



## STAFF REPORT ACTION REQUIRED

### Tech Sector, Space and Expansion (Collaborating for Competitiveness, Implementation Action 4b)

<b>Date:</b>	March 31, 2014
<b>To:</b>	Economic Development and Culture
<b>From:</b>	General Manager, Economic Development & Culture
<b>Wards:</b>	All
<b>Reference Number:</b>	

#### SUMMARY

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*Collaborating for Competitiveness*, the City's economic growth and job creation strategy, includes Recommendation B.1 to ensure sufficient land is available to accommodate commercial and industrial employment growth; and Recommendation C.1 to help small and medium size enterprises form and prosper. This report addresses these recommendations in relation to the need for affordable space to support the growth of Toronto's Tech sector.

Toronto's Technology (Tech) Sector is a key strategic sector that is both a major employer in its own right and an essential enabler and economic driver of virtually all other sectors of Toronto's economy, including financial services, life science, renewable energy, film & television, digital media and advanced manufacturing.

The Tech sector includes hardware (e.g. manufacturing of computers, peripherals, devices, etc.), software (developing programs, applications, games, etc.) and service industries (maintenance, capture, storage, transmission, and display of electronic data and information).

There is a high and rapidly growing global demand for technology which is fueling new firm formation and job creation and is a driving force behind Toronto's vibrant and burgeoning Tech sector. This demand shows no signs of diminishing and Toronto based start-ups and emerging firms are poised for growth.

A key factor in the success of the Toronto region as a centre of excellence for technology is the complete Tech sector ecosystem that exists within the city that attracts large global companies and supports start-ups and emerging firms. Expanding the Tech sector ecosystem within Toronto to facilitate and accommodate the rapid growth is also critical to strengthening and growing other key economic sectors within the city. If the city and region, which have created the environment and invested in the resources that helped catalyze the initial ideas and business opportunities in the Tech sector are not able to provide affordable space for next stage growth, many of these firms will grow elsewhere.

City staff efforts to strengthen the tech sector are focussed on developing partnerships to retain, develop and attract an adequate supply of talent and ensure sufficient available space for entrepreneurs, start-ups and early stage firms. This report outlines the current and emerging space options available to tech start-ups.

## **RECOMMENDATIONS**

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**The General Manager, Economic Development & Culture Division recommends that:**

1. Economic Development Committee direct City staff to continue their efforts to strengthen the Tech sector ecosystem.

### **Financial Impact**

There are no financial impacts arising from the adoption of this report.

### **DECISION HISTORY**

At its meeting on June 6, 7 and 8, 2012, in considering Item ED 14.2, Information and Communications Technology (ICT) Initiatives Update, City Council directed the General Manager, Economic Development and Culture, in collaboration with the Chief Planner & Executive Director of City Planning and Treasurer to explore initiatives to increase the supply of affordable office and studio space for new and emerging ICT start-up enterprises.

<http://www.toronto.ca/legdocs/mmis/2012/ed/bgrd/backgroundfile-46979.pdf>

## ISSUE BACKGROUND

Toronto's Technology Sector is a key strategic sector that is both a major employer in its own right and an essential enabler and economic driver of virtually all other sectors of Toronto's economy, including financial services, life science, renewable energy, film & television, digital media and advanced manufacturing. As previously reported, there are about 11,500 Tech sector firms located in the Toronto region (CMA) which employ over 178,000 people. The Toronto region accounts for about 60% of total Tech sector employment in Ontario.

There is a high and rapidly growing global demand for technology which is fueling new firm formation and job creation and is a driving force behind Toronto's vibrant and burgeoning Tech sector. This demand shows no signs of diminishing. On a monthly basis, there are about 3,900 new job postings for Computer and Information Systems Professionals in the Toronto CMA. (Source: Wanted Analytics).

The strength of Toronto's Tech sector is also reflected in the annual *Branham300* rankings. The *Branham300* highlights the top Canadian and multinational Tech sector companies operating in Canada. The report is circulated nationally and distributed internationally through Canadian embassies and consulate offices. The Toronto region continues to dominate the annual rankings. In 2013, 87 (35%) of the Top 250 Canadian Tech sector companies were located in the Toronto region with 47 (19%) located within the city of Toronto.

A key factor in the success of the Toronto region as a centre of excellence for technology is the complete Tech sector ecosystem that exists within the city that attracts large global companies and supports start-ups and emerging firms. The 2013 *Branham300* rankings shows that of the **Top 25 Multinational Tech companies** (ranked by revenues) operating in Canada, 19 or 76% are located in the Toronto region (11 or 44% within the city of Toronto) and that 12 or 48% of the **Top 25 Canadian Up and Coming Tech companies** (all 12 are located within the city of Toronto).

Young entrepreneurs and start-ups are an integral and essential part of the Tech sector ecosystem. Tech start-ups are usually composed of businesses with 2 - 3 people, normally all principals. They often have informal work environments that nurture collaborative innovation and thrive in incubators such as Digital Media Zone (Ryerson), Digital Media & Gaming Incubator (George Brown College), U-Test (University of Toronto), Creative Destruction Lab (Rotman, UoT), Extreme Start-ups (private), Kinetic Café (private) and the recently opened OneEleven (OMERS/OCE) which provide this type of environment. As firms develop to the next stage of early growth they may add a few employees to assist with specific tasks, such as production and marketing.

