the Corridor.[6] The MC is after all defined by a diverse and dense concentration of professional services such as finance, consulting, and marketing, government offices, a unique network of anchor institutions such as universities, colleges, research centres that support the region's innovation ecosystem, and a cluster of cultural and entertainment venues that attracts millions of visitors annually.

The disappearance of these day-time workers, students, and visitors, in turn, has had an outsized impact on the remaining 181,000 workers that have faced a greater risk of losing their jobs. They are employed by thousands of small business owners of shops, restaurants, and entertainment venues which supply both goods and services to the local residential and business markets. The combination of the exodus of day-time workers and the absence of foot traffic from domestic and international tourism has effectively halted economic activity in the District and the massive decline in in-store consumer spending has undoubtedly hurt thousands of small business owners.

The precipitous decline in local and international visitors has hit the MC particularly hard, with calamitous implications to the visitor economy. Historically a magnet for thousands of daily visitors seeking business, pleasure, or both, the MC is now devoid of the buzz that is a defining part of its identity as a business and cultural hub. Whether it's conferences such as Collision that brought thousands from the growing North American tech community to the City or festivals like TIFF which attracts hundreds of thousands of attendees every year to the downtown core, the absence of these events have been felt throughout the economy. Cancellations and postponements of conferences and events alone resulted in over $800 million in losses for the City's tourism sector in 2020.[7]

Tourism-related industries have been the most impacted by the pandemic, particularly Air Transportation; Arts, Recreation and Entertainment; and Accommodation and Food Services. Accounting for approximately 10% of jobs in the MC, these three industries alone employed some 55,620 workers in the District pre-pandemic[8] and represent close to 2,600 businesses.[9]

With a rise in vacancy rates of office buildings, plummeting transit users, sustained drops in consumer spending, and widespread job losses, the MC has been dealt a staggering blow. Yet, it is more than just its office buildings, and as the vaccine roll out and mitigation measures for reopening come into place, this dense, creative, cultural, professional, educational and innovation hub, will spring back to life although the "stickiness" of remote work and slow rebound of the visitor economy will have lasting effects.

EXECUTIVE SUMMARY

As the economy of the Innovation Corridor begins to re-open and recover, key factors affecting the continued economic health of the MC include:

Re-opening

The MC's density and connectivity is one of its greatest assets but it also poses one of its greatest challenges for re-opening. Most workers who commute to the MC do so on transit, so developing a re-opening strategy that ensures and promotes the safe use of transit will be critical as the vaccine rollout moves through its phases.

But just getting people to work alone will not be enough. Government and businesses will have to work together to optimize the use of land and public space to enable workers and visitors to move safely around the District, including the expansion of the City of Toronto's ActiveTO program. Moreover, creative space adaptations, as has been demonstrated through the City's CafeTO initiative, will be needed to safely reopen bars, restaurants, and other public-facing businesses.

To support Canada's most important economic hub, all orders of government must be more proactive in the deployment of smart city technology solutions with wide-spread adoption to mitigate the lingering effects of the pandemic. A bold innovation agenda, keeping pace with similar developments in other global centres, is a critical enabler to regaining the confidence of domestic and international customers and supporting a timely recovery for the MC. At a time when individuals, governments, and businesses are already actively changing their behaviour, and seeking a safe and sustainable reopening environment, deployment of health governance and technological infrastructure tools are the essential prices of reopening. For instance, Mobility-as-a-Service technologies, widely in use in European transit systems, can better manage the flow of people in transit and similar congestion management technologies can be deployed in buildings and large-scale venues.

Drivers of Recovery

Two key considerations of recovery in the MC are: (i) the uncertain future of the office; and (ii) securing the return of the visitor economy. Most agree that employers will have to embrace the changing trends of office work, which includes a desire to move towards a hybrid form that consists of both remote and in-office accommodations. To better position the MC for growth, governments need to increase their flexibility with respect to regulations and policies towards the use of buildings and public space and employers must configure offices to support social interactions and collaboration, which will be a key reason for workers to return the office. Similarly, the revival of the visitor economy in the MC will depend in part on building an effective strategy for domestic and international tourism and leveraging technology to ensure the welfare of patrons and attendees. For the future success of the District and many small business owners who benefitted from the visitor economy, government must work with the business community to return the MC to its position, not just as an ideal location for work but also as a business travel and tourism destination.

Workers in the MC, particularly low-wage and non-remote workers, also face significant challenges. With a large portion of the workforce in the District working remotely, the pandemic has had an outsized impact on jobs that rely on foot traffic from daytime workers. A permanent shift towards remote and hybrid work threatens to further intensify existing structural and systemic inequalities in the District. To address these concerns, stakeholders must play an active role in helping develop: a regional economic strategy, a skills agenda for the future of work, a regional affordable housing strategy, and invest in social determinants of health to help grow an equitable economy.

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Building a Strategy for Recovery

Pre-Pandemic Pain Points and Opportunities:

Congestion and Infrastructure Constraints
The sustained high growth of the MC had begun to put pressure on key infrastructure servicing the core. Increased density resulted in congestion, a tight office market, residential affordability challenges, and transit infrastructure that was creaking under its own weight.

Rising Inequality
The economic success of the MC had also given rise to growing inequities. Significant segments of the population, including racialized and younger individuals, have not shared the same growth in social and economic prosperity as others in the City.

Booming Innovation and Visitor Economy
Located at the heart of the fastest growing central city in North America, the MC is home to a burgeoning tech and innovation ecosystem. Leading up to the pandemic the MC had also established itself as one of North America's premier leisure and business tourism destinations.

Pandemic Impacts:

Shift Towards Remote Work
The shift towards remote and hybrid work arrangements is expected to stay, with wide ranging ramifications for urban inequality, recovery in the downtown core, and the demand for office space.

Decimation of the Visitor Economy
The Metropolitan Centre saw a significant decline in the visitor economy during the pandemic, including the fast-growing segment of business tourism. The visitor economy is a significant economic contributor to the City of Toronto and its impact has been most acutely felt by small and medium-sized businesses.

Challenges for Managing Density
Traditionally an enabler for economic activity and growth, density was the key reason why the MC hollowed out during the pandemic and transit use declined dramatically.

Post-Pandemic Recovery Strategy:

Leveraging Smart Cities and Digital Transformation
A significant must-have for tackling the challenges faced by the MC, regaining customers, and supporting public health governance is the use of smart city technology applications to restore confidence in the District as a safe place to live, work, and visit.

