



REPORT FOR ACTION

Ensuring a Robust Hotel Supply to Strengthen Tourism

Date: November 3, 2017

To: Economic Development Committee

From: General Manager, Economic Development and Culture

Wards: All

SUMMARY

A strong and vibrant tourism industry with a sufficient number of hotel rooms and meeting space is essential to the economic health of Toronto. In recent years a number of hotels have been redeveloped into residential condominiums, removing hotel supply from the market at about the same rate as new hotel properties have been coming on stream.

As a result, the number of available hotel rooms in the city of Toronto has stagnated since 2000. At the same time, room supply in the rest of the GTA has grown robustly. A number of factors contribute towards the lack of hotel room growth in Toronto, especially in the downtown area, such as high costs associated with building and operating a new hotel, better ROI for investments in alternative developments, and proliferation of short term rentals.

While the net total hotel room supply has been stagnant in the city of Toronto, tourism has been growing, which is confirmed by the hotel key performance indicators. At the same time hotel employment growth has been slower than the average for the city of Toronto.

The Meetings, Convention and Incentive Travel (MCIT) market segment is by far the most lucrative tourism-related sector. Competition among cities for major conventions is intense. The ability to attract large business events depends on a reliable supply of hotel rooms concentrated in close proximity to one another. The potential impact of a reduced hotel room capacity in certain locations such as in the downtown exacerbates existing issues related to the reduced room blocks being made available. This may affect Toronto's ability to bid for large scale events that bring in significant economic benefits for the city.

The Toronto Official Plan supports the hotel industry by providing short, medium and long term opportunities for hotels and convention space in strategic locations in Toronto and enables the industry to locate, operate, expand, evolve and adapt to its market over time.

Given the net flat growth of hotel developments in the city and the desire to grow the MCIT sector by attracting lucrative conventions and conferences, it is proposed that EDC, City Planning and other partners review the potential for the implementation of a hotel accommodation replacement policy and or strategy to protect the existing supply of hotel space in designated Mixed Use Areas and Regeneration Areas in the Official Plan.

The proposed Downtown Plan policies resulting from the TOcore Secondary Plan study are currently out for public consultation. The proposed Secondary Plan contains policies to strengthen the hotel, tourism, hospitality and convention industries by prioritizing the development of non-residential uses which include hotel facilities in an expanded Financial District and in a new Health Sciences District. Council will be considering the recommended Secondary Plan in the second quarter of 2018.

RECOMMENDATIONS

The General Manager, Economic Development and Culture recommends that:

1. City Council request the General Manager, Economic Development and Culture, and the Chief Planner and Executive Director, City Planning, and other appropriate City Divisions to review the potential for the implementation of a hotel accommodation replacement policy and or strategy to protect the existing amount of hotel space in areas designated Mixed Use Areas and Regeneration Areas in the Official Plan.

FINANCIAL IMPACT

There is no financial impact arising from the adoption of this report. All staff hours required to work with other divisions can be accommodated within the existing divisional resources.

The Acting Chief Financial Officer has reviewed this report and agrees with the financial impact information.

DECISION HISTORY

At its meeting of November 28, 2016, the Economic Development Committee directed that the General Manager, Economic Development and Culture, in consultation with the Chief Planner and Executive Director, City Planning provide a report on:

- a. an analysis of Toronto's current hotel and motel capacity in relation to the annual tourism performance and Meetings, Convention and Incentive Travel rates;
- b. the potential impacts that hotel redevelopment projects and a resulting reduction in hotel rooms could have on Toronto's tourism, hospitality and convention industries;

c. a summary of hotel redevelopment projects that are under review, in development and/or completed within the last ten years;

d. recommendations including potential planning tools to strengthen Toronto's hotel, tourism, hospitality, and convention industries; and

e. consultation with trade unions, the Greater Toronto Hotel Association, Tourism Toronto, Invest Toronto, and related stakeholders in order to report to the Economic Development Committee in the third quarter of 2017.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.ED16.12>

COMMENTS

As Toronto continues to grow, there have been a number of planning applications that propose to redevelop hotel sites into residential condominiums, removing hotel supply from the market. For example, a recent proposal would reduce the number of hotel rooms at the Courtyard by Marriott near Yonge and College from 575 to 97 hotel rooms. The Chelsea Hotel redevelopment proposal near Yonge and Gerrard retains about 20% of the 1,590 hotel rooms that currently exist on the site.¹

Toronto hosts almost 40 million visitors annually who spend over \$9 billion in the region. More than 13 million of those visitors stay overnight and spend on average four nights in Toronto. Annually, tourists spend more than \$1.6 billion on commercial accommodation.² A strong and vibrant tourism industry with a sufficient number of hotel rooms and meeting space is essential to the economic health of Toronto.

According to a presentation to the City's Economic Development Committee by CBRE Hotels on behalf of the Greater Toronto Hotel Association in November 2016, the Greater Toronto Area (GTA³) hotel sector generates more than \$2.1 billion to the regional GDP annually, over 26,000 jobs, and almost \$1.4 billion in labour income. Total taxes associated with hotel operations reached \$1.2 billion, including \$202 million in municipal taxes that accrue to Toronto and other regional municipalities.

The Meetings, Convention and Incentive Travel (MCIT) market represents an important component of Toronto's tourist and business sectors. An MPI Foundation study showed that the MCIT sector generates almost \$3.1 billion to the regional GDP annually, supports almost 40,000 full time jobs in Toronto and another 17,000 jobs across Canada. Business event activity in Toronto contributed more than \$1.2 billion in taxes at the three levels of government.⁴

¹ This application has been appealed to the Ontario Municipal Board by the applicant and the first prehearing conference was held on September 18, 2017

² Ontario Ministry of Tourism, Culture and Sport. 2014. Note: Refers to Toronto CMA

³ Greater Toronto Area (GTA) refers to the City of Toronto plus the surrounding regions of Durham, York, Peel and Halton which include 24 municipalities: Ajax, Aurora, Brampton, Brock, Burlington, Caledon, Clarington, East Gwillimbury, Georgina, Halton Hills, King Township, Markham, Milton, Mississauga, Newmarket, Oakville, Oshawa, Pickering, Richmond Hill, Scugog, Uxbridge, Whitby, Whitchurch, Stouffville and Vaughan.

