MEMORANDUM

PREPARED BY HEMSON FOR THE CITY OF TORONTO

# GROWTH PLAN CONFORMITY ANALYSIS SUPPORT

## Summary of Macro-level Trends and External Forces Affecting Employment Growth Projections and Allocations



HEMSON

1000 - 30 St. Patrick Street, Toronto ON M5T 3A3

416 593 5090 | hemson@hemson.com | www.hemson.com

***Submitted Via Email***

**To:** David Fitzpatrick
Project Manager, Strategic Initiatives, Policy & Analysis
City Planning Division, City of Toronto
Metro Hall, 55 John Street, 22nd Floor
Toronto, ON M5V 3C6

**From:** Adam Mattinson, Hemson Consulting Ltd.

**Date:** August 13, 2021

**Re:** Summary of Macro-level Trends and External Forces Affecting Employment Growth Projections and Allocations

---

In support of the City of Toronto's ongoing work related to Growth Plan Conformity as well as the Employment Study supporting the City's Municipal Comprehensive Review, Hemson Consulting has compiled a list of recent local and regional economic trends and shifts related to employment growth and land needs. This memorandum serves to summarize and provide contextual commentary on each of these trends and external factors in relation to ongoing local area forecast work being prepared by City staff, including the potential for these factors to alter Toronto's economic trajectory and the future need for employment lands.

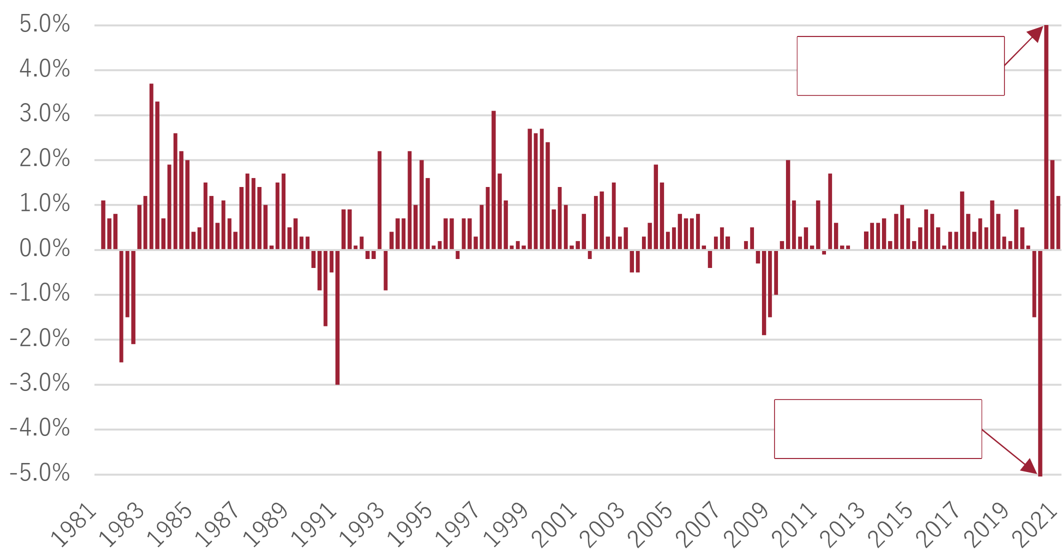
## A. TORONTO'S MACRO EMPLOYMENT OUTLOOK IN THE CONTEXT OF THE BROADER REGIONAL ECONOMY

Understanding employment trends in Toronto requires an understanding of the economic shifts that have occurred in Toronto's national, provincial and regional economic context. As both the largest city and as the central city of the Greater Toronto Area and Hamilton (GTAH) and of the larger Greater Golden Horseshoe, local employment trends in Toronto are highly influenced by the economy of the larger region.

### i. Regional Employment in the Context of Historical Periods of Expansion and Recession

Prior to the global economic shutdown caused by the COVID-19 pandemic, the modern history of recessions and economic expansions in Ontario had been somewhat different from the experience of other parts of Canada, and very different from that of the United States and other industrialized countries. The history of the province's GDP growth back to 1981 is shown in Figure 1.

**Figure 1: Ontario Real GDP Growth by Quarter, 1981 to 2021**




*Source: Ontario Ministry of Finance, Ontario Economic Accounts*

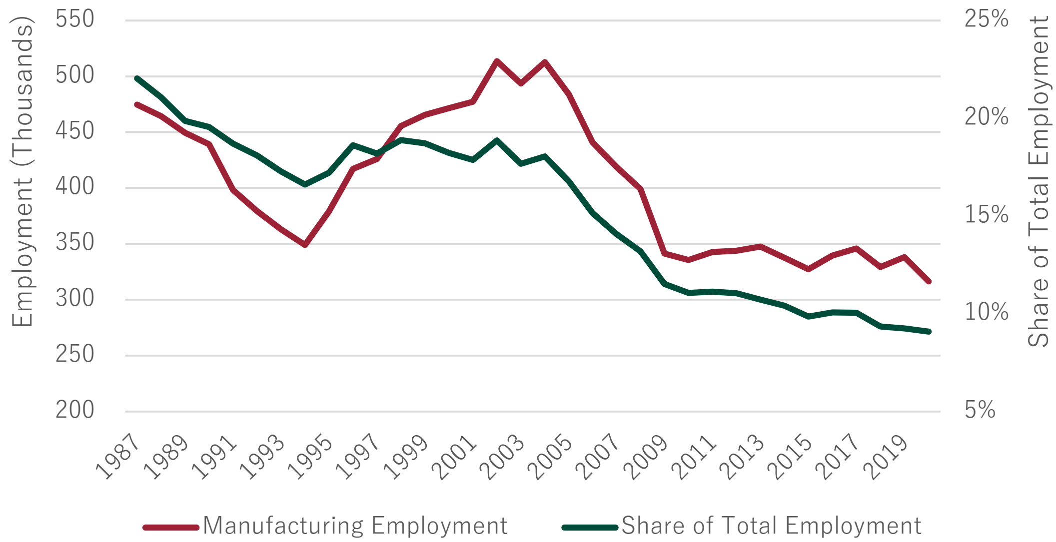
The sharp recession in the early 1980s was significant throughout Canada and the US. The oil crisis and mortgage rates in excess of 20% were memorable headlines from the time. More deeply, however, this marked the second of four major restructurings of the North American manufacturing economy in the past half century. This was followed by a quick rebound in economic and employment growth that lasted through the remainder of the 1980s.

The early 1990s told a different story. In Ontario, five quarters of economic contraction resulted in a total decline in real GDP of 6.4% from Q4 1989 through to Q4 1990. By comparison, the US experienced three quarters of decline in 1991 which only amounted to a decline of 0.4% in total economic output, which was subsequently followed by a period of strong recovery and expansion. The severity of the Ontario experience can be attributed to a combination of factors, including a "normal" cyclical downturn and a real estate crash in both the residential and non-residential sectors, coupled with high interest rates and the adjustment to free trade with the United States, following the Canada-US Free Trade Agreement coming into force on January 1, 1989.

The recovery in the 1990s was slow, with a "double dip" recession in 1992-93. Employment in the Toronto Economic Region did not recover to the 1989 peak level until 1997, eight years in which the population also grew by nearly 600,000 people. By contrast, the more recent 2008-09 recession showed a Toronto area employment decline of only 3.4% in September 2009, down from the June 2008 peak. The early 1990s was a defining moment of economic change in Ontario; much the way the 2008-09 financial crisis and recession reshaped other North American markets.

Despite the effects of the recession in 2009 not being as dramatic in Ontario, as compared to the early 1990s recession, the effects varied by location and type of employment. Some sectors, mainly manufacturing, saw a significant employment decline, while others were not as strongly affected. Like most of North America, the overall picture of the GTAH through both recessions is characterized by a declining manufacturing sector. Total manufacturing in the region dropped from almost 500,000 employees in the mid-1980s to a low of 330,000 in 2015, representing a drop in the proportional total regional employment from 22% to 10% over that period, as shown in Figure 2.

