Assessing the Impact of COVID restrictions on Toronto's Downtown Economy

Summary of Findings

7 December 2020

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Strategic Regional Research Alliance

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- Bloor-Yorkville BIA
- Downtown Yonge BIA
- Toronto Entertainment District BIA.
- St. Lawrence Market Neighbourhood BIA
- Toronto Financial District BIA
- Waterfront BIA

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Classification categories and their assignment have been undertaken by SRRA. All analysis, conclusions and research has been undertaken by SRRA, which is solely responsible for any errors or omissions.

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Toronto, Ontario
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1.0 Executive Summary & Overview of Key Findings

In August 2020, six downtown Toronto BIAs and the City of Toronto engaged SRRA to benchmark and track progress towards the return to work in office employment in downtown Toronto. SRRA was tasked with providing three deliverables:

A review of best practices in London, Paris, Frankfurt and New York to identify effective approaches to communications, problem-solving and steps taken to mitigate the impacts of COVID on office occupancy was delivered in September. Updates are provided as and when new information becomes available.

An Occupancy Index that provides a highly accurate estimate of the percentage of office employees returning to work in downtown offices has been delivered monthly since September. To our knowledge, the Occupancy Index is the only data-driven survey of its kind being undertaken in commercial real estate circles anywhere in the world.

The third deliverable is this report on the economic and social impact of COVID on the downtown economy. This examines the risks both to downtown employment and the downtown residential community.

By almost any measure, downtown Toronto qualifies as the single most important real estate in Canada. Although downtown occupies less than three percent of the City's land area, the assessed value of real estate accounts for about 25% of all revenues from property tax.

<table>
<tr><th colspan="6">Downtown & City Employment by Economic Activity</th></tr>
<tr><th>Total Employment</th><th>6 BIAs</th><th>Rest of Downtown</th><th>Downtown</th><th>Rest of City</th><th>Total</th></tr>
<tr><td>Wealth Creation</td><td rowspan="2">238,901</td><td rowspan="2">97,194</td><td>164,430</td><td>180,058</td><td>344,488</td></tr>
<tr><td>Institutional</td><td>171,665</td><td>324,736</td><td>496,401</td></tr>
<tr><td>Service</td><td>115,447</td><td>101,291</td><td>216,738</td><td>292,510</td><td>509,248</td></tr>
<tr><td>Consumption and Distribution</td><td>19,314</td><td>12,512</td><td>31,826</td><td>187,832</td><td>219,658</td></tr>
<tr><td>Total</td><td>373,662</td><td>178,547</td><td>584,659</td><td>985,136</td><td>1,569,795</td></tr>
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Forty percent of all jobs in the City are located downtown, as well as 30% of part-time jobs. From the perspective of contribution to GDP, 40% of the City's wealth is generated in only 20% of all establishments, many of which represent the City's largest employers.

The downtown economy is well suited, at the aggregate level, to survive COVID related restrictions. This, however, can obscure the significant risk to many employees and businesses. It is equally true that the downtown economy's structure and diversified nature mean it is very well situated to not only survive but thrive. It is important to note that the challenges faced in Toronto are the same as those faced by our international competitors. Managing recovery will see changes at the individual level but the long-term prospects for Toronto remains strong.

The downtown is an urban experience destination with many diverse and fast-growing residential communities. With just over 273,000 residents, Downtown Toronto now accounts for over 9% of the City's population and has grown three times faster than the rest of the City since 2014, with downtown growth expected to be 2.25 greater than the rest of the City through 2024.

Just under two-thirds of the nearly 155,000 households downtown live in rental units. Economic pressures and the unique demographics of the downtown population combined suggest that more than one-third of these households may face economic pressures in the medium term that could lead to re-location out of the Downtown.