Toronto based start-ups and emerging firms are poised for growth. Expanding the Tech sector ecosystem within Toronto to accommodate this rapid growth is also critical to strengthening and growing all key economic sectors within the city. If the city and region, which have created the environment and invested in the resources that helped

catalyze the initial ideas and business opportunities are not able to provide affordable space for next stage growth, many of these firms will grow elsewhere.

City staff efforts to strengthen the tech sector are focussed on developing partnerships to retain, develop and attract an adequate supply of talent and ensure sufficient available space for start-ups and early stage growth firms.

## COMMENTS

The Tech sector itself is multi-faceted and diverse with many niche companies specializing in software development, video gaming, mobile technology, digital platforms, cyber-security, graphic user interface (GUI) development, informatics and business systems, and others. The combination of many small firms with diverse abilities and interests, operating in a globally competitive, hyper-speed environment has produced an industry that is highly collaborative by nature and necessity. While the industry is versatile it is also highly organic and fluid with individuals coming together on a continual basis to undertake projects and dissolving upon project completion, and then reforming with other partners to take on new initiatives.

Tech start-ups in Toronto have an array of office space options. Start-ups can access a number of creative spaces. Some of the private sector options include retail spaces such as cafes, restaurants, shopping centres, and for-profit incubators. In addition, start ups can access traditional office space, business centres, industrial office condos, and the emerging co-working collaborative spaces.

Many start-ups and emerging entrepreneurs begin by working at home inspired with the knowledge that some of the world's largest technology firms, Apple, HP, and Blackberry among them started in garages and basements. As the business outgrows, or the entrepreneur(s) become tired of working at home, or working in public spaces, co-working can be an alternative. Co-working, which means using a shared workspace, is ideal for early start-ups that lack capital, are in the early stages of developing their ideas, and do not yet have a track record to show investors or landlords. Coworking Toronto (<http://www.coworkingtonto.ca/>) is a web based organization dedicated to co-working. Many of the co-work spaces offer daily, monthly, or yearly passes with varying hours of use. There are approximately 12 co-working spaces available through Coworking Toronto and they are a relevant option for tech start –ups. Firms can work together in one facility to share resources and reduce operating costs.

There are also informal and goodwill networking arrangements whereby established tech firms provide tech start-ups ad hoc office space including office resources in exchange for informal assistance with project work, etc. More formal shared office space arrangements have also become popular. These opportunities appear to be primarily identified through social media. At present, blogs and directories make reference to a list of the top 10 newly opened shared spaces which are dispersed throughout the city.

Another option for tech start-ups are temporary touchdown stations provided in traditional office buildings in various locations and of various classes. Known as executive suites, desks can be rented for various terms. Recently, the Toronto market has seen an increase in executive suite space options. A company that specializes in executive suites recently established a business centre in Liberty Village, attesting to the need for cubicle office space to accommodate the increased number of start-ups in that neighbourhood. Other Business Centre companies have also enquired about establishing executive suites in Toronto.

### **City Initiatives**

The City has supported a number of incubators by providing financial and professional support. The space available for Tech firms in incubators has grown from ~100,000 ft<sup>2</sup> two years ago to ~155,000 ft<sup>2</sup> today ranging in size from 400 sq ft to almost 60,000 sq ft. The incubators provide coaching/mentorship, networking opportunities, office support, and access to capital.

The City has also supported the creation of affordable space for new firms, including Tech start-ups, with a loan guarantee provided to the Centre for Social Innovation (CSI). The loan guarantee helped CSI purchase an empty 38,000 sq ft building on Bathurst, just south of Bloor. CSI offers private or shared, permanent or part-time workspace options with hourly, daily or monthly fee options. The building is now occupied by profit and not-for-profit businesses. CSI provides tenants access to affordable space in order to develop their start up. Once a CSI start-up employs more than four staff, the start-up is encouraged to look for another location. CSI operates three locations throughout the city.

City staff also use events such as the annual Technicity forum, produced by Economic Development & Culture Division in partnership with IT World Canada, to create networking opportunities for emerging entrepreneurs from incubator start-ups to meet with senior industry executives from established IT firms. These networking events provide opportunities to locate available space as well as to attract investment and promote their products and services. Technicity's goal is to strengthen and expand Toronto's Tech sector through the exchange of information and by creating opportunities for partnerships. The City is also working with the Tech Forum, an initiative created by the Toronto Region Board of Trade, to spur awareness of Toronto as a high-powered tech development centre.

### **Imagination, Manufacturing, Innovation and Technology Incentive Program**

The City's IMIT program, adopted by Council in 2008, provides tax incentives to encourage the renovation or construction of buildings in targeted sectors and brownfield remediation for non-retail employment uses throughout the City by way of development grants or tax cancellation. Targeted sectors include Computer Systems Design and Services, Information Services and Data Processing, Scientific Research and Development; Software Development and Incubators. The program supports the City's policy objectives of intensifying new development, encouraging the adaptive reuse of the

existing building stock, promoting the remediation of contaminated employment lands, and stimulating growth in regeneration areas and mixed use areas throughout the City. The IMIT program is implemented through Community Improvement Plans (CIPs).