**Figure 2: Manufacturing Employment in the Toronto Economic Region, 1987-2020**




*Source: Hemson Consulting, based on Statistics Canada Monthly Labour Force Survey*

The region's economy has increasingly shifted towards a services-producing focus from goods-producing sectors (excluding construction). Employment in professional and technical services, and parts of finance and information services form much of the workforce in what are often considered knowledge-based industries, and have been the primary driver of economic growth in recent years. The broad service sector also includes a range of mainly population-serving functions, such as retail, health care, education and personal services – all of which also experienced significant growth. Figure 3 on the following page shows the change in employment by type from 2008 to 2019, which includes the 2008-09 recession job losses, the post-recession employment recovery and expansion, up to the pre-pandemic peak. Manufacturing demonstrated a significant decline and modest recovery, while most growth has occurred in many of the service sector and knowledge-based categories.

**Figure 3: Employment Change by NAICS Sector, Toronto Economic Region, 2008-2019**

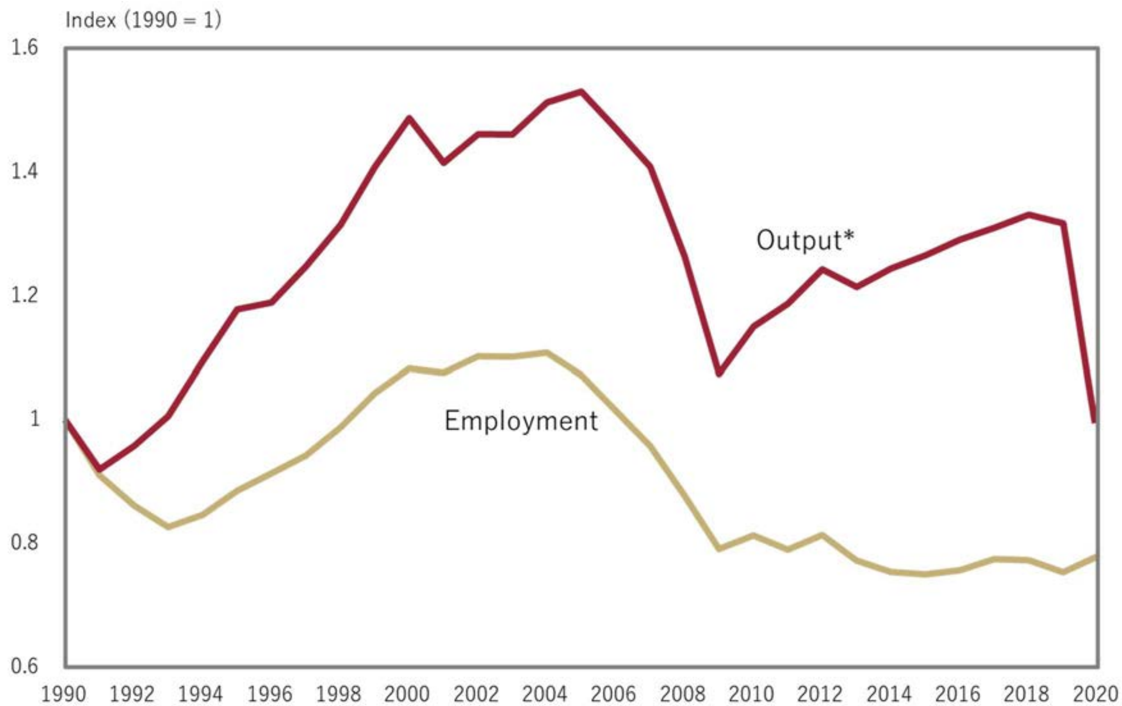
***(Representing pre-2009 recession peak to recovery peak pre-pandemic)***


*Source: Hemson Consulting, based on Statistics Canada Monthly Labour Force Survey*

Notwithstanding the economic restructuring and the effects of the recession, industrial and related employment sectors such as manufacturing, goods movement, and logistics employment continue to play an important role in the GTAH economy. Statistics Canada's Monthly Labour Force Survey reports that approximately 1 in 10 people employed in the Toronto Economic Region still work in manufacturing. As well, and increasingly importantly in the current context, many jobs in other sectors are directly and indirectly supported by the manufacturing sector.

While employment is a key measure of a sector's importance, the economic contribution in terms of output is also very important. By this measure the performance of the manufacturing sector has been much better. As shown in Figure 4 on the following page, Ontario's manufacturing output grew at a consistently faster rate than employment, suggesting that manufacturing as an economic activity has become more efficient and technologically advanced, notwithstanding the cyclical changes in both output and employment. Increases to manufacturing productivity can be measured as output per employee, and is represented here by the widening of the gap between the two lines.

**Figure 4: Manufacturing Output & Employment, Ontario, 1990-2020**




*Source: Hemson Consulting, based on Statistics Canada Labour Force Survey and Ministry of Finance – Ontario Economic Accounts.*

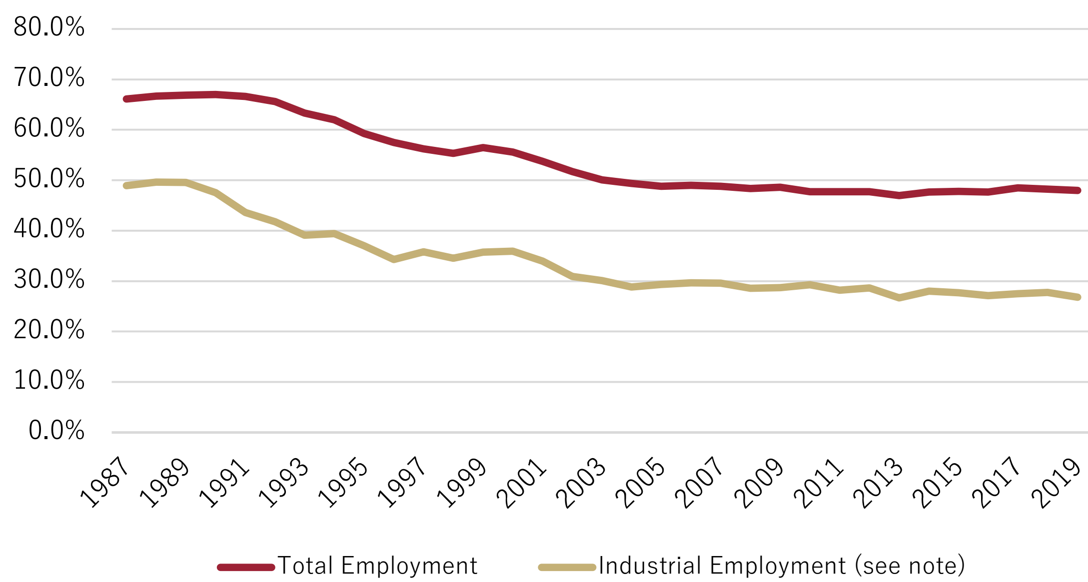
*Note: * Output defined as Manufacturing GDP in 2007 dollars.*

Important to economic land use planning, is the observation that building space and land associated with manufacturing are generally understood to be more closely related to production than to employment levels, suggesting declining employment densities and a rising floor space per worker in these sectors. As is visible in the tail end of most of these figures, the COVID-19 pandemic has had a significant impact on both GDP and employment within the region, impacts which are likewise being felt across most of the world's economies.

### ii. Toronto's Place within the Economic Region

In the context of the economic change already described, the pattern of changes in employment within the City of Toronto relative to the broader economic region can be better understood. As shown in Figure 5, the City of Toronto's share of both total employment and industrial employment within the Toronto Economic Region gradually declined between 1987 and 2019. The general decline in share over this time is largely the result of a rapidly growing urban region where the central city is a smaller proportion of the overall region. Over these 32 years, the city's share of the Toronto Economic Region fell from almost 60% to 44%. However, the decline in share of employment from a peak of 67% in 1990 to a low of 47% in 2013 also indicates some shift in the role of Toronto within the region as the share of regional total employment fell somewhat faster than the population share.