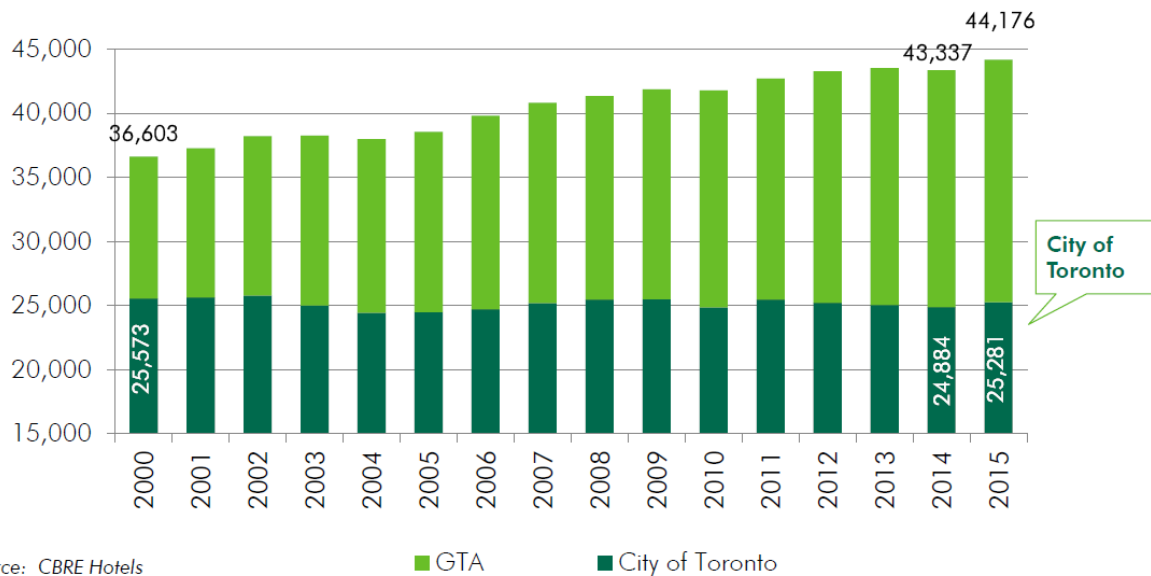
⁴ MPI Foundation Canada. The Economic Contribution of Business Events in Canada. 2014

Hotels Supply Changes

According to CBRE, the number of available hotel rooms in the city of Toronto has stagnated since 2000. In fact, in 2015 (25,281 rooms) there were almost 300 fewer rooms than in 2000 (25,573).⁵ At the same time, room supply in the rest of GTA has grown from 11,030 in 2000 to 18,895 in 2015 (see Figure 1).

Figure 1: Historic Growth in Hotels Rooms Supply

Total GTA Hotel Rooms



Source: CBRE Hotels

City staff analysed the hotel room supply changes in the city of Toronto for the period of January 2007 to December 2016. There was a net gain of 423 rooms: 2,472 rooms were closed and 2,895 were opened.⁶ According to CBRE there were 25,281 rooms in 2015, hence the 423 room increase represents 1.7% of total supply. The difference of 423 rooms is the size of a medium hotel.

Tom Griffin, Assistant Professor at Ryerson University, analysed data provided by Smith Travel Research (STR) and observed similar trends.⁷ While STR areas are not aligned with municipal boundaries (see Graph 1), the data show that for the period of December 2001 to December 2016 rooms supply in the Airport/West and the North/East areas grew robustly by 13.9% and 12.0% respectively; while the Downtown area's room supply increased by only 3.9% over the period.

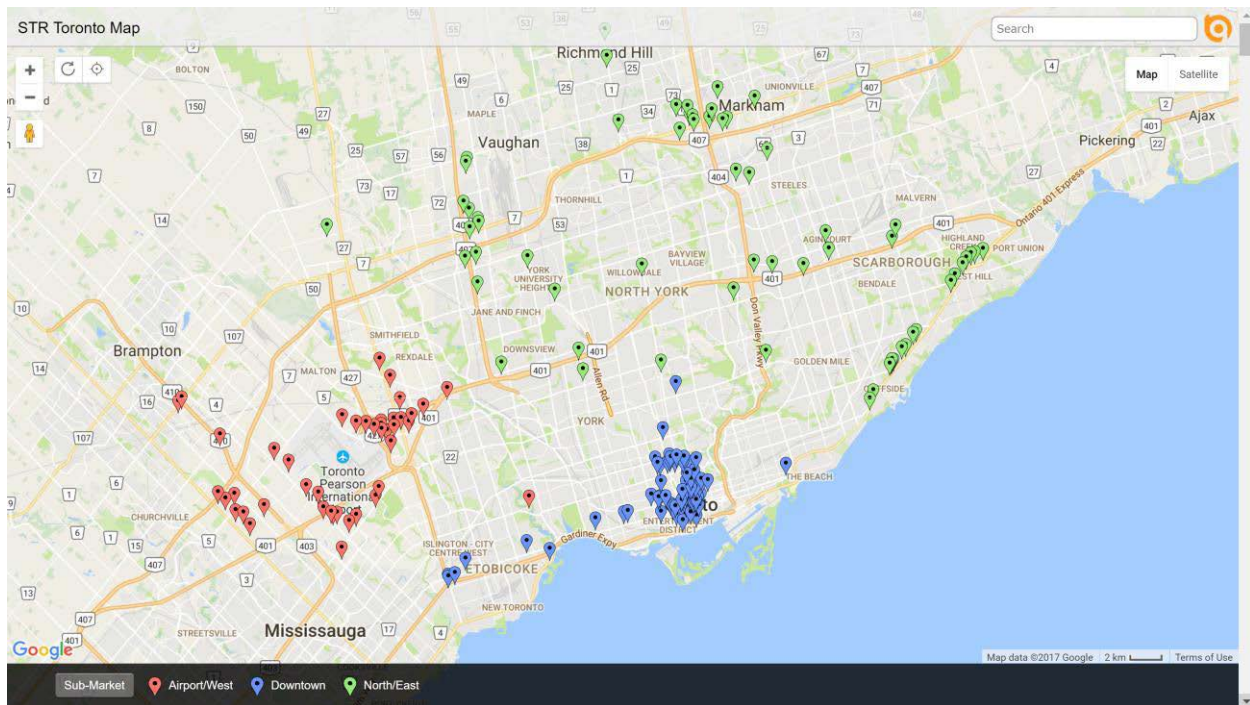
In summary, the analysis shows that on the one hand, hotel room supply has been flat in the downtown area over the past decade, while on the other hand, there has been a healthy increase in hotel rooms especially in close proximity to Pearson Airport.