The reputational risk faced downtown is perhaps the most easily addressed and also the risk with the greatest potential for long-term damage. The attractiveness of the downtown is significantly related to the amenities and activities that are available. Areas such as the Bloor-Yorkville BIA, the Toronto Entertainment BIA, the Downtown Yonge BIA, the St. Lawrence Market Neighbourhood BIA and the Waterfront BIA are all "live, work, play, learn, and shop" neighbourhoods. The very activities that have made these destinations attractive, however, are now profoundly undermined by the restrictions required by COVID.

Cultural activities, hospitality and the tourism sectors are important attributes of the fabric of these neighbourhoods and critical to their reputational attractiveness. This vibrancy also feeds into the attractiveness and desirability to base corporate HQs in the Financial District BIA.

SRRA's analysis of the economic pressures confronting downtown concludes there are 10 main findings:

1.1 Impact of sustained COVID related shutdowns on GDP

Estimated GDP loss in downtown is almost half that for the City as a whole.

More than half – 56% -- of Toronto's GDP is accounted for by wealth-creating and institutional activities. These are disproportionately located downtown. Although the City's GDP in a worst-case scenario may be expected to decline by almost 20% as a result of on-going COVID-related restrictions, the vast majority of jobs in the wealth-creating and institutional sectors that are the foundation of the downtown economy are not at risk. The types of jobs in these activities are generally salaried, higher paying and more insulated from COVID restrictions than many jobs in the rest of the City.

GDP Risk	**Feb - Apr**	**Estimated Impact Annualized**	
GDP Impact	**GDP Change**	**Rest of City**	**Downtown**
Mining, Oil and Gas	-16.5%	-$149,884,655	$ -
Utilities	-2.6%	-$ 42,809,633	-$ 904,756
Construction	-25.1%	-$ 2,166,585,684	-$328,732,945
Manufacturing	-28.8%	-$ 4,394,270,253	-$103,467,731
Wholesale Trade	-23.3%	-$ 1,838,819,544	-$ 99,870,833
Retail Trade	-29.4%	-$ 1,841,865,910	-$420,951,627
Transportation & Warehousing	-32.4%	-$ 1,651,645,479	-$151,858,862
Information & Cultural	-8.2%	-$418,762,267	-$467,592,815
Finance & Insurance	-1.4%	-$117,462,390	-$330,461,150
Real Estate & Rental	-3.8%	-$777,808,140	-$396,292,218
Prof., Scientific & Technical	-12.9%	-$ 1,122,599,463	-$ 1,330,015,385
Management of companies	-12.9%	-$ 1,536,587,168	-$396,160,168
Administrative & Waste Management	-28.2%		
Education	-17.0%	-$ 1,365,907,031	-$461,485,384
Health & Social	-19.9%	-$ 1,507,262,690	-$927,027,915
Arts, Entertainment and Recreation	-58.0%	-$509,253,782	-$482,579,341
Accommodation & Food	-65.7%	-$ 1,410,123,407	-$ 1,123,751,022
Other Services	-38.6%	-$887,567,231	-$459,071,974
Public Administration	-6.2%	-$312,046,977	-$344,723,850
TOTAL (Annualized)		**-$22,051,261,706**	**-$ 7,824,947,977**
Estimated Annualized GDP Impact		-19%	-11%

1.2 K-shaped recession and recovery: 123,00 jobs at risk

Downtown Toronto perfectly represents the parameters of a K-shaped recession, which places the burden the economic downturn as well as the subsequent drawn- out recovery on the shoulders of the lowest paid workers. In a pandemic in which the ability to work remotely is a key to economic and health outcomes the result is stark.

Almost 70% of jobs in the downtown can reasonably be performed remotely on an on-going basis. Using total compensation as a proxy for economic impact it can also be seen that these jobs account for almost 80% of the economic activity generated by the downtown.