**Figure 5: City of Toronto's Historic Share of Toronto Economic Region Employment, 1987-2019**




*Source: Hemson Consulting, based on Statistics Canada Labour Force Survey and City of Toronto Employment Survey.*

*Note: For the purposes of this figure, industrial employment in the Toronto Economic Region is NAICS categories Manufacturing and Transportation and Warehousing, and for the Toronto Employment Survey are the Manufacturing and Warehousing Land Use Activity Code category.*

Perhaps surprisingly, Toronto's share of industrial employment in the region did not fall as quickly as non-industrial employment. The change in Toronto's share of regional employment over the past three decades is more closely related to Toronto's much lower share of the office market through the 1990s and 2000s, than to share shifts in other parts of the employment base. It is the strength of the industrial employment base in Toronto combined with the "return" of the office market to Downtown Toronto during the most recent decade prior to the pandemic that is largely responsible for the recent stabilization of Toronto's regional employment share.

## B. KEY MARKET INDICATORS

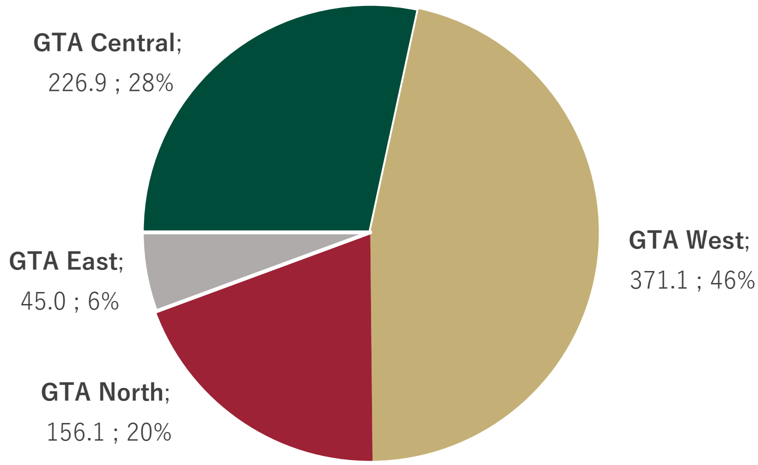
Historic patterns in brokerage data for office and industrial space in Toronto and the Greater Toronto Area provide additional context to the pattern of growth and its implications for future change over time. For this, historic data from Cushman & Wakefield was analyzed and summarized as follows:

### i. Industrial Market

The Greater Toronto Area industrial market, as tracked by Cushman & Wakefield, includes an inventory of some 799 million square feet of industrial space, making it Canada's largest industrial market by far – and one of the five largest in North America. With its proximity to major US markets and access to a diverse and skilled labour force, the GTA has historically been home to major manufacturing operations and suppliers, with warehousing and distribution facilities becoming an increasingly large component of the industrial inventory over the past decade or so.

- Cushman & Wakefield tracks the GTA's industrial inventory in four submarkets: Central, West, North and East. The Central submarket is comprised of the City of Toronto in its entirety. The industrial inventory of Toronto is approximately 227 million square feet, accounting for 28% of the total GTA market, as shown in Figure 6 on the following page.

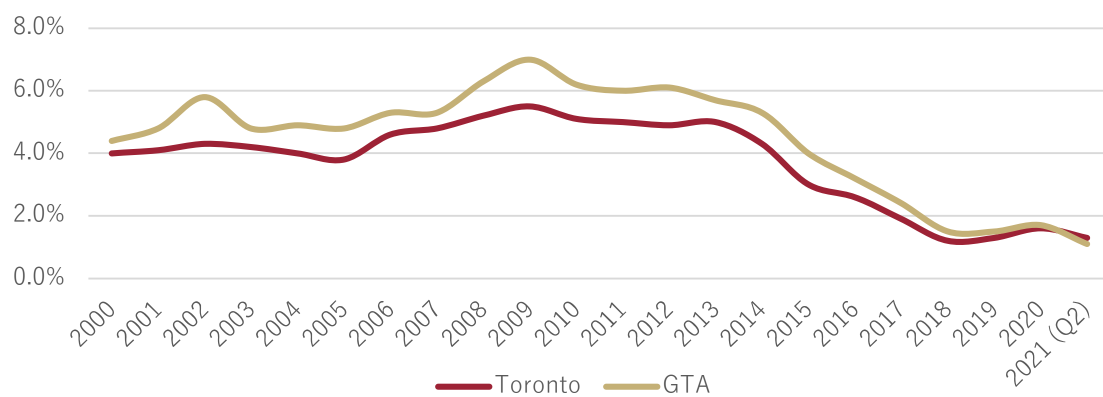
**Figure 6: Industrial Floor Space Inventory in Millions of Square Feet, GTA, Q2 2021**




*Source: Cushman & Wakefield*

- As shown in Figure 7, vacancy in the GTA industrial market reached a new record low at mid-year 2021, at just 1.1%. For comparison, vacancy averaged around 4% over the past decade, and remained in a range of 5% to 7% from 2005-2015. The strong downward vacancy rate trajectory has coincided with strong levels of absorption that have outpaced new supply activity. Vacancies in the City of Toronto have historically been lower than the overall GTA average since 2000, averaging approximately 100 basis points below since the previous recession. It is only recently that this gap has narrowed and effectively disappeared, as demand has been absorbed faster than new space can be added across the entire GTA.

**Figure 7: Vacancy Rates, City of Toronto and Total Greater Toronto Area, 2000-2021**

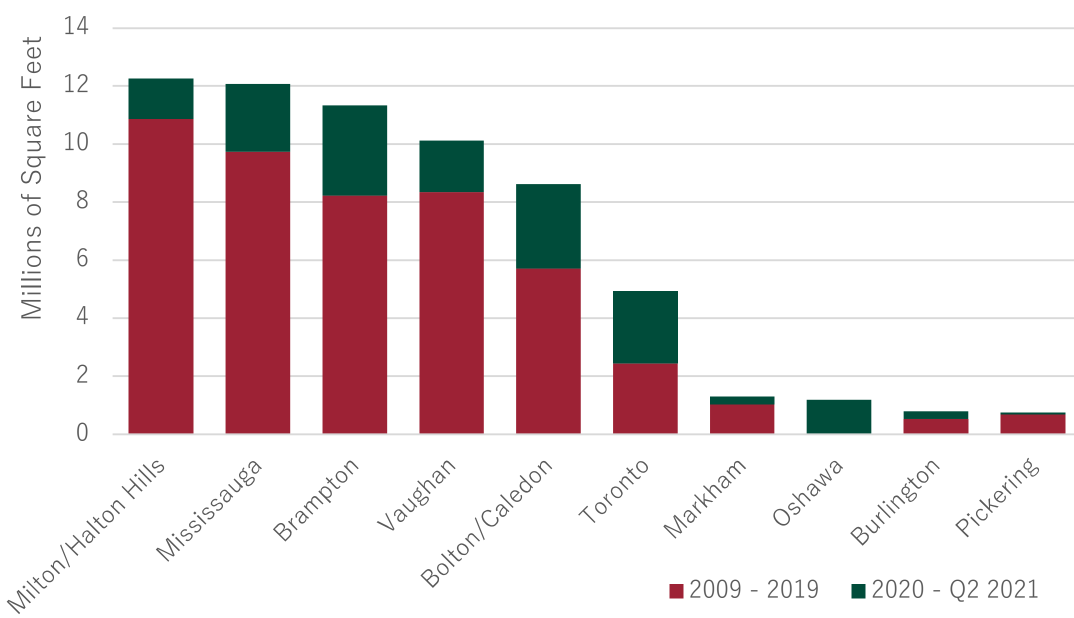



*Source: Cushman & Wakefield*

- New industrial space is limited in Toronto and the GTA. Prior to the Great Recession in 2009, the GTA industrial market added an average of 8.0 million square feet of new space annually. This dropped sharply in the year immediately following the recession, with the market only adding 1.1 million square feet of supply. The annual amount has risen since then averaging 4.2 million square feet of new space annually between 2009 and 2019. 2020 marked the first time the provision of new space surpassed pre-Great Recession construction activity with over 11.5 million square feet of space under construction as of Q1 2021.