Reimagining the Use of Urban Infrastructure and Urban Space
The pandemic is a once in a century opportunity to reimagine the urban centre of our region including active transportation, public space and offices that meet the needs of a post-pandemic society.

Revitalizing the Visitor Economy
The decimation of the visitor economy requires a concerted effort by both government and businesses to work together to put forth and execute bold initiatives that help drive recovery for domestic tourism, international tourism, and business travel.

Futureproofing our Workforce
To enable a broad-based recovery, a successful long-term recovery strategy must include reskilling and upskilling workforce initiatives that empower our most vulnerable workers.

Developing a Business District Framework for Canadian Cities:

The Business District framework developed for the Innovation Corridor is based on two primary data sources: 1) employment area designations captured in municipal official plans and the provincially significant employment zones as referenced in Ontario's growth plan for the Greater Golden Horseshoe; and 2) estimated number and type of jobs based on 4-digit Industry (NAICs) Codes and Place of Work Status for the Employed Labour Force 15 years and older from the 2016 Canadian Census.

To determine a Business District type, we overlaid census tracts with employment areas and where boundaries did not match, we allocated jobs based on percentage of overlapped area. It is not a perfect science. However, the established Business District framework provides a working model for better understanding economic activity in the Corridor that can be refined with the next census, and as more granular economic and jobs data are brought to the project.

Re-Opening Drivers:

Challenges and Opportunities for the Metropolitan Centre

ENABLING SAFE TRAVEL:

Ensuring Safe Use of Transit and Leveraging Tech-Enabled Solutions

ENABLING SAFE BUILDINGS & DISTRICT:

Managing High Levels of Density and Use of Space

The trains, subways, buses, and streetcars which daily brought tens of thousands of workers to the core ran largely empty.

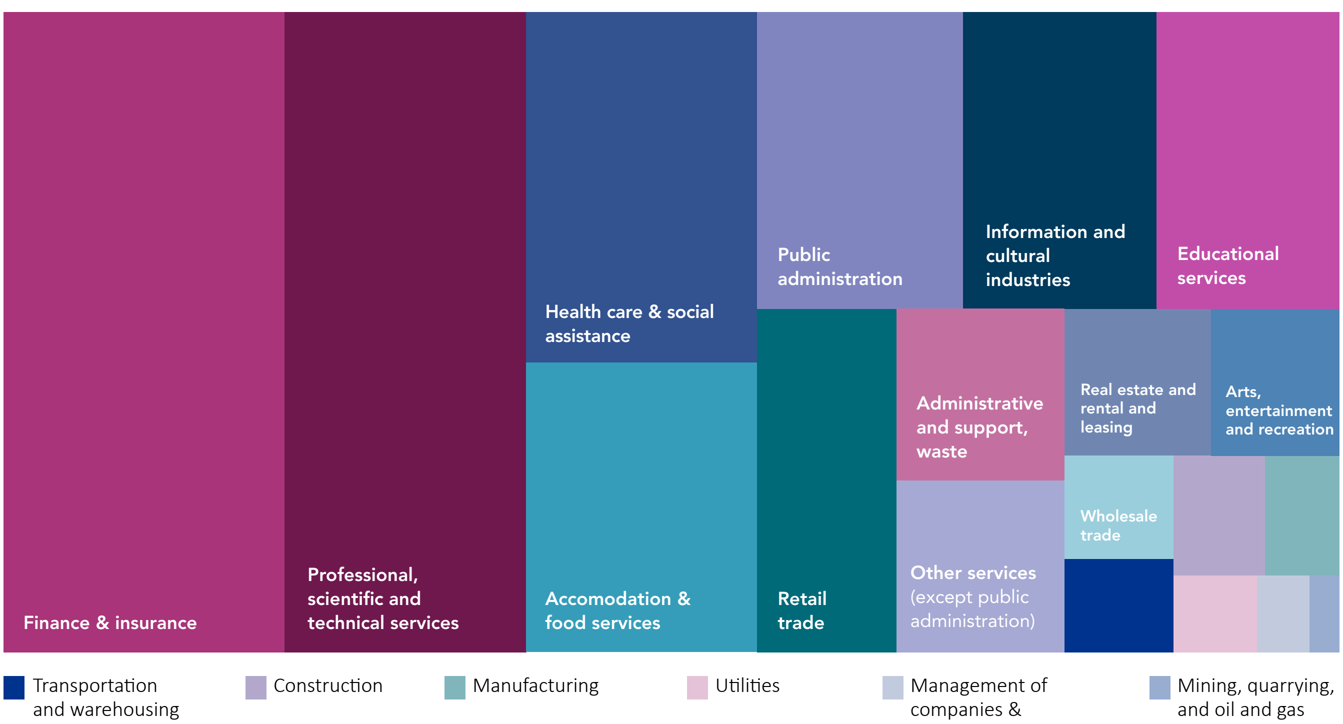
~67%
of the workforce , or more than **370,000 workers** in the MC have the capacity to work from home.

The success of the Metropolitan Centre (MC) as one of fastest growing urban centres in North America had much to do with how well connected it is by transit and its dense and vibrant urban environment.

While these features may have been a selling point before the pandemic struck, the trains, subways, buses, and streetcars which daily brought tens of thousands of workers to the core ran largely empty. The tall gleaming towers, a sign of Toronto's success as a financial and services centre, shut down over health and access concerns because they could not accommodate social distancing requirements. Approximately 67% of the workforce, or more than 370,000 workers in this District, have the capacity to work from home. Many of them are white-collar workers employed in finance and insurance, professional services, and the real estate sectors, who were quick to adapt to remote work (Figure 1).

A return to work poses unique challenges for the District, given its reliance on public transit infrastructure and its workplace density. A successful reopening strategy will ensure and promote the safe use of transit and manage density in buildings so that office workers and university students can maintain social distancing protocols as the foreseeable future of remote and hybrid work plays itself out. Additionally, the importance given to building active transportation infrastructure during the pandemic, such as the temporary University Avenue bicycle lanes, must be maintained.