⁵ <http://www.toronto.ca/legdocs/mmis/2016/ed/bgnd/backgroundfile-98820.pdf>

⁶ Note: pertains to hotels with 40 hotel rooms or more

⁷ Tom Griffin. Ryerson University. "Changes to hotels in Toronto, with a focus on impacts for the Business Events Industry." 2017

Graph 1: Hotels Distribution across Toronto Region



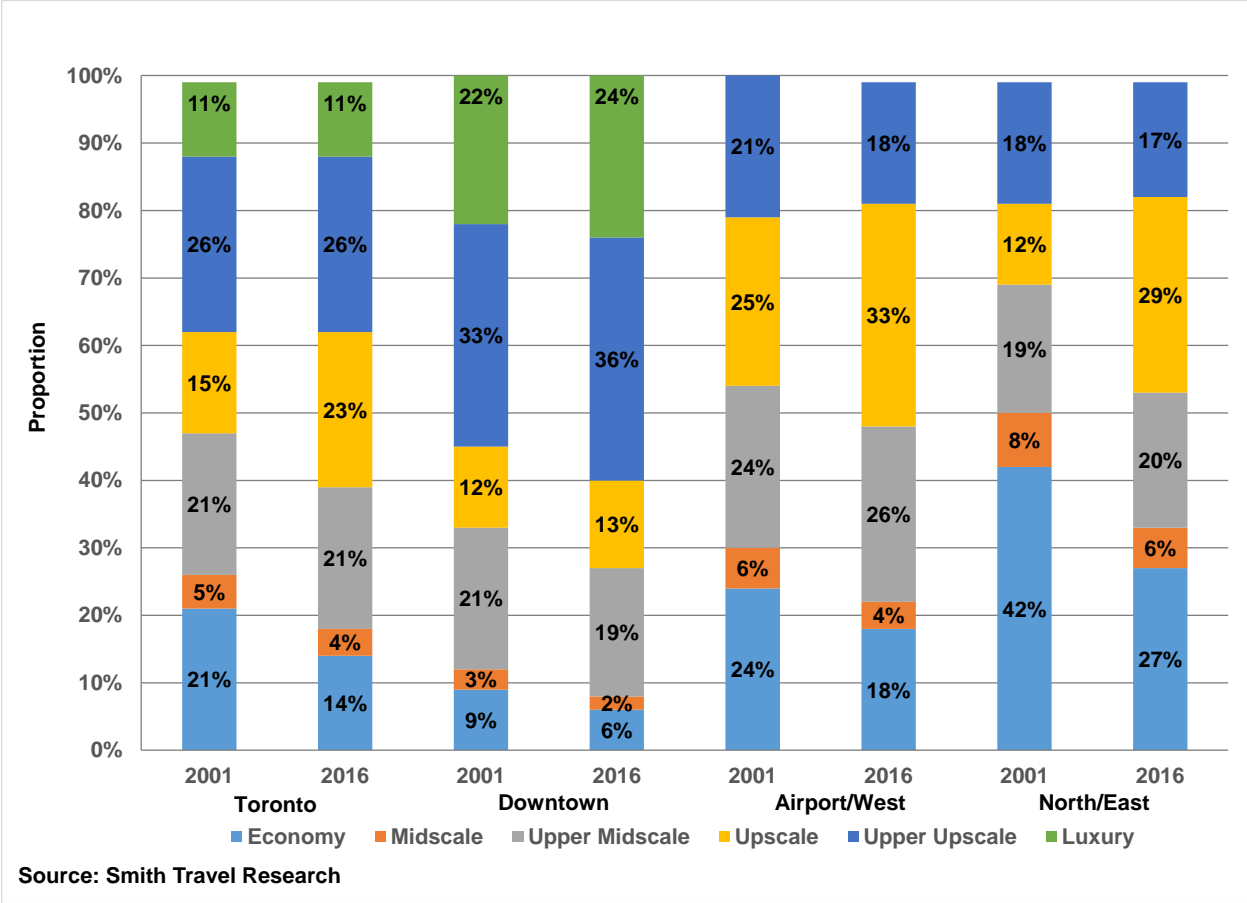
Toronto Hotel Rooms Changes by Class

STR offers a further breakdown of hotels by 'Market Class' based on brand, categorised into one of the following groups: Economy, Midscale, Upper Midscale, Upscale, Upper Upscale, and Luxury.⁸

In the Downtown, the proportion of hotel rooms in the top three market classes (Upscale, Upper Upscale, and Luxury) rose from 67% in December 2001 to 73% in December 2016. All regions across Toronto saw a decline in Economy and Mid-range hotel rooms, but Downtown Toronto saw one of the biggest decreases in Economy and Mid-scale hotel rooms (see Figure 2).

⁸ For a full explanation of which brands are in which category view the 'STR Chain Scale' document available here www.str.com/resources/documents.

Figure 2: Toronto Hotels Rooms Changes by Class



In summary, there is a continuing trend towards an increased stock in higher end hotels, and decline in mid-price hotels. Toronto is undergoing a restructuring of its hotel industry where affordable midscale hotels are becoming increasingly rare downtown.