- As shown in Figure 8, most of this additional inventory has been concentrated in municipalities to the west and north of Toronto, such as Milton/Halton Hills, Mississauga, Brampton and Vaughan. While the City of Toronto has lagged behind these more greenfield oriented communities in terms of net new industrial supply, the City has accounted for approximately 3% of the GTA's new supply since 2009.

**Figure 8: New Supply (millions square feet), Top 10 GTA Municipalities, 2009-2021**

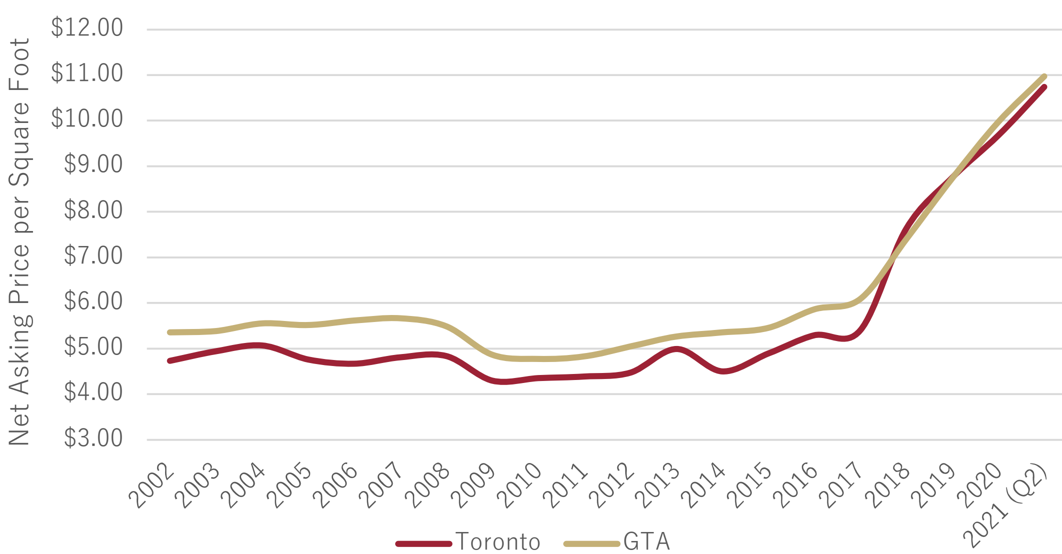



*Source: Cushman & Wakefield*

- As of Q2 2021, close to 4.5 million sf of new industrial space has been added across the GTA this year. GTA West has accounted for one-half of this new construction, while GTA East (24% share) and GTA Central (19% share) have also been active submarkets. There is presently almost 9.6 million sf under construction market-wide. The current development cycle represents developer confidence in persisting demand from occupiers. New supply is now averaging 7.5 million sf annually during the past five years. The 12.6 million sf added in 2020 represented the most new supply completed since 1999 (14.5 million sf).

- As shown in Figure 9, Industrial rental rates have risen sharply leading up to and through the pandemic. Years of increasing demand and limited new supply have resulted in rapidly rising rents in recent years. From 2000 through to 2015, asking net rental rates for industrial space in the GTA had remained in a relatively narrow range from roughly $4.75 to $5.50 per square foot. Starting in 2015, the average asking net rental rate began increasing sharply year-over-year, up some 7.3% on average as compared to a post-recession annual rate increase average of only 2.7%.

**Figure 9: Average Asking Net Rental Rates, Toronto and GTA, 2002–2021**




*Source: Cushman & Wakefield*

- By 2018, the average asking net rental rate for the GTA began to rise rapidly, surpassing $8 per square foot. As vacancies continued to decline and demand continued throughout the pandemic, average asking rent has surged up to nearly $11 per square foot net by the second quarter of 2021. This represents a 14.7% year-over-year increase and doubling of rents from 2015. Given the acute supply-demand imbalance in the region, rent is expected to remain on an upward trajectory for the foreseeable future with further demand anticipated as the region emerges from the pandemic and businesses move towards a new normal.

- In the case of industrial users, space costs are often a relatively small share of operating costs, so many businesses will likely be able to absorb these increased rents. However, smaller businesses and those that faced more severe economic hardship through the pandemic may struggle to adapt, and could potentially be squeezed out of employment area space as competition increases.

- Rental rates in the City of Toronto have historically been slightly below the GTA average by around $0.60 per square foot, or roughly 10%. This is attributable to the much higher rate of new construction activity in the suburban markets, and the premium pricing associated with new product having an overall upward effect on asking rents. However, this gap has closed in recent years, with rents in Toronto ($10.75 per square foot net) nearly on par with the regional average.

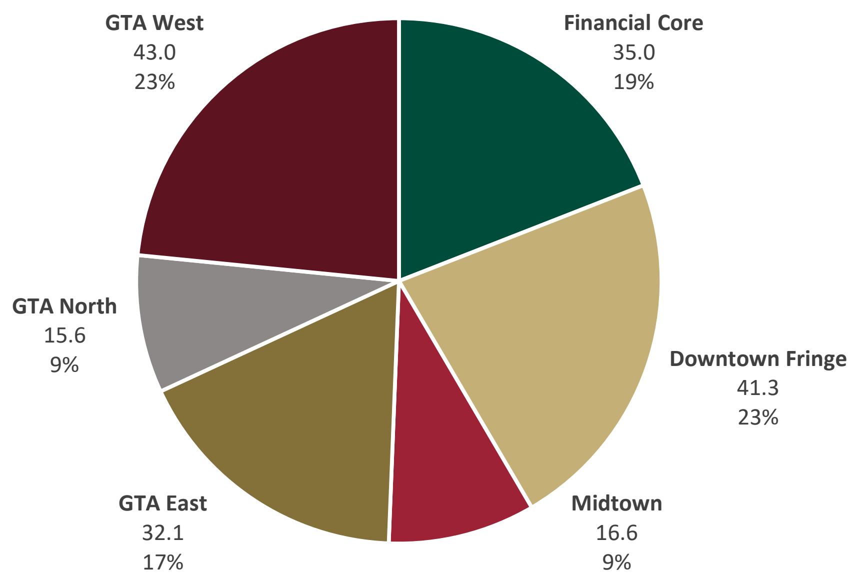
### ii. Office Market

Cushman & Wakefield tracks the GTA's office inventory in the following submarkets: Downtown (including Financial Core and Downtown Fringe), Midtown, and the suburban submarkets of GTA East, GTA North and GTA West. Unlike the industrial market, which Cushman & Wakefield tracks at the municipal level, the office submarkets are tracked as nodes/concentrations. Accordingly, there is some overlap from the City of

Toronto to an adjacent municipality for a couple of submarkets (such as Airport – with Mississauga, and Steeles & Highway 404 – with Markham).

- Cushman & Wakefield tracks an office inventory of nearly 184 million sf GTA-wide, which is evenly divided between the Central Area and the Suburbs, as shown in Figure 10 on the following page. The Downtown submarket accounts for 76.3 million square feet of this office space, while the Midtown market is home to 16.6 million square feet. The Suburbs have an inventory of nearly 91 million square feet, spread across other parts of Toronto and neighbouring municipalities.