FIGURE 1: **Employment Breakdown by Sector, Metropolitan Centre, 2016**



Source: "Place of Work," Statistics Canada, Census (2016)

ENABLING SAFE TRAVEL: Ensuring Safe Use of Transit and Leveraging Tech-Enabled Solutions

Transit is a key enabler for workers and businesses in the MC. Prior to the pandemic, more than half of all daily work trips into the centre arrived by taking transit (61%).[10] Another 23% of workers in the District used some form of automotive mode of transport, and 16% used an active mode of travel (walking or biking to work) (Figure 2).

Union Station is one the most important transit hubs in the entire region with a network of bus, rail, and subway lines that draws talent to the MC from across the Innovation Corridor. Before the pandemic, more than 300,000 people commuted through Union Station every day on GO trains, buses, the UP Express, and the TTC subway.[11] However, since the onset of the pandemic, transit volume has plummeted across the Corridor, and has had an especially pronounced impact on the MC. Since the pandemic began, average weekday GO Transit boardings reached a peak of 37,750 in September of 2020, down from over 330,000 from a year earlier.[12] According to our data analysis of Streetlight's Rail Index, rail trips ending in the MC between September and October 2020 declined 81% relative to the same period in 2019.[13]

A key need in the MC will be instilling the safety of transit use and ensuring that travellers can maintain social distancing protocols. Given the large share of commuters who walk or cycle, government and employers must also enable and encourage safe travel via active modes of travel. Governments will also need to support cities for a scenario where transit levels and revenues do not return to pre-pandemic levels for the foreseeable future as remote and hybrid working becomes standard.

Tech-enabled solutions can also play an important role in tackling key obstacles for reopening and recovery, in this case enabling people to feel safe in returning to the District. The Toronto Transit Commission has partnered with the RocketMan and Transit apps to provide customers with real-time information on customer loads on its bus network. This allows for better planning before and during trips to and from work. Still, in an environment where individuals, governments, and businesses are actively changing their behaviour and practices, there is an opportunity to think bigger and be bolder about the art of the possible. In this instance, stakeholders should explore Mobility-as-a-Service (MaaS) solutions as a way to sustain the continuous mass mobility of people in the District. The City of Toronto should look to examples such as Hamburg, which has embraced a broader Intelligent Transport Systems (ITS) strategy, including an integrated mobility platform called Switchh that integrates access to different modes of transportation.[14]

FIGURE 2: **Commuter Trips by Transportation Mode, Metropolitan Centre, 2016**

Note: "Auto" modes of transport include travel by personal vehicle, taxi, ride hailing service, or a motorcycle. "Transit" transportation includes trips in which the primary mode of travel is some form of transit, which includes both local transit and GO Transit trips. "Work trips" are defined as trips made by workers from their residential zone to their place of employment. Any trips involving intermediate stops between a place of residence and work are ignored in this analysis. Home to work trips captured in this analysis are more representative of commuting pattens. Intermediate trips likely account for a small share of commuting trips and do not have a significant impact on the overall findings of our analysis. Trip counts represent estimates for trips made during a typical 24 hour weekday in 2016.
Source: Data Management Group at the University of Toronto Transportation Research Institute, Transportation Tomorrow Survey (2016)

ENABLING SAFE BUILDINGS & DISTRICT: Managing High Levels of Density and Use of Space

The MC is the densest of the five Business Districts studied, with over 20,000 jobs per square kilometre.[15] The Financial District, which is located within the MC, features even higher densities. One of its key features besides the towers that dot the skyline are the approximately 118,000 people who work in the buildings that are connected by the PATH underground system. Covering an area of approximately half a square kilometre, this translates to a job density of more than 230,000 jobs per square kilometre, more than 10 times the MC as a whole and 25 times more dense than the Regional Centres (RC), the second most dense Business District.[16] While density is a key enabler for economic activity and prosperity in the District, this makes meeting the requirements of social distancing more difficult.

The MC isn't only tall office towers, as 89% of business properties have buildings with 'walk-up potential,' (defined as having five storeys or less). However, it still has the lowest share of the five Business Districts.[17] More than 50% of properties associated with high-rise buildings (defined as 12 storeys or more) across the Corridor are located in the MC (Figure 3). These conditions, including the reliance on elevators to move workers within buildings, pose significant challenges in promoting safety in the workplace while maximizing the potential for return to work. Many buildings are also reliant on HVAC systems that have the potential to spread the virus more easily. Given the plausibility of virus transmission through air circulation, improving ventilation systems represents a 'low hanging fruit' solution that is relatively inexpensive and easy to implement.

The operational complexity, safety considerations, and limited capacity of elevators for access to offices in high-rise buildings will undoubtedly pose a challenge for reopening. Building owners and occupants must push the envelope to adopt workplace technologies that navigate these challenges. Workplace apps like Siemen's Comfy are strong candidates for technology-based solutions to support mitigation efforts. Comfy offers users features such as room/desk booking, demand-based cleaning, elevator calls, and public transit integration to help workers maintain physical distancing and to plan their commute to and from work.

In an area as dense as the MC, policies and initiatives optimizing the use of public space will be critical for encouraging workers to return to the District. This includes expanding and integrating a network of public spaces to improve accessibility and allowing commuters and visitors to move safely within the District. The new cycling corridors established through the ActiveTO network, such as the separated University Avenue bicycle lanes, is a specific example of an improvement that can be expanded upon to further empower workers to travel to and within the MC quickly and safely. The use of public space also extends to unlocking outdoor spaces for restaurants and businesses to enable additional foot traffic to access their businesses.

MITIGATION TOOLKIT

For a full list of mitigations that can be used to help improve safety in the MC, click here to access the Mitigation Toolkit.

>50%

of the total number of properties in high-rise buildings across the Corridor are located in the Metropolitan Centre.

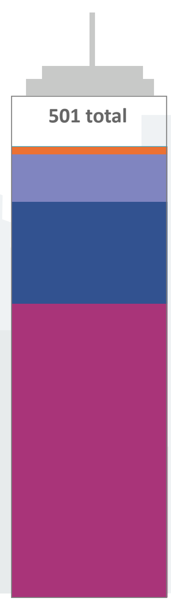


FIGURE 3
Number of Business Properties in High Rise Buildings, 2020

- Goods Production & Distribution District (1)
- Knowlege Creation District (14)
- Service & Mixed-Use District (50)
- Regional Centre (105)
- **Metropolitan Centre (299)**

Note: High-rise buildings are defined as those with twelve storeys or more. Analysis was done at the property level.
Source: MPAC data, based on active properties as of December 2020.