Factors Affecting Hotel Room Supply Changes

There are a number of factors affecting the lack of hotel room growth in Toronto, especially in the downtown area. One such factor, the hotel industry argues, is that costs associated with building and operating a new hotel are high in Toronto, and that the return on investment for many developers is higher when building residential condominiums than when building hotels.

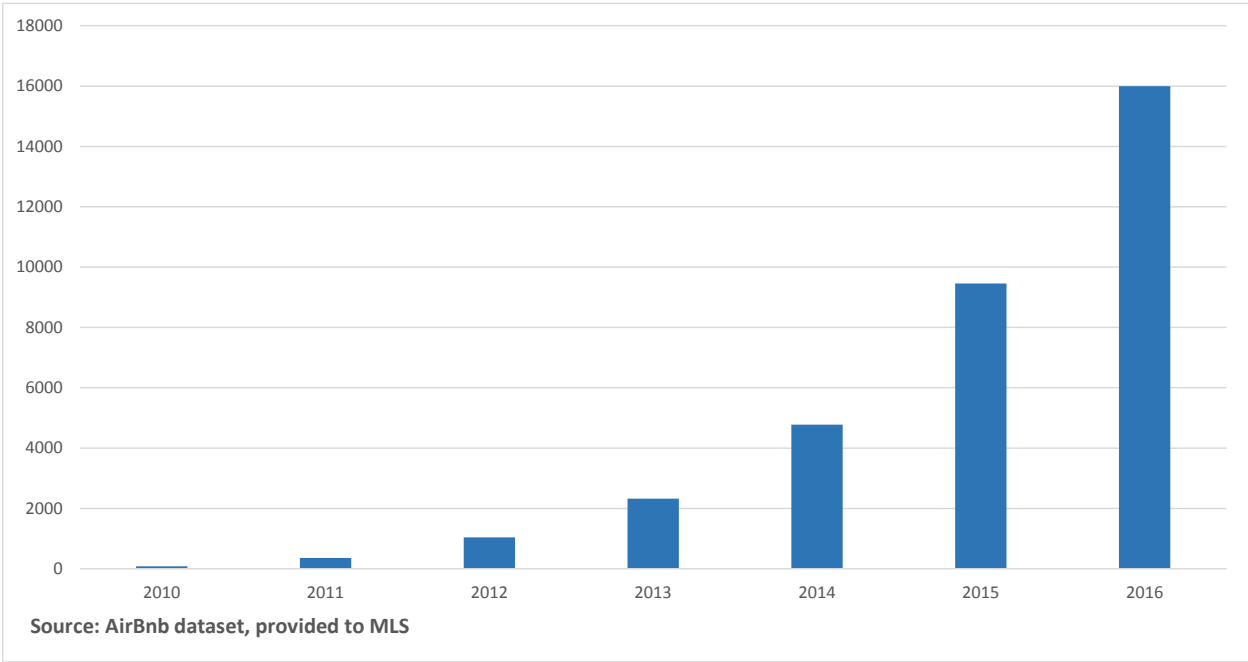
It is also much easier to finance residential condominium developments, since most of the condominium units are presold well before construction begins. In contrast, hotel developers have to raise capital and make significant investments upfront with no prospect of realizing return on investments for a few years.

Another factor that may be affecting hotel supply is the increase in short term rentals that have grown exponentially since 2010 (see Figure 3). A Morgan Stanley Research study of over 4,000 consumers across the US, UK, France, and Germany concluded

that "Airbnb demand is increasingly coming at the expense of traditional hotels as our survey shows 49% of Airbnb users are substituting away from traditional hotels".⁹

On June 19, 2017, the Executive Committee adopted [EX26.3 Proposed Regulations for Short-term Rentals for Consultation](#). City staff have consulted on proposed regulations and are reporting to Planning and Growth Committee and Licensing and Standards Committee in November on rules around zoning and a licensing and registration regime for short-term rentals. One of the findings of the report revealed that "ten neighbourhoods with the most listings were all downtown and represented half of all listings (53%) rented in 2016".