**Figure 10: Office Floor Space Inventory in Millions of Square Feet, GTA, Q2 2021**

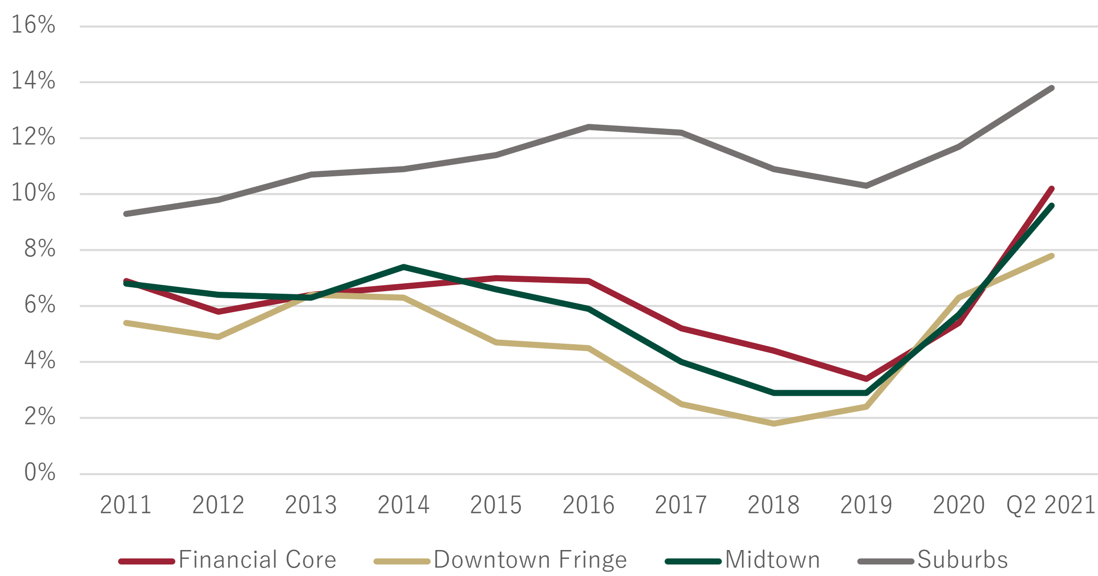



*Source: Cushman & Wakefield*

- Pre-COVID-19, vacancy in the Downtown and Midtown sub-markets had declined each year since 2013, but has spiked sharply to 9% as of mid-year 2021, as illustrated in Figure 11 on the following page. This is up from a level of less than 3% pre-pandemic (year-end 2019), and is the highest the vacancy rate has been since 2005. Sublease space currently accounts for approximately 42% of total vacant space; this compares to a figure of 23% at year-end 2019, and an average of 20% in the five years pre-pandemic.

- The current overall vacancy rate is 13.8% across the GTA Suburbs. This is the highest rate recorded by Cushman & Wakefield since 1995, and is up from a pre-pandemic level of 9.4% (year-end 2019). Vacancy is lowest in GTA North (10.5%); it is notably higher in GTA East (13.5%) and GTA West (15.2%).

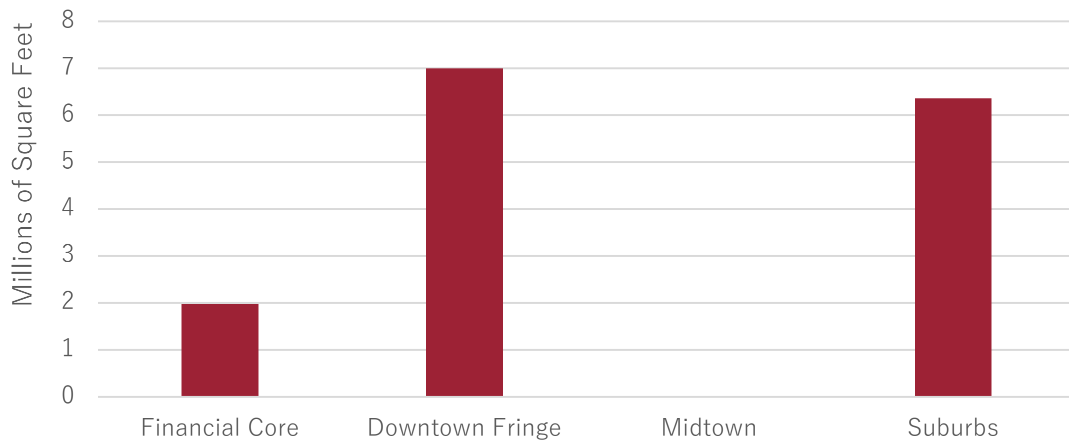
**Figure 11: Office Market Vacancy Rate, Toronto Central and Suburban Sub-Markets, 2011-2021**




*Source: Cushman & Wakefield*

- Toronto's Downtown and Fringe have added a significant amount of new office space in recent years, adding nearly 9 million net additional square feet of new office space over the past decade. In addition to this recently completed supply, there is nearly 8 million square feet of new supply currently in the development pipeline across the Downtown submarkets.

**Figure 12: New Office Supply, City of Toronto Central and Suburban Sub-Markets, 2011-Q2 2021**

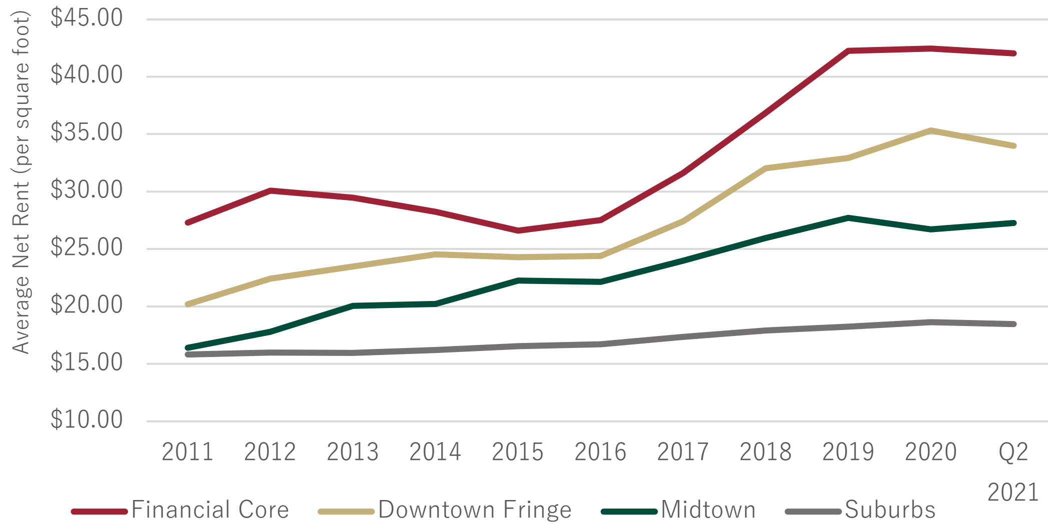



*Source: Cushman & Wakefield*

- Average asking rents are significantly higher in the Downtown, reflecting the primacy of the central office market. The average asking Class A net rental rate for the central sub-markets rose slightly to $38.40 per square foot this past quarter. – although off from the $38.75 psf figure seen at year-end 2020, which had represented the highest rental rate ever recorded by Cushman & Wakefield. Average asking rents by market area over the past decade are illustrated in Figure 13 on the following page. Asking rents have held in a range of approximately $37.00-$39.00 psf during the past 18 months, and do not yet reflect the rising level of vacancy in the market.

- Net rents for Class A Suburban office space averaged $18.50 psf at mid-year 2021, which is just off the all-time high of $18.70 psf recorded at year-end 2020. Rents have remained in a tight range from around $18.00-$18.70 psf since 2018.

**Figure 13: Average Asking Class A Net Rental Rate Per Square Foot, Toronto Central and Suburban Sub-Markets, 2011-2021**




*Source: Cushman & Wakefield*

## C. DISTINGUISHING SHORT-TERM SHOCKS FROM LONG-TERM IMPACTS RELATED TO THE COVID-19 PANDEMIC

The sudden emergence of COVID-19 on a global scale resulted in an unprecedented impact on employment and economic activity. However, as businesses and markets responded to the challenges presented, questions emerged as to which changes were short-term shocks that will recover back to the norm, and which changes represent more long-term shifts that will linger in the 'new normal' of a post-pandemic world. To understand these questions in the context of Toronto, pre-pandemic trends are considered for major employment land uses against the observed impacts of the pandemic, with commentary provided on if and how these changes may present deviations from previously anticipated trajectories for growth.

### i. Trends Prior to the Pandemic

In the 2018-2020 period prior to the first country-wide shutdown, Canada's economic performance was relatively strong with GDP growth in the 2.0%

range albeit on a declining trend. Both Toronto's office and employment land employment sectors were performing well with space demand in both sectors outpacing supply.