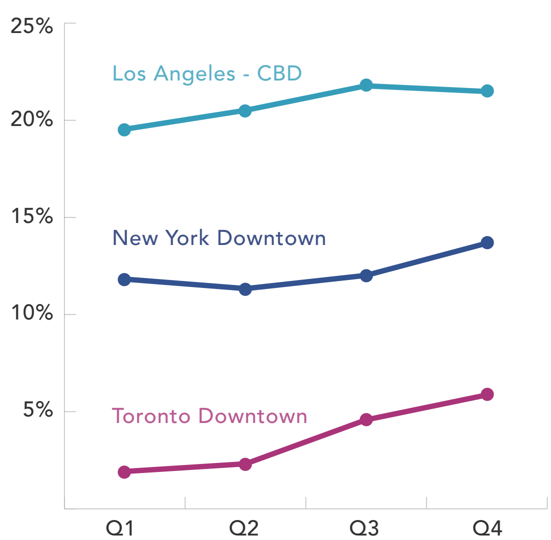
Recovery Drivers:

Challenges and Opportunities for the Metropolitan Centre

- The Future of the Office and Office Space
- Attracting Foot Traffic Back into the District
- Reviving the Visitor Economy and Highly Impacted Sectors
- Challenges Facing Vulnerable and At-Risk Workers
- Fiscal Health of Cities

Although vacancy rates have risen across all office classes—**from 2.0% at year-end 2019 to 7.2%**—they are still well below many comparable North American cities.

FIGURE 4
Office Vacancy Rates (%), Select U.S. and Canadian Markets, 2020



Source: Cushman & Wakefield

The MC has faced many challenges during the pandemic including the departure of its white-collar workforce, a massive decline in in-person consumer spending, and the collapse of its leisure and business tourism economy.

But even with these challenges, the news is not all grim. Our analysis found that many businesses in the MC have maintained leaseholds on their office spaces despite the current conditions of remote work. Additionally, compared to other cities in North America, our vacancy rates point to a much healthier real estate market than other comparable office markets. This puts us in a better starting point than others as the vaccine rollout continues and we plan for re-opening and an eventual recovery.

The District's trajectory of recovery, however, will depend on the extent to which we can revive the MC not only as a place of economic activity and a key destination for tourism and after work activities, but also as an area of opportunity for all workers, not just the few. Employers have a role to play in ensuring that the office is a welcoming meeting space for social interaction and team collaboration leading to higher productivity, which will contribute to the return of workers to the core.

A prosperous future for the MC requires a reimagining of the use of buildings and public space, strategies to attract domestic and international visitors back to the District, and skills initiatives that target the most vulnerable in our society.

The Future of the Office and Office Space

While demand for office space has decreased (sublease vacancy has increased five-fold, to 2.3 million square feet[18]), the mass exodus of office tenants from downtown has not happened yet. An encouraging sign is that many businesses have maintained their leaseholds despite their employees working remotely in most cases. Class A real estate in the Financial Core has fared particularly well, maintaining its status as the most valuable office real estate in the Corridor, with over a 94% occupancy rate.[19] Although vacancy rates have risen across all office classes—from 2.0% at year-end 2019 to 7.2%—they are still well below many comparable North American cities. According to Cushman & Wakefield data, while Downtown Toronto's office vacancy rate was at 5.9% in the fourth quarter of 2020 (a rise from 1.9% in Q1), this rate is half the level seen in other comparable office markets in the U.S. (Figure 4).

A recent report from PwC concludes that few companies are prepared to completely abandon having their office space, preferring a hybrid arrangement that embraces flexibility.[20] According to CBRE Economist Richard Barkham, most client surveys show there will likely be a 32% drop in the number of days in the office, but this will equate to only a 9% drop in the demand for office space.[21] The acceleration of digitalization of work and the use of video conferencing is expected to be somewhat offset by additional space required for team-based work, collaboration, and dedensification of offices.

Despite the increased surplus of space, downtown Toronto has several million square feet of prime office and retail space in the pipeline.[22] Even a slight correction in rental rates may be enough to bring vacancy rates back close to pre-pandemic levels. However, if a more permanent shift to remote work occurs, this could have significant consequences for the downtown economy. One area to watch as a key market indicator is demand for coworking spaces. Early in the pandemic, the well-regarded Toronto incubator OneEleven shut down operations, citing real estate challenges.[23] Over the summer, coworking and flexible work spaces have been expanding across Canada's suburbs – a trend which may accelerate if more people move further away from the downtown core.[24]

The uncertainty of the future of the office has led urbanist Richard Florida to claim that an even bigger makeover is due for the office than is the case with retail, which will have to be "remade as much more experiential, unique food, coffee, shopping experiences."[25] The extent to which as Florida suggests, the office will become "an arena for social interaction and for context"[26] will have an impact on the recovery of the MC.