Figure 3: City of Toronto Airbnb Rental Listings Growth 2010-2016

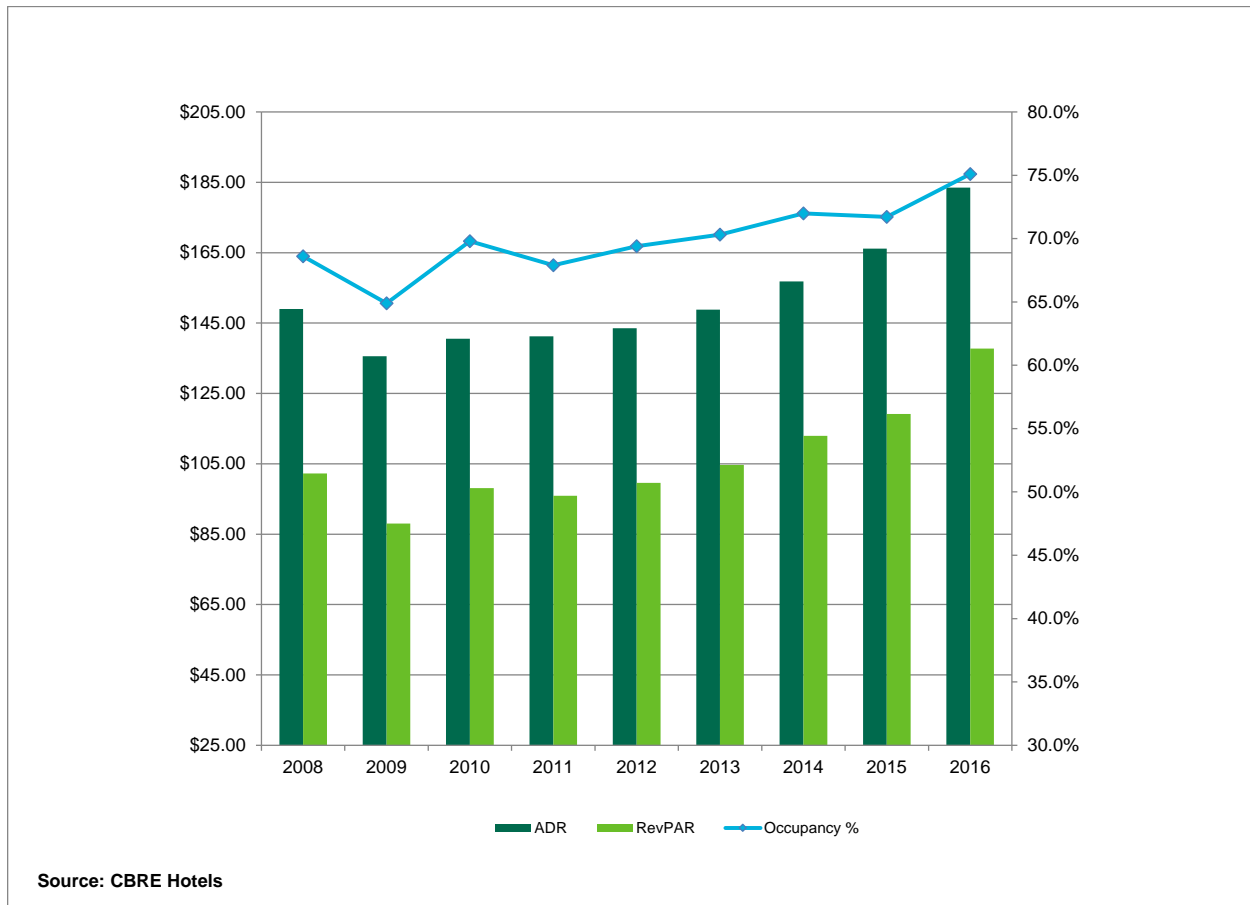


City of Toronto Hotel Performance

While hotel room supply has been stagnant in the city of Toronto, tourism has been growing, which is confirmed by the hotel key performance indicators. Hotel occupancy, Average Daily Rate (ADR), and Revenue per Available Room (RevPAR) in the city of Toronto have improved markedly and consistently over the past few years. Hotel occupancy increased from 68.6% in 2008 to 75.1% in 2016. ADR and RevPAR also improved from \$149.03 and \$102.23 in 2008 to \$183.52 and \$137.75 respectively in 2016.¹⁰ (see Figure 4)

⁹ Morgan Stanley Research, 2016. Who Will Airbnb Hurt More-Hotels or OTAs?...One Year Later.
¹⁰ Source: CBRE Hotels' Trends Database

Figure 4: City of Toronto Hotels Performance Indicators



Employment in Accommodation

Employment in the accommodation sector has been stable over the past four years. Employment has improved from the lows of 11,696 employed in 2005 to 13,501 employed in 2016.¹¹ However, accommodation employment is still way below the highs in 2000 (see Figure 5). The reason for the dip post 2000 include 9/11 and the associated travel restrictions, the 2001 recession, and the SARS crisis in Toronto in 2003.

Over the past decade employment in the sector has grown by only 4.8% across the city. In comparison, overall city of Toronto employment grew by 12% between 2007 and 2016, and the Service sector growth was even more pronounced (16%).¹²

One reason for the soft rebound includes that after these three events the accommodation sector went through significant reorganization where it restructured its operations, which has led to increased productivity. Another reason is the on-going automation of the economy. For example, many jobs in the reservations departments got eliminated as consumers do their reservations over the internet.

¹¹ Toronto Employment Survey

¹² ibid

Another reason for the lack of recent employment growth in the sector is related to the fact that rooms supply has not grown in the city of Toronto (see Figure 1), which suppresses demand for labour.

Figure 5: City of Toronto Employment in Accommodation



Characteristics of Hotel Workers

An important characteristic of the accommodation sector is its ability to provide employment to important groups. For example:

- About two-thirds in the accommodation labour force are immigrants – significantly higher proportion compared to the average for the Toronto CMA
- About 60% of the people employed in the sector are visible minorities
- About 70% of the hotels labour force has a non-university certificate or diploma or lower level of education
- The majority (54%) of the people employed in the sector are women¹³
- Almost half (46.8%) of hotel employees are unionized, which is more than double the rate of overall unionization within the city of Toronto (22.5%)¹⁴. At the same

¹³ Tourism HR Canada. Demographic Characteristics of Toronto CMA Tourism Sector Employees. Based on Census 2011 special run.

¹⁴ Labour Force Survey. 2016.

time employers pay higher than the living wage, and provide health and pension benefits to its employees.

Meetings, Convention and Incentive Travel (MCIT)

The MCIT market segment is by far the most lucrative and highly competitive tourism-related sector. MCIT visitors spend on average \$576 per trip, which is double compared to the average visitors' spending in Toronto.¹⁵ An MPI Foundation study, showed that Toronto Region hosts over 71,000 business events annually, which attract over 5.7 million participants.^{16 17}

The MPI study analysed the economic contribution of business event activity at a metropolitan level and concluded that in Canada, Toronto CMA host the most business events, account for the largest number of participants, and the greatest spending - \$5.2 billion annually. The Toronto MCIT sector generates almost \$3.1 billion to the regional GDP annually, supports almost 40,000 full time jobs in Toronto and another 17,000 jobs across Canada. Business event activity in Toronto contributed more than \$1.2 billion in taxes at the three levels of government.

The city of Toronto currently has three major convention centre facilities: Enercare Centre and Beanfield Centre, Metro Toronto Convention Centre and Toronto Congress Centre. There are also over 30 hotels with meeting space inventory exceeding 1.2 million square feet. The potential reduction of hotel room supply may also lead to less available meeting rooms. For example, the Chelsea Hotel currently offers 23 meeting spaces ranging in size from 378 sq. ft. to 5,200 sq. ft.