Remote Work Capacity in Downtown	Total Jobs		Total Compensation	
High	**160,846**	**28%**	**$ 15,908,416,760**	**39%**
Institutional	31,598		$ 3,446,530,517	
Service	389		$ 30,896,115	
Wealth Creation	128,859		$ 12,430,990,128	
Moderate	**232,693**	**40%**	**$ 16,321,234,072**	**40%**
Consumption and Distribution	1,852		$ 59,554,825	
Institutional	69,394		$ 3,987,704,567	
Service	154,895		$ 11,608,861,277	
Wealth Creation	6,552		$ 665,113,403	
Low	**24,551**	**4%**	**$ 1,416,278,150**	**4%**
Consumption and Distribution	6,115		$ 241,604,777	
Institutional	9,321		$ 581,763,973	
Service	2,803		$ 287,781,903	
Wealth Creation	6,312		$ 305,127,498	
No	**166,569**	**28%**	**$ 6,812,478,052**	**17%**
Consumption and Distribution	23,859		$ 633,922,063	
Institutional	61,352		$ 3,896,096,128	
Service	58,651		$ 1,391,757,258	
Wealth Creation	22,707		$ 890,702,604	
Grand Total	**584,659**		**$ 40,458,407,033**	

The problem, however, is the more than 30% of jobs rated as “Low” and “No” that cannot be performed remotely on an on-going basis. These total more than 190,000 jobs.

Almost 70,000 of these jobs are Institutional and are largely concentrated in health sciences, meaning the risk of these jobs disappearing is very low.

The balance of more than 120,000 jobs, however, are largely dependent for their survival on a return to “normal”. In total, more than 6,750 establishments – almost 43% of all establishments downtown – are at risk and these account for almost 9% of all businesses in the City.

Combined, these jobs are in activities that, prior to COVID, contributed approximately $6.0 billion to Toronto’s estimated GDP and provided more than $3.65 billion in compensation to workers involved.

Downtown Establishments at Immediate to Mid-Term Risk				
Sector	**Employment**	**Establishments**	**Compensation Paid ($)**	**Contribution to GDP ($)**
Retail	22,546	1945	608,022,633	1,268,748,941
Couriers and messengers	360	25	13,042,244	13,665,999
Repair and maintenance	746	131	33,641,400	37,762,362
Accommodation	10,612	103	382,891,658	776,717,086
Food & Drink	41,660	2,450	843,387,538	1,083,523,887
Personal and laundry services	5,214	867	113,460,000	149,505,424
Amusement, gambling and recreation industries	3,751	163	85,408,043	125,813,862
Heritage institutions	1,941	45	53,549,880	863,575,541
Performing arts, spectator sports and related industries	10,946	203	296,166,575	
Scenic and sightseeing transportation	225	5	5,480,068	315,003,475
Charitable & Volunteer	18,827	637	906,887,590	772,089,100
Motion picture and sound recording industries	6,312	178	305,127,498	627,815,286
TOTAL	**123,140**	**6,752**	**3,647,065,126**	**6,034,220,963**
Share of Downtown	21%	43%	9%	8%

1.3 Importance of Demand Suppression

Prior to the COVID-related restrictions implemented in March, 2020, more than 456,000 persons employed in the downtown area commuted daily from outside the downtown area. Along with the 273,000 regular residents of downtown, the 28 million tourists who visit each year, and the 245,000 students in regular and continuing education programs at institutions downtown, employees from outside downtown account for almost 40% of the regular base of potential daily consumers.

The necessary decision to close the border with the U.S. and a slew of additional restrictions on travel then caused a hard stop to virtually all tourism and business travel, which in normal times amounted to 28M visits annually, affecting hotels, restaurants and other businesses dependent on conventions and related activities. With tourism effectively on hold for the duration of the pandemic, 41% to 45% of the pre-pandemic baseline demand for goods and services downtown has been removed. Travel from within the City to downtown for leisure and shopping activities has also been greatly reduced.

The loss of both the physical presence in terms of foot traffic and physical spending on goods, food and drink etc. by so many tourists, students and non-resident workers underscores how critically important these customers are to the viability and character of downtown.

The result of these impacts is what economists refer to as a “demand-led recession,” where the sources of demand have been eliminated. Not only is this unfamiliar territory for governments more familiar with supply-side recessions, this COVID-inspired recession is not felt equally across different sectors of the economy.