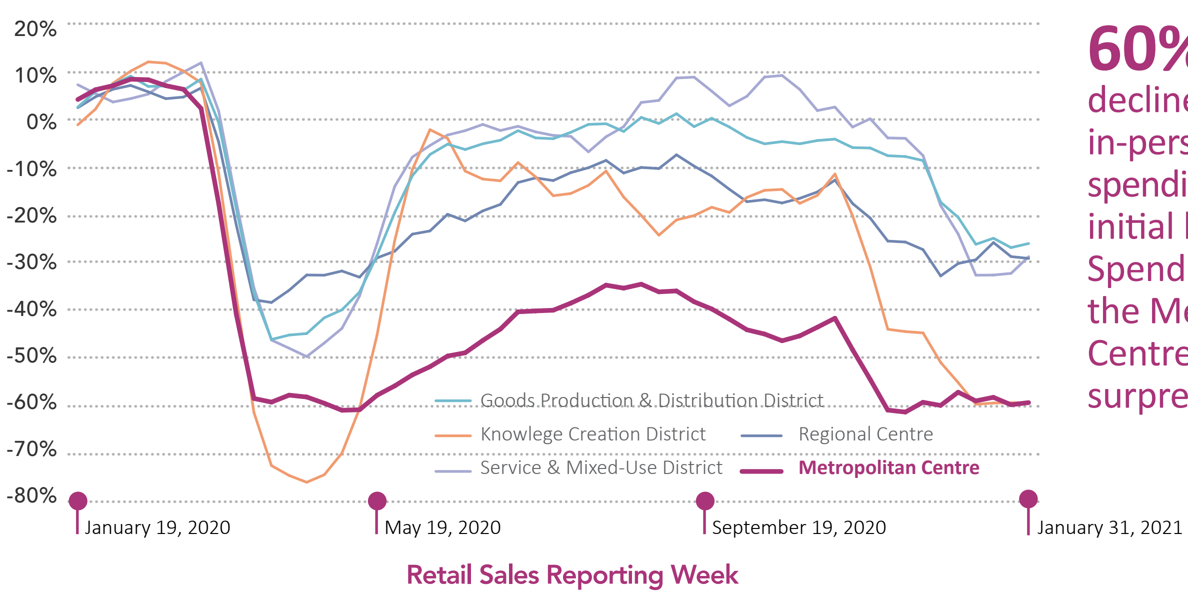
Another potential trend that could affect the downtown office market is the relocation of young people.[27] COVID lockdowns have prompted scores of downtown residents – many of them young workers – to leave the city for surrounding suburbs or smaller towns and cities. Toronto's high cost of living and the increased potential for remote work may make this a lasting phenomenon.[28] House prices across the country have soared during the pandemic, while the demand for condos, which account for a large share of housing downtown, have been in decline. In January 2021, condo prices in the City of Toronto dropped by 8% over the previous year, the only residential real estate class to see a decline in value.[29] This should recover as the city reopens and students and immigrants return, but it is clear more people – of all ages, but especially young families – are seeking homes with more space and lower cost of living.

Making the best use of land and space in buildings is an important consideration for any recovery strategy. To enable the best use of available space, governments must assess what regulations and policies need to be adjusted to provide flexibility in the use of buildings and public space. The diversity of amenities offered by the PATH is one of the greatest assets for downtown and should be supported and leveraged as part of recovery. Moreover, opportunities for co-benefits, where economic objectives can be dually met alongside other social imperatives, such as housing and daycare, should be closely examined.

Attracting Foot Traffic Back into the District

Since the start of the pandemic and ensuing shutdowns, in-person consumer spending has plummeted in the MC, declining by more than 60% during the initial lockdown (Figure 5). While other Business Districts experienced a gradual recovery in consumer spending as the lockdown

FIGURE 5: **Year-over-Year % Change in Consumer Spending Levels (3-Week Moving Average), In-Store Transactions, January 2020 – January 2021**



60% decline of in-person consumer spending during the initial lockdown. Spending levels in the Metropolitan Centre remain surpressed.

Note: Dates for consumer spending data are reported based on the start of the retail sales reporting week, which starts on Sunday. Consumer spending data corresponds to year-over-year changes in weekly transactional dollar volume. In-store transactions are represented by 'card present transactions' recorded by Moneris. In-store transactions that are recorded as 'card not present transactions' are not included. Only Moneris-acquired credit and debit transaction data are included.
Source: Moneris (2021).

was eased, spending levels in the MC remained suppressed. This is likely due to maintained restrictions in the City of Toronto due to a high number of COVID-19 cases, a limited volume of day-time workers, and a large presence of one storey retail stores and regional shopping centres in the MC. The drop in consumer spending is most acute in travel and entertainment, which in January 2021 was less than 80% of levels seen in 2020. However, retail and services related spending also remained well below pre-pandemic levels.[30]

Recovery in the MC will depend heavily on enabling safe traveling and working conditions. Overall economic activity in the MC is also impacted by changing preferences towards online shopping and e-commerce since the start of the pandemic. As of December 2020, e-commerce accounts for more than 8% of total retail sales in Canada, compared to 5% of total sales in December 2019.[31] A sustained decline in in-person spending activity will have notable repercussions on potential recovery of the District. Governments must work with local businesses on strategies to attract visitors and entice greater foot traffic, and concurrently track overall consumer spending levels in the MC to better inform their policies going forward.

Reviving the Visitor Economy and Highly Impacted Industries

Before the pandemic shut down the MC, tourism, also known as the visitor economy, was a significant contributor to the overall gross domestic product of the City and the Corridor. In 2018 alone, a joint study by Tourism Toronto (now Destination Toronto) and Toronto Region Board of Trade (TRBOT) estimated 27.5 million visitors from around the world spent $6.5 billion and generated $10.3 billion in economic impact for the City of Toronto.[32] As a business and cultural hub, the MC, like other urban centres around the world, is recognized as a nucleus of the visitor economy in the Corridor. The MC is a particularly attractive destination for business travel, drawing thousands of business delegates that attend events, meetings, conferences, and major conventions such as Collision, catalyzing millions in local business sales in the process.

Disruptions in leisure and business travel since the start of the pandemic have struck the MC hard. Cancellations and postponements of conferences and events alone resulted in over $800 million in losses for the City's tourism sector.[33] Overall, travel restrictions and lockdown measures have led to a $8.35 billion loss in

Pre-Pandemic Attendance for Major Events in the Metropolitan Centre:

TORONTO INTERNATIONAL FILM FESTIVAL

300k+
attendees (2019)[65]

$189M
Annual economic contribution to the City of Toronto (2013)[66]

COLLISION

25k+
attendees (2019)[67]

$147M
projected economic impact between 2019 and 2021, prior to the pandemic[68]

CANADIAN NATIONAL EXHIBITION

~1.5M
attendees (2019)[69]

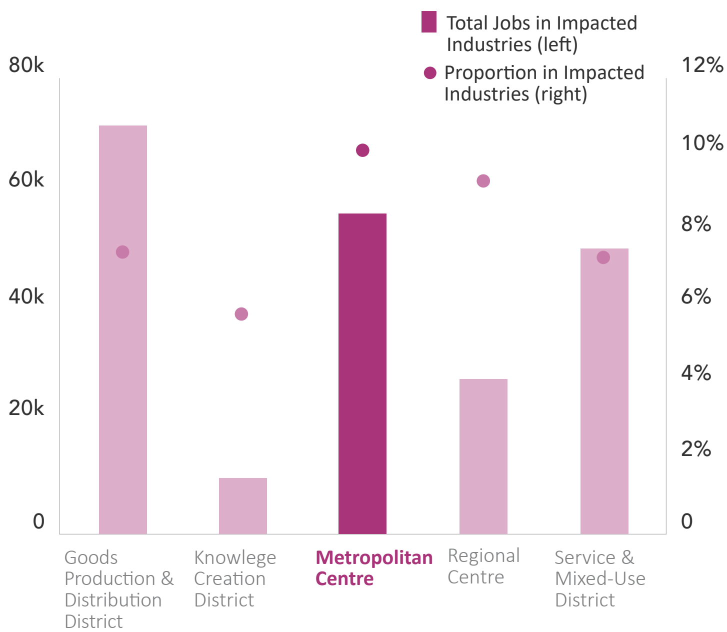
$93.1M
Annual economic impact for the Greater Toronto Area and **$128.3 million** for the province of Ontario (2017)