### Office Sector Trends

- Reflecting the positive general pattern of growth in the regional economy post 2009 recession, especially in the technology sector, Toronto's office market experienced a long period of sustained growth in the time leading up to the pandemic. The Downtown, in particular, was the beneficiary of the large majority of growth driven in part by:
  - The response of organizations to the preference of younger employees to live and work in city's urban centre;
  - The advantage of the core in relation to accessibility; and
  - A competitive property tax environment (declining property tax ratios and development incentives, such as IMIT[1])
- Of particular note, organizations in the rapidly growing technology sector were increasingly favouring the Downtown core and fringe in order attract talent (e.g., Google and Shopify). Organizations within the financial services and services-to-business sectors were also growing and restructuring. This process had significant space implications both in terms of Floor Space per Worker (FSW) and space designs. In order to control space costs, FSWs were being reduced by lowering the size of and number of private offices, and shifting to open-plan desk configurations. As well, organizations were adopting the hotelling approach to providing desks to those who need

---

[1] The City of Toronto offers an 'Imagination, Manufacturing, Innovation and Technology' (IMIT) tax increment incentive grant equivalent to 60 percent of the increase in municipal taxes attributable to eligible development over a 10-year period. Eligible development must promote local employment across a range of employment sectors and uses.

to be accommodated taking account of staff absences due to work-from-home, client visits, vacations, medical appointments etc.

- In the period prior to the lockdown, office vacancy levels in the core were steadily declining to the point that some organizations reported being unable to meet their needs. In Q1 2020 the vacancy level was 1.5% in the downtown market, the lowest in North America. Rental rates were rising faster than inflation, reflecting the "landlord's market". Vacancy rates elsewhere in Toronto were in the 4-6% range. Given the shortage of space in the core, some space users were beginning to consider more suburban locations where space supply was better and rents were lower. Reflecting the strong market conditions, large office developments were underway in the Financial District, the South Core and along King Street both east and west of the Core. At its peak, the development pipeline had over 10.6 million square feet of active projects in Downtown Toronto.

### Employment Land Sector Trends

- Toronto's employment land market has been changing for many years in response to the evolving structure of Canada and Toronto's economy. The key change has been the decline of the manufacturing sector. At the same time, much of the growing demand for goods was being met through imports, China being a prime source leading to a growing need for warehousing and distribution space. This trend has been augmented by the growth in e-commerce. In order to increase the ease of shopping on-line, suppliers (notably Amazon) have gone to great lengths to shorten delivery times. Because of the growing size of Toronto and the relatively slow average speed of travel, small distribution facilities to address "last mile" fulfillment needs have been set up.

- The changing structure of the economy coupled with needs of organizations serving Toronto's growing population were having a major influence on employment lands employment. The pattern of change had affected the nature, pay and stability of jobs with the decline in the manufacturing sector being mirrored by a decline in well paid, often unionized, jobs for skilled labour. This segment of the labour force had difficulty finding equivalent replacement jobs.

- Of the new jobs being created, a significant proportion only required unskilled or semi-skilled labour with pay levels at or close to the minimum wage rate. While jobs of this type are of help to those with few skills or who had limited or no work experience in Canada, they barely provide sufficient income to pay market apartment rents or to support to total purchase and carrying costs of home ownership.

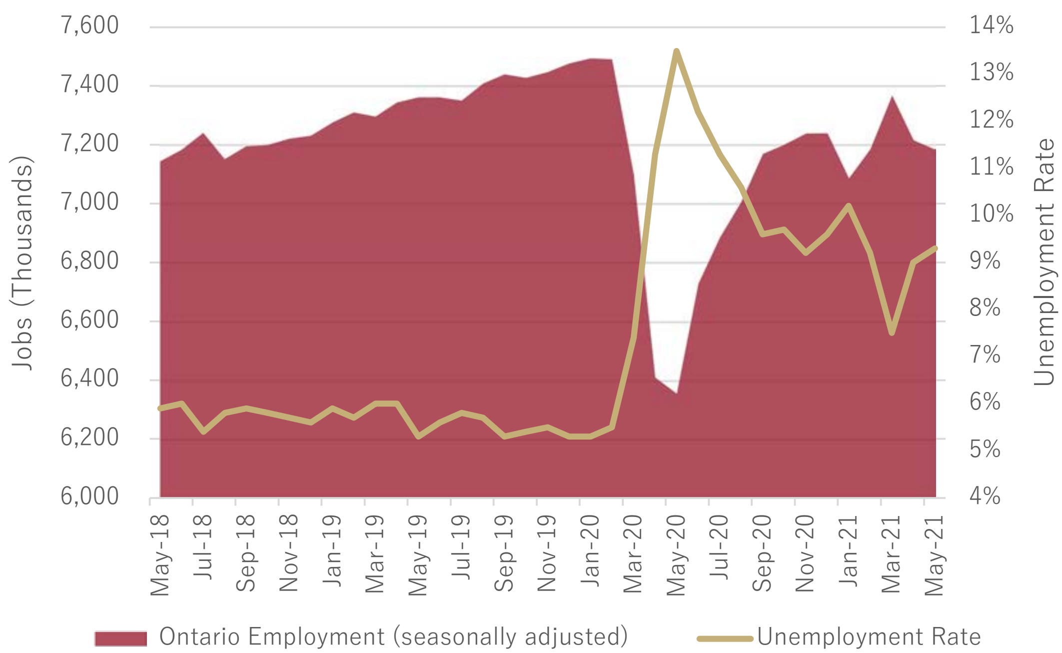
- The supply of employment land in Toronto has been steadily diminishing for many years. The closure of some of the city's large and small manufacturing plants coupled with the demand for sites for residential and retail uses is the principal reason for this situation. Because employment land is worth substantially less than its value for other uses, there is a strong financial incentive for owners and speculators to pursue Official Plan amendments and/or re-zonings. Since the supply of land is fixed and, once changed, employment uses never return the conversion process is a one-way valve. Recognizing this situation, the City has had a long held practice of resisting employment land conversions.

- In the period leading up to the Covid-19 shutdown in March, 2020, Toronto's industrial vacancy rate was around 1% and, given the strong demand, rents were rising. The remaining supply of large vacant employment land parcels, mainly in NE Scarborough, was being rapidly being absorbed with Amazon's 1.0 million square foot fulfillment centre being the most notable new facility. While facilities of this type are a valuable source of new jobs, the number of jobs per hectare is generally much lower than would have been the case with manufacturing plants.

### ii. Observable Impacts of the Pandemic

The first wave of pandemic-related lockdowns and health measures had a dramatic impact on GDP in the first half of 2020. At its worst in May of 2020, employment was down over 15% from the pre-pandemic peak in January. This was followed by a significant 'bounce-back' starting in Q3 of 2020, though subsequent waves of the virus and responding health measures have prevented Ontario from fully recovering to pre-pandemic levels, as demonstrated in Figure 14.

**Figure 14: Total Employment and Unemployment Rate in Ontario, May 2018-May 2021**




*Source: Hemson Consulting, based on Statistics Canada Monthly Labour Force Survey*