Relationship between Hotels and MCIT

Competition among cities for major conventions is intense. The ability to attract large business events depends on a reliable supply of hotel rooms concentrated in close proximity to one another. This is confirmed by an HLT Advisory study conducted on behalf of Ontario Ministry of Tourism, Culture and Sport, which revealed that according to event producers, three of the five key factors used when selecting a host city for their event are hotel related:

- Hotel room price/quality
- Number of hotel rooms, capacity
- Hotel block attrition clauses and issues.¹⁸

As part of our consultation process, City staff collaborated with Tom Griffin, Ryerson University, to conduct in-depth interviews with Toronto MCIT professionals.¹⁹

¹⁵ Ontario Ministry of Tourism, Culture and Sport. 2014

¹⁶ MPI Foundation Canada. The Economic Contribution of Business Events in Canada. 2014

¹⁷ Business events include conventions, conferences, congresses, trade shows and exhibitions, incentive events, corporate business meetings, and other gatherings that meet the previously specified criteria. The event is at least four hours in length with at least ten participants.

¹⁸ HLT Advisory. Ontario Convention Market Analysis. 2008

¹⁹ Tom Griffin. Ryerson University. "Changes to hotels in Toronto, with a focus on impacts for the Business Events Industry." 2017

Some of the key insights from these sessions are described below:

- Hotels and venues have a symbiotic relationship so much so that they may bid together on business from which both partners would benefit. From time to time venues and hotels are also competitors, specifically the larger hotel properties that can house mid-sized meetings.
- The competition for business events has increased over the last several years. Hundreds of cities across North America and the globe are bidding for the same business events as Toronto. Many cities in North America have invested heavily in their meetings related infrastructure, hence many cities smaller than Toronto are now serious competitors (such as Halifax, Nova Scotia and Charlottetown, Prince Edward Island). Also, the convention centres that competitive destinations are investing in, are usually complemented by an increase in hotel rooms' supply.
- Typically, a venue and (more than one) hotel will partner, along with Tourism Toronto, to make a bid for a business event. Hotels reserve a number of rooms for the event at a set price, referred to as a 'room block'. For a number of reasons (below) hotels are generally making fewer rooms available for convention 'room blocks'.
- One of the main reasons why hotels are offering smaller 'room blocks' is because hotels are doing well with other types of business, as confirmed by the performance indicators (see Figure 4). Robust hotel demand coupled with limited growth in room supply disincentivises hotel operators to sell 'room blocks' to MCIT business especially given the fact that 'room blocks' usually sell at a discount to what an individual traveller would pay.
- The smaller the room block that a hotel offers for a convention bid means one event may need more hotels. The more hotels involved in a single bid the more complicated, and ultimately less appealing the bid becomes for a meeting planner. All else being equal, this makes Toronto less competitive as an MCIT destination.
- There have been few new hotels built in Downtown Toronto that are considered properties that would traditionally cater to business events. Most of the new hotels that have arrived have generally been smaller in size and offer a higher luxury product. The addition of the luxury properties in Toronto offers both the leisure and convention industry greater accommodation choice. However, the bulk of the MCIT clients are interested in staying in mid-range hotels.
- The potential impact of a reduced hotel room capacity for the city exacerbates existing issues related to the reduced room blocks being made available. Interviewees were all concerned about the ability for Toronto to bid for large scale events that use thousands of rooms and multiple hotels, and bring in significant economic impact for the city.

- In regards to the Chelsea Hotel, interviewees were concerned that reducing inventory by 1,000 rooms in the city will create further compression for the convention groups.

City Planning Framework and Support of the Hotel Industry

Toronto's Official Plan is Council's legislative policy framework that sets out the City's long term vision for where and how Toronto will grow and directs growth within its' urban structure. The Plan's policies guide development and city initiatives with respect to but not limited to land use, transit, housing, built form, and the environment. The Plan's strategy to manage change is set out in eight land use designations.

The Plan supports the hotel industry by providing opportunities for hotels and convention space in strategic locations and enables the industry to locate, operate, expand, evolve and adapt to its market over time. Hotels are permitted by the Plan in three land use designations that are targeted for significant growth by the growth management strategy: *Mixed Use Areas*, *Regeneration Areas* and *Employment Areas*.²⁰ These designations apply to lands across Toronto by the Land Use Plan shown at the following link:

[Land Use Plan, Maps 13-23](#)

Hotels are also permitted in several comprehensive 'brownfield' redevelopment areas by Site and Area Specific Policies ("SASP") for the Woodbine Racetrack, the Unilever Precinct (subject to appeal at the Ontario Municipal Board) and the 22 Metropolitan Road areas, shown respectively at the following links:

[Chapter 7 - Site & Area Specific Policies](#) (see SASP 296)

[Chapter 7 - Site & Area Specific Policies, OPA 231](#) (see SASP 426, page 68)

[Chapter 7 - Site & Area Specific Policies, OPA 231](#) (see SASP 458, page 83)

City Zoning By-law 569-2013 implements the Official Plan and provides performance standards that apply to the development of sites regarding matters such as density, building height and building setbacks. Hotels are a permitted use in the zoning by-law in those zones that have been applied to lands designated by the Official Plan to permit hotels, the *Mixed Use Areas*, *Regeneration Areas* and *Employment Areas*.

²⁰ Council adopted Official Plan Amendment No. 231 in 2013 to establish 2 new *Employment Areas* designations, *General Employment Areas* and *Core Employment Areas*, which replace the *Employment Areas* designation. These designations both permit hotels; however, part of OPA 231 remain under appeal at the Ontario Municipal Board. While the OMB did bring into force these 2 new designations in 2016, the hotel use permissions are still subject to appeal and are therefore not in force. At this time, the hotel permission in the *Employment Areas* designation remains in force.

Ten Year Summary of Hotel-Related Development Activity and Planning Projects

As requested by the Committee in November 2016, City Planning staff have summarized hotel-related development activity and planning projects under review, approved and/or completed within the last ten years. There were 65 hotel-related projects involving planning applications and/or building permits that were under review, approved and/or constructed during the ten year period that ended on December 31, 2016. The hotel-related projects have been summarized under seven different types of projects (see Attachment A).