PROSPECTORS AND DEVELOPERS ASSOCIATION OF CANADA CONFERENCE (PDAC)

23k+
attendees (2020)[70]

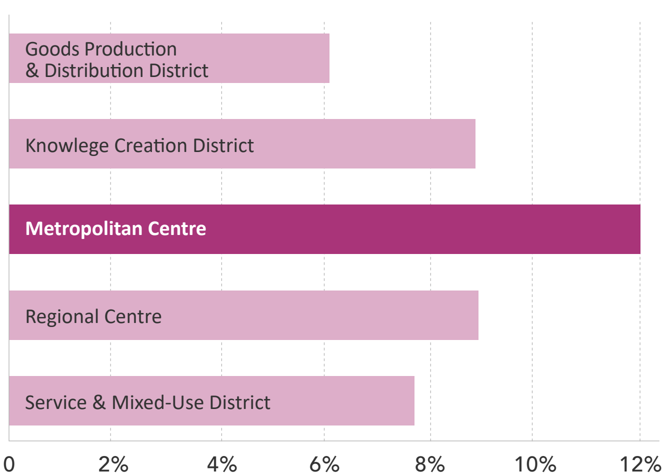
Metropolitan Centre has the highest proportion of jobs in highly impacted industries among the five Business Districts.

FIGURE 6: **Share and Number of Workers in 'Highly Impacted Industries', 2016**



Note: Highly Impacted Industries includes Air Transportation; Arts, Recreation and Entertainment; and Accommodation and Food Services.
Source: "Place of Work," Statistics Canada, Census (2016).

FIGURE 7: **Share of Businesses in 'Highly Impacted Industries', December 2018**



Note: Estimates provided for businesses with 1+ employees.
Source: Statistics Canada, Business Register (December 2018).

economic activity tied to visitor spending for the City of Toronto in 2020. According to a recent Destination Toronto analysis, these losses included a $1.3 billion loss in food-and-beverages, $1.2 billion loss in accommodations, and $707 million in losses for attractions and entertainment.[34] As the lockdown continues and we gradually approach reopening, the long-term impacts to the 2,780 businesses and 60,000+ jobs in the tourism sector[35] within the District remain unclear.[36] This includes the many disadvantaged groups that are overrepresented in the sector, particularly youth, women, and immigrants.[37]

According to our analysis of total employment losses in the Corridor[38] and total decline in economic activity across Canada[39], the three industries most impacted by the pandemic were identified as: Air Transportation; Arts, Recreation and Entertainment; and Accommodation and Food Services (collectively referred to as 'highly impacted industries' throughout this report). All three industries are notably different segments of tourism. The MC has the highest proportion of jobs in these highly impacted industries among the five Business Districts. Accounting for approximately 10% of jobs in the MC, these industries employed 55,620 workers pre-pandemic (Figure 6).[40] The MC also contains the highest proportion of businesses that fall within impacted industries (Figure 7), 65% (or 1,690) of which are small businesses with less than 20 employees.[41] These statistics underscore that no other Business District was as exposed to the spread of COVID-19 as the MC in terms of the pandemic's impact to the visitor economy.

Some industry experts say that the unprecedented devastation of the tourism sector means its return is projected to take longer than an average expected recovery period and will require targeted policy solutions.[42] Domestic tourism is an anticipated driver of recovery for the short- and medium-term and is expected to pick up 1-2 years earlier than international travel.[43] What is less certain is the extent to which business tourism will return given the technological adoption of video conferencing. If business tourism is to return, there will be an active competition among cities to attract major conventions such as Collision, North

caféTO

America's fastest growing tech conference, which decided to locate in Toronto in 2019.

According to Destination Canada, a shift in Canadian tourism spending from international to domestic travel could accelerate recovery for the nation's tourism sector by up to one year, replacing losses in revenue from international visitors and saving millions of jobs.[44] In recognition of the importance of bolstering domestic travel, Ontario recently committed $150 million to a 20 percent tourism credit to encourage residents to travel within the province. The provincial government also unveiled a 5-year plan to support recovery that includes digitization of events and a revamping of local attractions.[45] A bold strategy will be required for business travel, which is expected to lag other forms of travel in terms of recovery but is crucially important for the long-term prosperity of tourism in the District.

The use of technology for travel and entertainment is expected to escalate with reopening of economies world-wide. A concert in Barcelona recently permitted ticket-holders into the venue only after proof of a negative COVID test result was available on their phones after rapid tests were conducted.[46] As vaccines become widely deployed, many businesses and health authorities are advocating for the development of passes or passports that would provide proof of vaccination. Australia's Qantas airlines is already making vaccine passports mandatory, and Israel is making smartphone passes a requirement to enter shopping centres and cinemas.[47] While vaccine passports are still being debated as a legal requirement in Canada, governments must work with businesses to investigate how tech can be used to ensure the welfare of patrons and attendees, and build confidence to help revive the visitor economy.

Challenges Facing Vulnerable and At-Risk Workers

The pandemic has had a disproportionate impact on low-wage workers,[48] including sales and service occupations, whose average incomes are well below the average after-tax income in the Corridor.[49] Sales and service workers constitute 82% of jobs in the accommodations and food services, and 32% of jobs in the arts, recreation and entertainment sectors in Ontario. These low-wage occupations employ approximately 105,520 workers and 19% of total workers in the MC.[50] Many of them were deemed essential throughout the pandemic and their physical presence was required at work, increasing their risk of contracting COVID-19. Others such as bartenders and food and beverage servers continue to face reduced hours or layoffs.