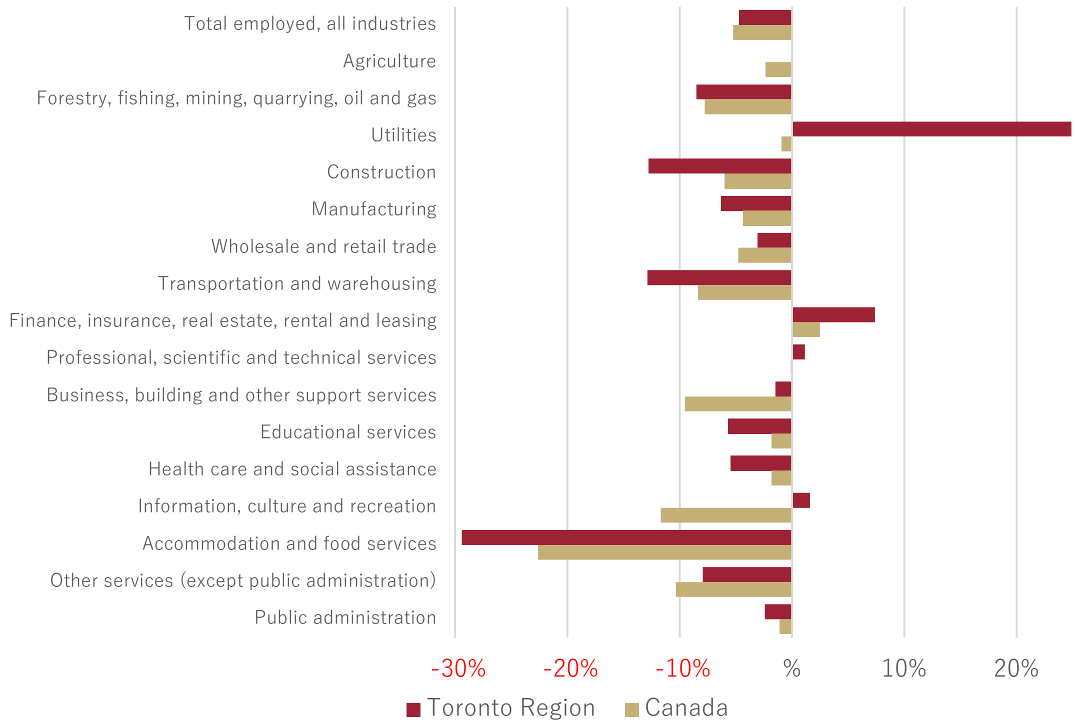
For context, a typical recession usually results in declines of between 3 to 5 percent, a mark which Ontario has only recently recovered to at the beginning of 2021. Ontario's recovery has somewhat lagged other parts of the country, primarily on account of more stringent lockdowns to combat the recent third wave of COVID infections which did not affect all parts of the country equally.

Within the Toronto economic region, the immediate impacts of the pandemic resulted in job losses across most sectors. While certain knowledge-based sectors, particularly those able to transition quickly to remote work-from-home (such as Finance, insurance and real estate, Professional, scientific and technical services, and Information, cultural and recreation) were able to show some signs of growth, many sectors saw significant declines between 2019 and 2020[2]. As shown in Figure 15 on the following page, these losses tended to follow similar patterns to the economic impacts seen Canada-wide, with the most significant losses occurring in the accommodation and food services sector. Businesses in this sector were most severely impacted by the lockdowns on account of their in-person nature and the reliance of tourism, which has only just recently begun to open up once more.

---

[2] The utilities sector in the Toronto region also managed to grow by approximately 4,600 jobs over this period, to a total of 23,100. While significant in a year-over-year sense, total employment in this sector is limited, and has oscillated by a few thousand jobs annually between a low of 17,500 and a high of 24,900 over the 2001 to 2020 period. It is not a significant component of the region's overall employment profile, accounting for 0.6% of all jobs.

**Figure 15: Employment Change by NAICS Sector, Toronto Economic Region and Canada, 2019-20**




*Source: Hemson Consulting, based on Statistics Canada Monthly Labour Force Survey*

As the economy continues to adapt to and eventually emerge from the pandemic, it is expected that many of these job losses will reverse over time. However, there is still considerable uncertainty as to how and when this recovery will occur across different employment activities, with varying outlooks for different sectors and employment land uses. Many knowledge-based jobs have already effectively recovered to and surpassed pre-pandemic levels, while others, such as accommodation and food services are expected to take longer to return to business as usual, particularly in the face additional waves of infection from the pandemic.

The impacts with the City of Toronto were likewise significant. In the early days, many businesses were required to close. Hardest hit were the hospitality industry, culture and entertainment facilities and retailers. The impact on the office and employment lands sector differed sharply.

### Office Sector Impacts

- Immediately after the lockdown occurred, office-based organizations sent all but the most essential staff home and began to operate remotely, enabled by technology. This also led to low wage cleaning staff and employees in the food courts to being either furloughed or laid off. Although as yet no formal studies have been undertaken of the organizational impacts of this sudden and dramatic change, anecdotally, it appears that most adapted fairly well. This was made possible in large part because of the widespread availability of the internet and the rapid growth in teleconferencing services, notably Zoom.

- As would be expected, the pandemic had a significant impact on the demand for office space. Layoffs, hiring freezes and changes in operating models halted lease deals that were being negotiated and brought existing space onto the sub-let market. While there was a short period in Fall 2020 when some people returned to the office, this was reversed by the "second wave" and office occupancy is reportedly still only running at about 10%.

- As of mid-2021 with the level of vaccination in the community surpassing 80%, many landlords and tenants are suggesting that staff will be expected to return to the office after Labour Day. The extent to which work-from-home will continue to play a role is not yet clear, as many companies are still developing their policies – although a "hybrid " approach is likely to become a prevalent model, combining in-office work, work-from-home, and other remote work locations.

- Prior to the pandemic, the supply of vacant office space in Toronto was very limited, especially in core where it was difficult and growingly expensive to lease space. This situation reversed during the pandemic period as demand for new space declined, sub-let space came onto the market and newly constructed buildings were being completed.

- Notwithstanding the immediate situation, a significant number of large organizations continued to make long term space plans and have been making commitments to lease space in buildings that are under construction. Notable is the 3.0 million square foot CIBC Square which, as of March 2021 when the ground breaking occurred for the second phase, had already leased 2.2 million square feet.

- As of March 2020, some 8.7 million square feet were under construction and will be completed in the next two years or so. While leasing activity is reportedly on the increase, the pandemic has certainly wrong-footed the market and will likely result in the vacancy level reaching the low double-digits in the next two years. However, this is a far cry from the 20% vacancy level that was reached in the early 1990's when construction on the partially built Bay-Adelaide Centre was halted.

**Employment Land Sector Impacts**

- In the early stages of the pandemic, the impact on the manufacturing sector was significant with auto and auto parts among the industries particularly hard hit. Sectors deemed non-essential (e.g., hospitality and retail) were required to shut down while others particularly those considered essential, were permitted to continue operating. Firms located in Employment Lands continued in operation but, like all other businesses, were to a greater or lesser degrees affected by the contraction in the economy and labour availability.

- Statistics indicate that the jobs most affected by closures and layoffs were those of low wage earners, women and visible minorities. The nature of most Employment Land related jobs is such that teleworking was not an option; employees had to be physically present. As not all work space was easily adaptable to accommodate social distancing, employees had to be exceptionally vigilant in order to limit the risk of contracting the virus.

- One of the more evident effects of the pandemic has been the increase in e-commerce. As most retailers were forced to close, or endure restricted operations, many consumers shifted to shopping on-line. This, in turn, increased the volume of goods passing through distribution centres and onto delivery trucks. For these organizations and the jobs that they provide, albeit relatively low paid, the pandemic has been a boon.

- The pandemic has had a mixed effect on employment land employment. Some jobs have been lost because of the disruption in the economy while new jobs have added in response pandemic driven changes.

- Despite these challenges, demand for space in employment land areas remains strong. Because Toronto has very limited amounts of vacant employment land there is little ability to add new space. Unlike the office market where some organizations decided to downsize, leading to an increase in the vacancy level, space in employment areas has remained essentially fully occupied throughout the pandemic. The vacancy level has remained around 1% and rents have continued to increase.

### iii. Short-term Shocks and Long-term Shifts

The Covid-19 pandemic has been the been the largest global health related shock since the 1918 Spanish flu epidemic. The effects of the pandemic have been blunted, at least in the highly developed economies, by the swift development and deployment of effective vaccines. Government deficit financed programmes enabled the economy to continue operating despite the broad shutdown and a robust recovery is underway. However, because of the challenges and opportunities that the pandemic revealed there are questions as to whether there will be a return to “business as usual”.

### Office Sector Shocks and Shifts

- While there is no real precedent to judge how it will unfold, there is a growing consensus amongst real estate analysts that the pandemic will have limited long-term effects on the overall office market. In the early days of the pandemic, there was a widespread view that a paradigm shift had occurred in the way office-based organizations would operate. While there were certainly drawbacks to telecommuting, being able to avoid close contact on transit and in the office, together with the savings in commuting time cost were strong incentives.