The projects differ in size and have varying impacts on Toronto's overall hotel room supply. As stated previously, the collective impact of built projects during the past ten years on the city-wide supply of hotel rooms resulted in a net gain of 423 hotel rooms.

Projects that Expand Hotel Space

There are three types of hotel projects (I, II and III on Attachment A) where new hotel facilities were proposed or built during the ten year period, including new stand-alone hotels, hotel additions and new hotels in mixed use buildings that also include residential units. These projects that expand hotel space represented nearly two-thirds of all hotel-related projects (40 of 65).

Projects that Reduce Hotel Space

There are three types of hotel projects (IV, V and VI on Attachment A) where existing hotel space was proposed to be reduced partially or fully in order to permit residential uses, or to convert hotel space to another non-residential use. Projects that reduce hotel space represented approximately one-third of all hotel-related projects (22 of 65).

Projects that Maintain Hotel Space

There is a seventh type of hotel project (VII on Attachment A) where hotel sites were proposed to be redeveloped to add residential uses and no change was proposed to the amount of existing hotel space. This type of project was not prevalent during the ten year period and represented under 5% of all hotel-related projects (3 of 65).

Hotel-Related Project Trends

Over the last ten years, projects involving new hotels and hotel additions have largely been focused near Toronto Pearson International Airport and Downtown. New hotel projects in the Downtown often were in a mixed use building form that include residential uses. Projects that expand hotel space represented the majority of hotel-related projects submitted to the City during this period.

Projects that reduce existing hotel space were mostly located in the following areas:

- Downtown;
- The Motel Strip Secondary Plan area in Etobicoke where Council's Official Plan vision is to introduce a mixed use residential community in the context of a strip of small, older motels;

- Older motel sites along Kingston Road in Scarborough;

Three-quarters of all hotel-related projects in the development pipeline during the last ten years (74% or 48 of 65) were either built, under construction or had received approvals to begin construction. At the end of the ten year period, 43% or 28 of all 65 projects had been constructed. Provided the developers of the remaining 20 projects with approvals decide to implement their projects in the short term, three-quarters of the hotel-related projects during this period are likely to be completed over the next two to four years.

During the ten year period, the remaining 26% of all pipeline projects were under review and had not been approved (17 of 65). Should these proposals be approved in their original form and should developers then begin constructing the projects soon after, most of the pipeline projects could be completed in the short to medium term or in three to five years.²¹

The 37 pending hotel-related projects that had not been constructed during the last ten years represent a mix of the project types described above. Most of these projects (23) propose to expand or retain hotel space. While some applicants provide specific information regarding the number of hotel rooms proposed to be either constructed or removed by their projects, this information is not always known or available to the City when planning applications are submitted. Based on available information and further research, City staff analysed these pending projects with respect to the cumulative impact of proposals on Toronto's supply of hotel rooms over the short to medium term and estimate growth in hotel rooms is likely to be flat and similar to the last ten year period.

Potential Tools to Strengthen the Hotel, Tourism, Hospitality and Convention Industries

The Economic Development Committee requested that staff's analysis of hotel capacity and hotel-related development projects also include recommendations, including potential planning tools to strengthen Toronto's hotel, tourism, hospitality and convention industries.

In terms of potential planning tools to help strengthen Toronto's hotel, tourism, hospitality and convention industries , it is noted that hotel-related development projects that propose reducing existing hotel space in the last ten years were primarily focused on sites located in the Downtown and involved introducing residential uses through increased residential density.

City Planning staff are currently undertaking the comprehensive TOcore Study that began in 2014. The Study has resulted in the development of a proposed Downtown Plan to serve as the planning blueprint for the future growth and infrastructure for the Downtown for the next 25 years. The proposed plan recognizes that achieving a

²¹ Applications may or may not be approved. Proposals may also be revised before being approved or refused. Once an application is approved, a developer may opt to delay constructing a project or cancel a project. Some larger projects include hotel space in later phases and development of these components is likely to occur over the medium to long term rather than the short to medium term.

balance between residential and employment growth is essential to a prosperous economic future for Toronto. The proposed Plan prioritizes non-residential uses in certain areas of the Downtown. Hotels are non-residential uses.

On September 7, 2017 the Planning and Growth Management Committee adopted with amendments, the Chief Planner's report [PG22.1 TOcore: Proposed Downtown Plan](#) that sets out proposed Official Plan policies for Downtown, and seeks feedback on the proposed policies. Staff are to report back on the recommended Official Plan Amendment in early 2018.

As part of the focus on sustaining a robust Downtown economy, the proposed Downtown Plan policies are tools to strengthen the hotel, tourism, hospitality and convention industries. Some proposed policies provide guidance in specific areas of Downtown that promote development of non-residential uses including hotel facilities and also limit increased residential density within zoning. Most hotel projects in the last ten years that reduced hotel space also involved increased residential density.

Within the Financial District, proposed policies would protect for opportunities to expand non-residential uses to support economic competitiveness by only permitting increased density in the zoning by-law to be used for non-residential purposes. Within an area focused on segments of Bay and Bloor Streets, proposed policies require development to provide a net gain of office space and non-residential gross floor area. Within the King-Spadina and the King-Parliament Secondary Plan areas, proposed policies require development to replace all existing non-residential gross floor area, dedicate 50% of gross floor area above any increased density to non-residential uses and also include uses that complement and enhance the creative and cultural sector. Finally, within an area centred on a segment of University Avenue, proposed policies would require increased density in the zoning by-law to be used only for non-residential purposes.

Given the flat growth of hotel developments in the city and the desire to grow the MCIT sector by attracting lucrative conventions and conferences, it is also proposed that EDC, City Planning and other partners review the potential for the implementation of a hotel accommodation replacement policy and or strategy to protect the existing supply of hotel space in areas designated Mixed Use Areas and Regeneration Areas in the Official Plan.

Industry Consultations

In preparing this report, industry consultations were held with representatives from City Planning, Municipal Licensing & Standards, Greater Toronto Hotel Association (GTHA), Unite Here 75, Ryerson University, and meeting planners' professionals, and their feedback has been incorporated into this report.