In the MC, 67% of workers are able to work remotely (Figure 8), the highest percentage of all Business Districts.[51] This makes sense given the nature of work concentrated in the downtown core. A recent study from Statistics Canada showed that 85% of jobs in finance and insurance and educational services, and 84% of jobs in professional, scientific, and technical services can be done remotely.[52] A similar study by McKinsey showed that activities with the highest potential for remote work include updating knowledge and learning; interacting with computers; thinking creatively; communicating with colleagues and clients; and analyzing information.[53] As the region's most concentrated hub for finance- and knowledge-oriented businesses, this has translated to a widespread shift to remote work, providing security to many workers across the District.

The remaining 33% of workers who cannot work from home[54] do not have same level of employment, health or income security. In fact, the high concentration of remote occupations has an outsized impacted on jobs in the District that rely on the recurring foot traffic of daytime workers, including cleaners, taxi drivers, and restaurant staff. Considering the strong ties between remote work and higher earnings[55], a permanent transition to work-from-home arrangements may widen the gap between workers and compound income inequality in the District.

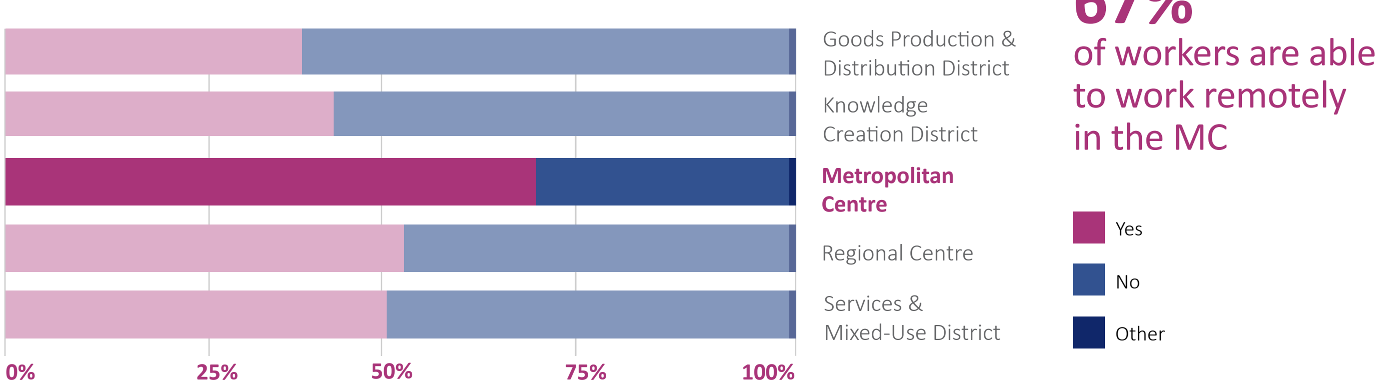
Many of these impacted workers in the District may also face long-term disruptions to their jobs given the acceleration of many pre-pandemic trends, including automation of tasks due to technological disruption. As the region's dominant hub for knowledge-oriented businesses, the workforce in the MC is relatively well-positioned to overcome economic transformation and technological disruption – particularly related to the automation of tasks and roles in the workplace. However, 27% of workers in the MC are employed in industries deemed most at risk of automation-related job transformation, defined as having at least 10% of the workforce with a 70% chance or higher risk of automation-related job transformation.[56] Among occupations most at risk of automation-induced job transformations are office support occupations, which include clerks, receptionists, and office equipment operators – many of which have a strong presence in the downtown core given the number of offices in the District. 24% of workers in the MC fall under these at-risk occupation categories, lower than the Corridor average but higher than the Knowledge Creation District (KCD). Initiatives supporting the reskilling and upskilling of vulnerable workers provides the District with an opportunity to reduce the gap between workers, support those who are unable access the benefits of work-from-home measures and improve employment and income security.

The pandemic has exposed and exacerbated the trends of structural and systemic inequalities within the MC. Economic recovery is contingent on addressing inequities facing those most vulnerable. As part of recovery planning, cities will need to address some of the more egregious aspects of widening urban inequality and ensure that social and economic changes due to shifts in remote work do not disproportionately impact vulnerable sectors and workers. In the face of growing inequities, it will be essential to develop a regional economic strategy, a skills agenda for the future of work, and a regional affordable housing strategy. As well, investing in social determinants of health will also be crucially important to help grow an equitable economy in the Corridor.

Fiscal Health of Cities

While cities are the drivers of the 21st Century economy, one of the biggest challenges facing cities is that in the Canadian federal system they hold the least power

FIGURE 8:
Proportion of Workers with a Capacity for Remote Work, 2016



Note: The 'Other' category includes workers in occupations where the capacity for remote work could not be determined.
Source: "Place of Work," Statistics Canada, Census (2016); EBI classification of occupations with capacity for remote work.

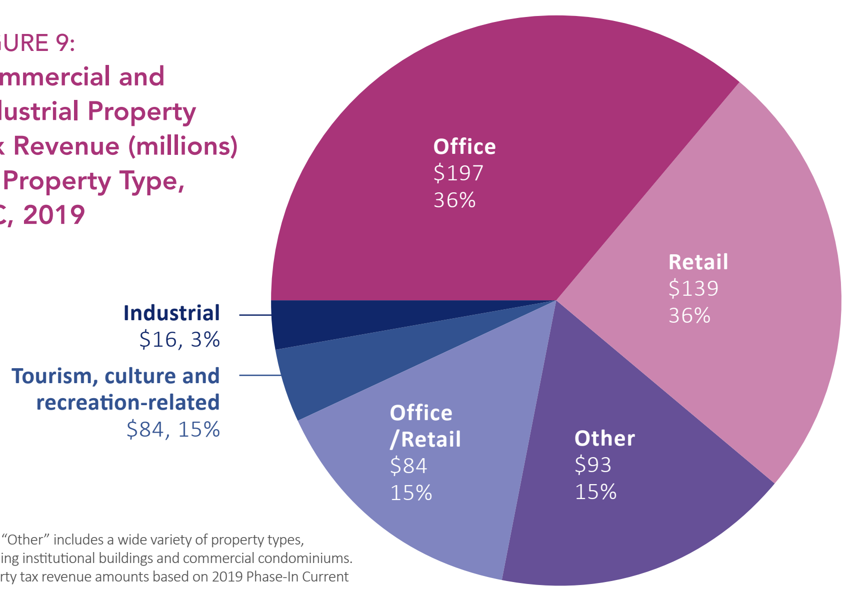
and fiscal capacity even while they are increasingly asked to deliver more and more services. In the Corridor, property taxes account for close to 36% of total municipal revenues, so the impact of the pandemic on property values must be monitored closely while more effective and sustainable funding models are explored.[57]