The recently announced Cisco *Internet of Everything Innovation Centre* is supported by an IMIT grant. One of four global centres, this investment represents a planned investment of up to \$100 million over 10 years. The Innovation Centre will assist start-ups as well as established companies and entire industries.

In October 2012, following a collaborative review by Economic Development & Culture Division staff and City Planning staff and consideration by Economic Development Committee and Planning & Growth Management Committee, City Council approved the renewal of the IMIT program and endorsed a set of proposed changes to the CIPs. These changes include simplifying the eligibility criteria for office development. All office projects of 5,000 m<sup>2</sup> or more GFA that locate within 800 metres of a subway, GO Train or light rapid transit station will be eligible for incentives, except for those locating within the Financial District. Corporate office buildings greater than 5,000 m<sup>2</sup>, including space located in mixed use buildings, occupied by firms in the targeted sectors would remain eligible throughout the City except for those locating in the Financial District. The requirement that the property must have been developed previously for an urban use was removed.

### **Vacant Commercial and Industrial Property Tax Rebate Program**

At the same time entrepreneurs are seeking affordable space within Toronto there are numerous vacant spaces in commercial and industrial buildings and retail storefronts throughout the city. These vacant buildings and spaces which can have negative impacts on the surrounding community, if not well maintained. These impacts could be mitigated or reversed by creating mechanisms to match entrepreneurs and start-ups, including but not limited to Tech sector firms. At present, the eligibility criteria for the rebate require only that some or all of the premises be vacant. This rebate program could be redesigned to align with City objectives such as providing affordable space for start-ups and emerging firms and entrepreneurs.

Similar to the approach taken for the IMIT tax rebate program to stimulate new development and major renovations to create or improve available space for targeted sectors, the vacancy rebate program could be redesigned to stimulate tenant attraction and provide affordable space within existing buildings. A separate report on re-designing the commercial industrial property tax relief program has been submitted to the Economic Development Committee for consideration at this (April 16, 2014) meeting.

It is also worth noting that during the condo consultation conducted by City Planning in 2013, the desire to see vacant ground floor space in new condo buildings quickly occupied came up as an issue.

### **Official Plan, Municipal Comprehensive Review and City-wide Zoning**

Economic Development & Culture Division staff and City Planning staff also worked collaboratively in undertaking the Official Plan and Municipal Comprehensive Reviews and development of the City-wide Zoning By-law.

At its meeting in December 2013, City Council adopted amendments to the City's Official Plan to stimulate the growth of new office space and maintain current concentrations of office space near rapid transit and preserve the majority of the City's Employment Lands for business and economic activities. The Chief Planner and Executive Director, City Planning Division advised that consideration is being given to additional incentives that could be considered by City Council to promote the development and maintenance of office space in areas on rapid transit. A report is scheduled to be submitted to the June 2014 meeting of the Planning & Growth Management Committee.

The City-wide Zoning By-law includes software development as a permitted use in Commercial Residential (CR), Commercial Residential Employment (CRE), and Employment Industrial (E) zones without conditions; and in Employment Light Industrial (EL) and Institutional Employment (IE) zones with conditions.

## **CONCLUSION**

Toronto's Tech sector is a major industry and employer in the Toronto region, a key driver of innovation and productivity improvements, and a critical enabler of all other economic sectors. The rapidly growing global demand for technology presents a major opportunity for economic growth and job creation within the city of Toronto. Expanding the tech sector ecosystem within Toronto to ensure an adequate supply of available and affordable office space for start-ups and early stage firms, is critical to taking advantage of this opportunity.

Recognizing the importance of technology to the overall economy within the city, Council has approved a number of initiatives developed collaboratively by city staff to support the Tech sector, including support for incubators, targeted incentives for new development, and permissive Official Plan and Zoning By-law policies. A report from the General Manager, Economic Development & Culture, presenting options for re-designing the vacant commercial and industrial property tax rebate program has also been submitted for consideration at this (April 16, 2014) meeting of the Economic Development Committee. Additionally, a report from the Chief Planner and Executive Director, City Planning Division, on additional incentives that could be considered by City Council to promote the development and maintenance of office space in areas near rapid transit is scheduled to be submitted to the June 2014 meeting of the Planning & Growth Management Committee. These types of incentive programs and policies to encourage private sector investment are essential to providing affordable space for tech sector start-ups and early stage growth firms.

Through these initiatives, and others, the City has helped create an environment to catalyze ideas and business opportunities in the Tech sector. Toronto based start-ups and emerging firms are poised for growth. Policies and programs to attract and facilitate private sector investment that provide affordable space for Tech sector entrepreneurs, start-ups and early stage firms are key to capturing this growth. If space is not available within the city of Toronto many of these firms will grow elsewhere. City staff should continue their efforts to strengthen the Tech sector ecosystem.

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## **SIGNATURE**

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