1.4 Medium Term is Critical: Risk to 40% of Jobs & GDP

Almost $4 billion in GDP and almost 81,000 jobs have either been effectively shut down already or are poorly suited to survive the 2nd Wave extended lock down and/or a complete closing of the border. Although these activities only account for 5.5% of the downtown’s total GDP they account for more than 25% of the establishments downtown and almost 15% of all jobs.

Risk to Employment over 3 Time Periods						
Period	Employment Total		Establishments		Estimated GDP (millions)	
Short Term	80,720	14%	4,018	25%	$ 3,960	5%
Medium Term	226,585	39%	6,546	41%	$29,950	41%
Longer Term	133,519	23%	1,368	9%	$24,697	34%
Low Risk	143,835	25%	3,873	25%	$13,771	19%
Total	**584,659**		**15,805**		**72,378**	

Policy choices made by the federal and provincial governments, the U.S. and internationally will have a significant effect on medium-term economic impacts. As presently configured, government programs are sufficient to support basic consumption by individuals and provide relief for recurring expenses for a range of businesses.

These programs will provide a floor to demand and will help avoid the erosion of demand over the short-term from now through to Spring, 2021. More concerning, however, is that these supports will not be sufficient to sustain demand over the medium or even the longer term. Unlike previous recessions, the COVID recession is the result of ‘demand suppression,’ or, for some industries, ‘demand elimination.’

Particular Risk to Small Business and Non-Government Organizations

The immediate and medium-term risk is greatest to small businesses. The Canadian Federation of Independent Businesses (CFIB) reported in November 2020 that 51% of respondents to their survey noted permanent closure within 1 year was likely based on current demand and revenue drops. More than half -- 56% -- said that surviving the second wave will be a challenge.

The longer this demand reduction persist, the greater the risk. SRRA estimates more than 225,000 jobs, in addition to the nearly 81,000 now in peril, may face significant challenges over the medium term. It is this medium-term risk that is the most challenging representing almost $30 billion in GDP and more than 40% of all downtown employment.

Thirty percent of NGOs have had to lay off staff, totalling about 3,000 jobs. Some 20% report that, without specific financial supports, they will close permanently within six months.
In Toronto nearly 50% of NGOs indicate that will only be able to remain operational for one year under current conditions.

1.5 Economic Pressure on Residential Population: Younger workers in downtown, those in the ‘gig’ economy and students

There are 50,288 downtown residents who hold jobs in economic activities that can be considered to be at high risk to being impacted by COVID-related restrictions. This accounts for almost 28% of the employed downtown labour force. This does not account t for those engaged in the informal or “gig” economy.

Prior to the pandemic the Bank of Canada concluded that including this sector would increase labour force participation rates by 2-3%. In downtown Toronto this would mean 5,000 to 7,500 people but probably higher given the fact that younger workers are over-represented in the gig economy and are a larger share of the downtown population.

Some with these economically at-risk jobs, especially those with part time jobs, will also be students. SRRA estimates this number to be approximately 30,000 or 20% of all downtown households. How these people will act in a world of on-line schooling without the need to be located near classes and the elimination or severe reduction of the attractions and amenities of downtown is unknown.

These three parts of the downtown population total between 50,000 and 90,000. Allowing for overlaps among the groups it is concluded that as many as 70,000 downtown residents face economic pressures that may lead to their relocation over the medium term.

1.6 Raison d’etre for many to live downtown linked to a lifestyle snuffed out by COVID is leading to softening of condo-based rental market

COVID-driven changes to the downtown population are not just economic in nature. Many residents will have jobs in downtown jobs that are relatively insulated from COVID-related changes. For an unknown number of these residents the “choice” to leave downtown will be related not just to affordability concerns but also to perceptions of the desirability and attractiveness of downtown. Just under two-thirds of the nearly 155,000 households downtown live in rental units. At least annually, residents have the opportunity to relocate.