The MC accounts for 10%, or an estimated $552 million, of property tax revenue collected from commercial and industrial properties across the Corridor for municipalities, which includes the education tax which is collected for the province by municipalities.[58] 51% of this comes from office and combined office/retail properties (Figure 9). These properties have all experienced change in demand over the course of the pandemic, which could lead to lost revenue. The City of Toronto estimates that their property tax payment deferral program adopted last May (including businesses and residential properties) will cost between $7.8 and $39.3 million, depending on the number of property owners who apply.[59] This is further compounded by the drop in transit ridership, which has declined by more than 80%, leaving the City with $453.2 million in lost revenue as of August 2020.[60]

The MC has by far the highest number of hotel properties out of the five Business Districts studied, owing to its role as the tourism hub of the region. With over 1,800 hotel properties, this accounts for three-quarters of all hotels in the Corridor. The property tax revenue from this sector for the City of Toronto is substantial: $69.8 million. Given that hotel occupancies across the province have declined by 36% year-over-year, according to Ontario Hotel Statistics,[61] the precarity of tourism recovery could translate into a substantial loss of property tax revenue and a setback for business tourism recovery in the City given the shortage of hotel space that the City experienced prior to the pandemic.[62] Current value assessments, which MPAC uses as the base to which property taxes are applied, are primarily determined on an income basis for hotels. Although pandemic-induced income changes have not yet been applied to current value assessments, they may be in future years. Ultimately, commercial property taxes are currently a lucrative form of revenue for the City of Toronto that cannot easily be substituted by other sources, including residential property taxes.

The pandemic has caused severe strain on the City of Toronto's finances. Responsibilities for essential services like transit and housing have continued and, in some cases, expanded, while revenue from user fees and property taxes has dropped. The City of Toronto also operates a shelter system as well as many social services dedicated to helping people find jobs and refugees settle. Despite funding support from the federal and provincial government to make up budget shortfalls,[63] it is unclear whether the support committed to date will be enough to help the City of Toronto avoid medium to long-term financial strain, while maintaining key services. As of February, City Council were in talks with the Province to instate a new, reduced business property tax rate to help struggling small businesses.[64] This measure will be crucial for businesses, especially as other support programs are phased out, but municipal fiscal shortfalls will need to be balanced through additional support from other levels of government.

FIGURE 9:
Commercial and Industrial Property Tax Revenue (millions) by Property Type, MC, 2019



Note: "Other" includes a wide variety of property types, including institutional buildings and commercial condominiums. Property tax revenue amounts based on 2019 Phase-In Current Value Assessments.
Source: MPAC data, based on active properties as of December 2020.

$552 M
or 10% of property tax revenue collected from commercial and industrial properties across the Corridor is from the Metropolitan Centre.

51%
of this comes from office and combined office/retail properties.

Building a Strategy for Recovery

The Metropolitan Centre is the District that arguably faced the greatest economic disruption during the pandemic.

Futureproofing our Workforce

Revitalizing the Visitor Economy

Reimagining the Use of Urban Infrastructure and Urban Space

Leveraging Smart Cities and Digital Transformation

A successful post-COVID recovery will require careful and effective management of key drivers and trends that pre-dated the spread of the virus as well as impacts that were either brought about or accelerated by the pandemic. Before the pandemic, the MC was Canada's largest and North America's 4th largest commercial centre. It was a thriving social, and cultural hub, in part because of the growing success of its tech and innovation ecosystem as well as its booming visitor economy. However, its infrastructure has been increasingly burdened by the growing number of workers and visitors that frequented the District. The MC has also been subject to rising inequality that has been exacerbated by the pandemic. Declining number of daytime workers and visitors threaten to intensify urban inequality, impacting the well-being of local businesses and the workers that made up the once thriving visitor economy. These challenges are compounded by the need to manage density carefully to ensure the safety of those going in and out of the District.

A long-term strategy for recovery for the District must deploy policies that address these challenges head on through place-making, infrastructure, and workforce initiatives:

The pandemic has forced businesses and governments to reassess the use of public space and buildings. As the city turns to re-opening, government and businesses need to work together to re-imagine the places where we live and work, and how we travel.

Leveraging Smart Cities and Digital Transformation

The sudden shift to remote work spurred by the pandemic has inadvertently emboldened governments to accelerate the use of technology and digital applications. Government and the private sector must build on existing initiatives and establish a vision for the District as a champion for smart city applications and digital technologies to solve density and mass mobility challenges. The city lags far behind in the adoption of MaaS and other tech-based solutions to help move people efficiently and safely into and around the District. These technologies are critical to restoring confidence in the District as a safe place to live, work, and visit.

Reimagining the Use of Urban Infrastructure and Urban Space

The pandemic has forced businesses and governments to reassess the use of public space and buildings. As the city turns to re-opening, government and businesses need to work together to re-imagine the places where we live and work, and how we travel. Active transportation corridors, the efficient use of shared sidewalk space and the need for childcare in the office towers are examples of re-configuring urban space to meet both economic and social objectives in a post-pandemic world.

Revitalizing the Visitor Economy

Workers in the visitor economy have been disproportionately impacted by the pandemic and face great uncertainty even as economies slowly look to reopen. With domestic tourism expected to lead recovery in the sector, all levels of government should work together to build on existing initiatives to boost domestic tourism activity. Equally important is the need for a bold strategy to revive international tourism and business travel in order to help re-establish the MC's presence as a preeminent destination for leisure and business tourism.

Futureproofing our Workforce

Nowhere is the divide between the haves and have-nots more evident than the MC, where the shift to remote work for white collar workers has had an outsized impact on the businesses that served the local workers in the District. The pandemic threatens to widen existing inequalities through a K-shaped recovery that may have persisting impacts on certain segments of the population, including workers in tourism-related industries. A long-term recovery strategy must include workforce initiatives that positions our most vulnerable workers for success at the other end of the pandemic.

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Lead: Marcy Burchfield
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Contributions from: Phinjo Gombu

Consultants: Ashleigh Ryan,
Natasha Goel, and James Bullbrook
Design: Lisa Davison Design

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