Potential Impact of Hotel Tax and Short Term Rentals Regulations

On December 13, 2016, City Council adopted [EX20.2 The City of Toronto's Immediate and Longer-term Revenue Strategy Direction](#) requesting that the Province make legislative and/or regulatory reforms to grant the City authority to collect a hotel and

short-term rental tax. Upon legislative changes from the Province, City Council endorsed the implementation of the hotel and short-term rental tax

Following the SARS crisis in 2003, the Province allowed local tourism promotion agencies to collect from their hotel members, on a voluntary basis, a contribution to a collective fund used for international marketing of the city/region equal to 3% of the hotel charges. This was called a Destination Marketing Program (DMP) and in Toronto is collected by the GTHA.

Currently, the City is in the process of implementing a 4% hotel tax that will likely replace the existing DMP. The marginal increase in additional hotel levy from 3% to the 4% hotel tax is not expected to have a material effect on Toronto's attractiveness as a tourist destination, although it will possibly have some impact on the MCIT business.

Municipal Licensing and Standards and City Planning have reported on regulations that will affect short-term rentals. On November 15, 2017, Planning and Growth Management Committee will discuss zoning bylaw changes to permit short-term rentals across the city and in secondary suites. On November 16, 2017, Licensing and Standards Committee will discuss proposed licensing and registration regulations for short-term rentals. The zoning changes permit short-term rental activity as a land use, and the licensing and registration process provides City oversight of the activity.

These regulations are intended to: allow people to rent their homes for short periods; minimize negative impacts on housing affordability and availability; enable greater diversity in tourism accommodations; maintain community stability, including in vertical communities; minimize nuisances; and provide fair and easy to understand rules.

The effect of these regulations is expected to eliminate short-term rentals not occurring in principal residences. While it is not the intended consequence of the proposed regulations, EDC staff expect that this may have the impact of increasing demand for commercial accommodation, such as hotels and motels. Higher demand for commercial accommodation will boost operators' profit margins, which in the medium to long term may induce additional investments in hotel developments.

The proposed restrictions on residential development in the Downtown, outlined by the TOcore report, may also have a positive impact on the hotel industry, since it will deter hotel redevelopment into residential uses, and make hotel investment more attractive.

Conclusion

While hotel room supply has been stagnant in the city of Toronto, tourism has been growing, confirmed by the hotel key performance indicators, which have improved markedly and consistently over the past few years. On the one hand, hotel room supply has been flat in the downtown area over the past decade, while on the other hand, there has been a healthy increase in hotel rooms especially in close proximity to Pearson Airport.

There is a continuing trend towards an increased stock in higher end hotels, and decline in mid-price hotels. Toronto is undergoing a restructuring of its hotel industry where affordable midscale hotels are becoming increasingly rare downtown.

Competition among cities for major conventions is intense. The ability to attract large business events depends on a reliable supply of hotel rooms concentrated in close proximity to one another. Many cities in North America have invested heavily in their meetings related infrastructure.

There have been few new hotels built in Downtown Toronto that are considered properties that would traditionally cater to business events. Most of the recent hotel developments have generally been smaller in size and offer a higher luxury product. Robust hotel demand coupled with limited growth in room supply disincentives hotel operators to sell 'room blocks' to MCIT business especially given the fact that 'room blocks' usually sell at a discount to what an individual traveller would pay.

City staff analysed pending hotel projects with respect to the cumulative impact of proposals on Toronto's supply of hotel rooms over the short to medium term period and estimate growth in hotel rooms is likely to be flat and similar to the last ten year period. City Planning staff are currently undertaking the comprehensive TOcore Study, which includes a focus on sustaining a robust Downtown economy. Some proposed policies provide guidance in specific areas of Downtown that promote development of non-residential uses including hotel facilities and also limit increased residential density. Staff will review the potential for the implementation of a hotel accommodation replacement policy and or strategy to protect the existing supply of hotel space in areas designated Mixed Use Areas and Regeneration Areas in the Official Plan.

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SIGNATURE

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Economic Development and Culture

ATTACHMENTS

Attachment A: Hotel-Related Development Activity and Planning Projects: Ten Year Summary (2007 to 2016 inclusive)

ATTACHMENT A

Hotel-Related Development Activity and Planning Projects: Ten Year Summary (2007 to 2016 Inclusive)

Type of Project	Number of Projects			Total	
	Status				
	Built	Approved or Under Construction	Under review		
• Projects That Expand Hotel Space					
I.	New Stand-alone Hotel: <i>new building or change of use</i>	11	7	2	20
II.	New Hotel in Mixed Building: <i>hotel & residential uses</i>	9	3	6	18
III.	Hotel Addition		2		<u>2</u>
	<i>Total of Expanding Types</i>	20	12	8	40
• Projects That Reduce Hotel Space					
IV.	Redevelop Hotel Site: <i>retain part of hotel & add residential use</i>		1	3	4
V.	Redevelop Hotel Site: <i>add residential use & remove hotel</i>	5	6	4	15
VI.	Redevelop Hotel Site: <i>convert hotel to other non-residential use</i>	3			<u>3</u>
	<i>Total of Reducing Types</i>	8	7	7	22
• Projects That Maintain Hotel Space					
VII.	Redevelop Hotel Site: <i>retain hotel & add residential use</i>		1	2	3
	TOTAL	28	20	17	65

Notes

Planning applications include: Official Plan Amendment, Zoning By-Law Amendment, Minor Variance, Plan of Condominium and Site Plan Control. Type 6 projects required only building permits since as-of-right permissions existed for the other non-residential use.

'Status' indicates the final project status during the 10 year time period where:

Built means an occupancy permit was approved by the City;

Approved or Under Construction means planning applications were approved by the City, Committee of Adjustment or Ontario Municipal Board (OMB) and are in force; a building permit was applied for or approved; or the applicant had commenced constructing the project; and

Under Review means planning applications had either not yet been approved by the City or Committee of Adjustment, or had been either approved or refused and were subject to an OMB appeal that was ongoing.