When assessing the risk that residents may choose to leave downtown it is important to note that Toronto’s downtown residents have a demographic profile that differs significantly from that of the rest of the city. As shown by demographic statistics, the downtown is in many respects very different from the rest of Toronto.

- Downtown residents are younger, with 42% between the ages of 20 and 34
- 43% of households are headed by someone under 35
- 65% of downtown households are either single (i.e. not married) or are living with room mates
- 63% have changed homes in a five-year period.

Taken together, these demographic realities show that the downtown population is more susceptible to change than the rest of the City. SRRA estimates this number to be approximately 30,000 downtown households.

Combined with residents facing economic pressures it is concluded that as many as 100,000 households may be at risk in the medium term. Mobility may be the underlying issue to most closely follow. TREB reports increased availability and average rents are also falling. The impact that the addition of over 45,000 condo units over the next 18 months may have on the supply and demand market for rentals is an issue to track as an indicator of the downtown’s return.

1.7 Downtown Toronto’s attractiveness as a destination for business travel, domestic and international tourism could be at long-term risk if current conditions persist

The attractiveness of the downtown is significantly related to the amenities and activities that are available. The very activities that have made downtown destinations attractive, however, are now profoundly undermined by the restrictions required by COVID. Cultural activities, hospitality and the tourism sectors are important attributes of the fabric of downtown. This vibrancy also feeds into the attractiveness and desirability to base corporate HQs in the area covered by the Financial District BIA.

An additional risk to the reputational attractiveness of the downtown is the increasing focus on pre-existing social inequities that have become more obvious and pronounced during the COVID pandemic. Some areas of downtown are reporting increases in petty crime and calls to 911. BIA managers have expressed concerns for the City’s reputation as a safe, clean place to shop, live and visit. Greater indicators of inequality and an emergent erosion of social cohesion are seen by many as people experiencing homelessness and those in precarious economic situations are more prominent.

Many observers suggest these inequities have increased and anecdotal evidence of increased substance abuse and vagrancy has added a new challenge for residents, the BIAs and their member businesses. In many respects what has always been present is now more visible as the masses of people – workers, students and tourists – who once dominated city streets day and night are now no longer present. In their absence, the most marginalized remain. Reports of greater reluctance to go downtown at night is an immediate early indicator of long-term reputational risk to the downtown.

All of these social variables add to the economic considerations faced by current and prospective residents of downtown neighbourhoods. As downtown confronts COVID it is clear that the centripetal forces that have been foundational to the area’s growth and attractiveness are profoundly compromised, while the centrifugal forces are both more apparent and growing. This combination creates a near perfect storm that challenges profoundly the short and medium-term viability of many downtown residential areas.

1.8 Manageable Risks to Government Revenues

The City's 2021 Operating Budget assumes an operating risk of $1.5 billion which includes decreased revenues and increased costs. In 2013 the Downtown accounted for 25% of the property tax assessment and this share has undoubtedly grown as downtown growth has exceeded the rest of the City.

Commercial and retail property in downtown is predominantly owned directly or through subsidiaries by large institutional investors primarily in the form of large pension funds. With stable portfolios and very long investment horizons these are in many respects the ideal owners for commercial real estate during a pandemic.

The City's revenue base is not as exposed to economic downturn as the tax base shared by the federal and provincial governments which will see declining sales tax and income tax revenues that are not subject to City taxation. The biggest revenue challenge confronting the City is transit fares which should prudently be assumed to experience a 50% reduction -- $600 million – annual challenge through the medium term.

Assuming a $7.8 billion GDP reduction the assumed annual Provincial revenue loss would be approximately $1.1 billion in foregone tax revenues from all source and the Federal loss would be approximately $1.6 billion in foregone tax revenues from all sources. This risk would increase over the medium term.

1.9 Loss of TTC revenue of more than half a billion dollars is City's principal COVID-related fiscal challenge

The massive scale of revenue shortfalls experienced by the TTC will have a detrimental impact on the City of Toronto's budget priorities for 2021, and the agency will be challenged to maintain current levels of service as a result of $660M shortfall in 2020.