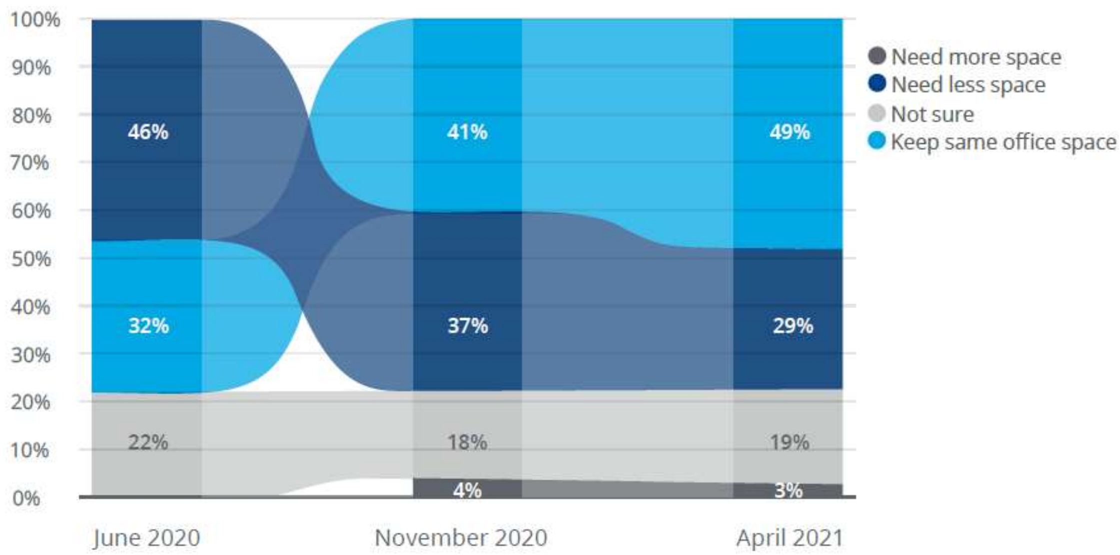
- Some organizations with global operations were already used to working with a distributed workforce. Telecommunications have been steadily improving and will become even better as 5G networks come on line. Senior executives in a number of large organizations announced that, in future, all their employees would be allowed to work from home. The potential savings in space costs could be substantial. For some employees, this opportunity was sufficient incentive for them to move out of the city to communities where homes were more affordable. Others were pleased with the change because of ongoing safety concerns, especially if they had to take transit to work.

- Some however, see considerable disadvantages in the new work arrangements. For organizations, although reliable results have yet to be shown, there is a concern about the productivity of employees working with limited supervision. Maintaining effective teams and integrating new employees is a major challenge. In organizations that rely on creative interaction, being in the office rather than online is a significant advantage. For younger employees for whom mentoring by experienced colleagues is very important, remote working offers only limited informal opportunities. The social aspect of work is also very important to many younger employees and a return to the office can't come too soon.

- Now, as the number of people who have been fully vaccinated increases, a growing consensus is emerging that most organizations will, to a greater or lesser extent, expect or require employees to return to the office in the starting in Fall 2021. At the same time there is widespread discussion about the so called "hybrid model" which would see employees required to be in the office at least three days week.

- The overall impacts of this shift are difficult to discern at this point, as expectations for future space needs are still changing. Early in the pandemic, nearly half (46%) of surveyed office tenants expected that they would require less space than what they had prior to the pandemic, as shown in Figure 16 on the following page. As time went on and many office-based businesses began seriously reviewing their operational needs in a post-pandemic world, this share has decline to less than one-third (29%), with some users even indicating they may need more space due to company growth and the need for additional amenity space to attract talent.

**Figure 16: Office Tenant Analysis on Future Space Needs**




Source: Colliers International, Spring 2021

- For the purposes of this planning exercise, it is considered prudent to expect that office sector employment will grow in keeping with current forecasts, but that office occupancy will only slowly move towards pre-pandemic levels. It is also not unreasonable to anticipate that working-from-home some of the time will become common practice. In large organizations where it is possible to accurately estimate the number of staff that will be in the office from day to day, space requirements will be planned accordingly.

- This will lead to more "hotelling" where staff will not all have a permanent desk. It is also possible that some organizations will provide employees access to remote shared office workspace (along the lines of the Regus or WeWork model). Several mixed-use projects outside the Downtown include office space and could fulfill this role.

- Toronto's office building market experienced a significant shock from the Covid-19 pandemic. Fortunately, going into the pandemic vacancy levels were extremely low especially in the core. Currently there is a considerable amount of new space under construction in the core but much of it is reportedly pre-leased (roughly two-thirds). These new buildings will be technologically advanced enabling care to be taken to address heightened concerns about health arising from the pandemic. They will also be advanced in terms of “green” considerations. Many older buildings especially those losing tenants to new buildings, are likely to undergo retrofits in order to remain competitive.

- Based on the view being expressed by senior executives, there seems little likelihood of many organizations relocating to either Toronto’s suburban centres or further afield. Indeed, the prelease activity for new buildings appears to reinforce the strong appeal of Downtown Toronto for tenants. For this reason, forecast office sector growth is likely to encourage office developers to undertake additional projects once the current office new supply pipeline is substantially absorbed, and vacancy and rental rate levels revert to historic baseline conditions. Nevertheless, until there is clear evidence that office workers are fully prepared to return to the office and, in the case of the Downtown, willing to resume taking transit, developers are likely to be somewhat cautious about committing to new projects.

### Employment Land Sector Shocks and Shifts

- Toronto’s employment lands remained fully occupied during the pandemic and a number of trends suggest that, space permitting, additional employment opportunities will be created. This is important because, as the pandemic has highlighted, Employment Lands are a key source of jobs that support a diverse employment base.

- Historically, manufacturers occupied a significant amount of the City’s employment land but this has steadily declined over a long period. The pandemic showed that for a variety of important products such as protective equipment, Canada is not able to meet its own needs and is too dependent on imported goods. As well, supply chain disruptions have led some to suggest that there is the potential for the manufacturing to expand by "re-shoring" production from overseas. While there is little evidence that is occurring to any appreciable degree either in Canada or the US, there is the likelihood of less reliance on "just in time" supply chains. This will likely result in an additional demand for warehousing and the jobs that come with it.

- The second contributor to space and employment growth is the increase in business for the many large and small firms that serve the complex needs of the city's increasing population. The third source of growth stems from the continuing shift in the retailing industry away from stores to on-line retailers. The pandemic provided a massive boost to e-commerce and it is widely anticipated that, while consumers will continue to shop in person, an increasing share of purchase will be made on line.

- As with other sources of growth, many of the new jobs will be for unskilled or semi-skilled individuals with pay rates at or close to the minimum wage. While for the many employees who can't drive or don't own a car, the TTC is a clear advantage that Toronto offers, the shortage of affordable housing continues to be a major drawback.

- One of the lessons from the Covid-19 pandemic is the critical importance of Toronto's employment lands to the day-to-day functioning of the city. It has also highlighted the fact that it will become increasingly difficult to create additional space because there is so little vacant land. For this reason, protecting the existing base from land use conversions is vitally important.

- While to date, few sites with obsolete industrial buildings have been redeveloped with modern replacements, the shortage of land and the increasing level of industrial rents is beginning to make such projects feasible. An example is the redevelopment of the former Campbell Soup factory in south Etobicoke. Of note, the new facility will be a distribution centre. As well as providing modern space, redevelopments intensify the use of sites as new buildings are considerably higher than those they replace, thus effectively providing more space in form of volume. Given the growth outlook and the shortage of sites, redevelopments can be expected to grow in number.

In summary, the Covid-19 pandemic delivered a dramatic shock to the economy. The office sector has essentially been shut down since March, 2020 but is expected to see employees returning starting in September, 2021. The development industry is indicating its confidence in the long-term future for the sector, especially in TO Core, by continuing construction on existing projects and planning new ones for the future. However, because some organizations are calling for a full return to the office while others are suggesting that work-from-home will continue to a greater or lesser degree it is too early to tell whether the pandemic will result in a permanent shift in office working practices.

The employment land sector has weathered the pandemic well with building vacancy remaining at very low levels, and with rental rates at historic highs. However, the pandemic has highlighted how difficult it has been for people working there in terms of both conditions and wage rates. The outlook for the sector is positive although there is likely to be a space shortage which will put pressure on rents and property values. Protecting employment areas from land use conversions is therefore critical.