Within Toronto, the subway (and to a lesser extent the surface streetcar routes) has traditionally been the main transit delivery source for downtown. Prior to the onset of the second wave of infections, total TTC ridership had returned to 35% to 40% of its pre-COVID levels. This, however, was largely been focused on surface bus routes. Subway usage remains historically depressed, a trend that will no doubt be exacerbated by restrictions on access to non-essential businesses imposed as a result of the second wave of infections.

A key contributor to the success of downtown is its walkability and access to multiple amenities made possible by a compact, dense urban fabric. This only works because transit is able to deliver the bulk of daily visitors. The return of office workers to the core is tied to re-establishing consumer and commuter confidence.

Transit in the Toronto area relies upon the fare box to an extent that far exceeds norms in other jurisdictions. The collapse in transit ridership has caused municipal transit operating budgets to crater. Prior to the pandemic, almost 117,000 commuters from the regions around Toronto used transit, mostly GO, to access Toronto, with many of these going to downtown destinations near the Union Station terminus of the GO rail service. This ridership has not yet returned. Metrolinx reports that ridership for April through September was down by 92.4%.

1.10 Restoring consumer confidence is key to resurgence of downtown

Impacts on those activities that support the larger economy (administrative, management and professional services) can be expected to assume new configurations. If the period of remote working extends for a sustained period of time it is inevitable that some changes made on a temporary basis may become permanent. Clustered in “white collar” activities, it is unlikely that job losses will be permanent but it is likely that the relocation of a portion of these away from the downtown will occur.

During the sustained lockdown in the spring of 2020, government programs provided unemployed and under-employed Canadians with sufficient support for basic consumption but were not enough to allow for discretionary spending. In addition, as restrictions were scaled back the combination of actual and perceived health risks encouraged many to avoid in-person shopping wherever possible, underscoring the importance of psychological and perceptual considerations as critical drivers of consumer confidence. Regardless of formal restrictions, these personal decisions will continue to play a determinative role for many consumers, especially when access to retail requires the use of transit which is still viewed with suspicion by many.

The persistence of physical distancing measures and border closures will continue to limit growth in the food and accommodation and entertainment industries.

2.0 Toronto’s Diversified Post-Industrial Economy is Resilient

Although an economic analysis addresses each strand of the economy separately, the reality is that downtown represents an entire cultural and socio-economic ecosystem. Calculating Toronto’s attractiveness as a destination for business travel, domestic and international tourism cannot realistically be done without viewing the amenities of downtown holistically.

With its unique blend of large-scale wealth-creating office-based and institutional employment, a growing residential population and its extensive range of cultural, entertainment and institutional assets, Downtown Toronto’s many attributes that made it prosper before COVID also mean it is well-placed to recover from the pandemic. The fundamentals remain intact but key sectors are vulnerable.

Long after COVID becomes a well managed public health matter, Toronto’s downtown will continue to be diverse, attractive to newcomers and provide the kind of concentration of opportunities in finance, health, post-secondary education, technology and culture that helped establish the City’s reputation for an enviable quality of life.

This report has outlined and sought to quantify the economic costs for the downtown created by the COVID pandemic. As detailed herein these costs are significant and the risks are especially shouldered by the lowest paid employees and small businesses. At a human level there has been and will be real pain for far too many.

It is equally true that the downtown economy’s structure and diversified nature mean it is very well situated to not only survive but thrive. It is important to note that the challenges faced in Toronto are the same as those faced by our international competitors. Managing recovery will see changes at the individual level but the long-term prospects for Toronto retail, tourism and other sectors challenged in the short term remains strong.

All of the factors that made downtown Toronto a desirable place to live and work prior to COVID will continue to be present as we manage COVID related challenges and long after COVID is either eliminated or managed as an endemic challenge within acceptable Public Health parameters.

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