



THE CURRENT STATE & FUTURE OF TORONTO'S RETAIL

MAIN STREETS



EXECUTIVE SUMMARY REPORT JANUARY 2020



DOWNTOWN



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Current State and Future of Toronto's Retail Main Streets, 2020

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Executive Summary

INTRODUCTION AND STUDY PROCESS

Three Sixty Collective was retained by the City of Toronto to undertake a study of the current state and future of Toronto's main streets and potential policies and programs to support small retail businesses in these areas as was directed by Council.

The study began in December 2018. The Research Phase collected and analysed data, survey and interview responses and secondary research to document changes affecting Toronto's main streets and small and independent retail businesses. It was completed in June 2019. Potential interventions that respond to the identified pain points were explored and draft recommendations were published and discussed with the public (October 2019).

The feedback received generally confirmed the research findings and affirmed the important role played by independent main street businesses and the need for increased City support to better ensure their sustainability. The detailed feedback was incorporated in the final report.

The study process included detailed research and analysis in the following eleven Main Street case study areas. Section 2.3.1 of the final report describes the selection criteria and illustrates them on a map:

- Albion/Islington
- Danforth East of Jones
- Danforth/Pape
- Eglinton/Danforth
- Kensington Market
- Kingston/Lawrence
- Lakeshore/Islington
- Queen East of Victoria
- Yonge North of Carlton
- Yonge North of Lawrence
- Yonge North of Finch

SUMMARY OF KEY FINDINGS

Toronto has a strong Main Street Independent Business Community.

1. Independent businesses (one to three locations in Canada) account for:
 - 74% of establishments and 32% of total employment in Toronto retail stores (non-automotive goods sales).
2. Toronto residents prefer to shop in local independent businesses.
 - Over 90% prefer independent businesses for specialty food, personal services, restaurants and bars.
 - 45% are doing more shopping in local independent businesses than two years ago.
 - 69% are doing less shopping at malls than two years ago.
3. Main streets are key locations for independent businesses.
 - Nine of the eleven main street case study areas included higher shares of independent businesses than the city average. An independent business share around 75-80% of total establishments was typical.

Main Street Independent Businesses are Important to the Community

4. They contribute to creating walkable streets and neighbourhoods.
 - Main streets support walkability by framing the sidewalk with a strong “human-scale” edge that has narrow units with many doors and windows.
 - 85% of Toronto residents think it’s important to be able to walk or bike to shopping districts.
 - On average, 30% of all case study main street customers live within a 10 minute walk (800 metres).

“Local business makes this a neighbourhood. I bought my house based on walkability to groceries, dry cleaning, the library, etc. Main streets are essential.”

(Online Residents' Survey Response)

5. They support economic development goals.

- Independent businesses in the retail and consumer services sector employ 647,843 people – 42% of total jobs in Toronto (This total includes office-based professional services located on upper floors as well as ground floor businesses on main streets).
- Independent businesses are more likely to have local supply chains than corporate chains and therefore generate a larger local economic impact. A study in San Francisco estimated that increasing independent merchant market share by 10% would yield \$200 million in local economic activity.
- Independent businesses incubate new concepts in products, services and business models.
- Independent businesses differentiate and diversify Toronto's shopping and dining experiences. They provide “authentic” products and experiences valued both by local residents and tourists.

6. They support social inclusion and equity goals.

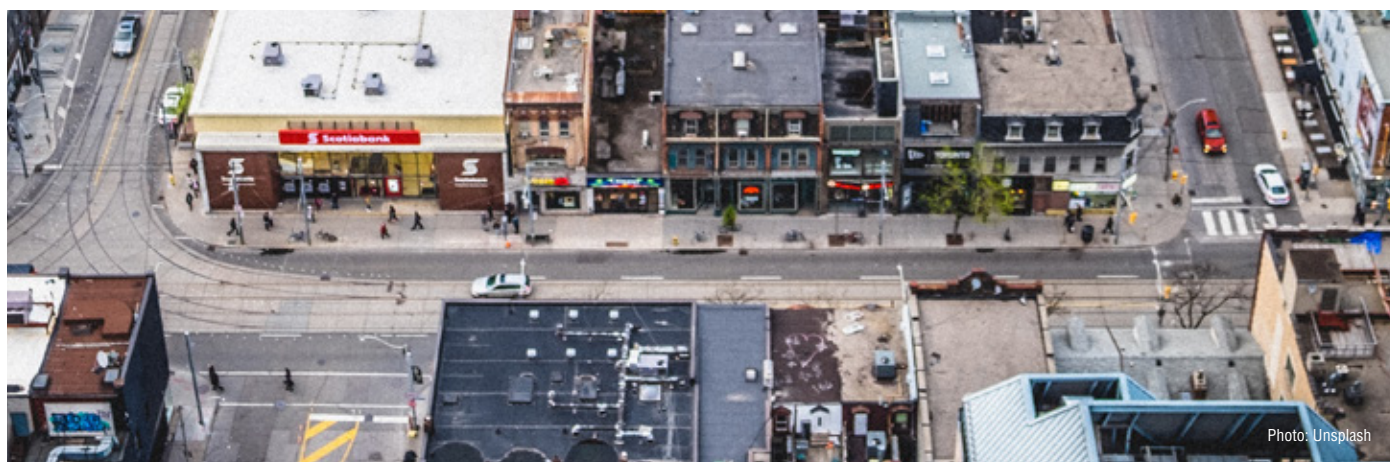
- Newcomers have often looked to entrepreneurship as the best route forward to making a living in Canada. Opening main street businesses has been an important part of this journey.

7. They support broader societal and civic engagement goals.

- 76% of the independent businesses surveyed are motivated by a desire to contribute to community. 55% said that they want to enrich others' lives.
- Self-employment and family-run business is a lifestyle of choice for many. 75% of businesses are motivated by “doing what I love”, 52% by “being my own boss”.
- Secondary research documented positive relationships between the proportion of independent businesses in US communities and the number of community associations and voter turn-out rates.

“Local businesses in my ‘hood are participants and supporters of community events, volunteers on committees, lead initiatives for those in need, create a feeling of safety, personal connection, history and permanence. They become friends with many of us and a point of contact during our daily lives”.

(Online Residents' Survey Response)



Main Street Businesses Serve the Local Neighbourhood to a Large Extent

8. On average, 30% of people visiting the case study main streets live within 800 metres.
 - There is a strong correlation between the socio-economic characteristics and trends impacting the immediate residential neighbourhood, the business mix, rate of turnover and general level of prosperity experienced on main streets.

Recent Trends

9. The number of retail stores selling goods (excluding automotive) in Toronto decreased between 2011 and 2018, especially in non-food categories. The trend was similar for both independent businesses and chains (four or more Canadian locations).
 - This probably reflects the growth in online shopping, among other factors.
 - It is noted that Canada currently has a lower rate of online shopping adoption than many other countries. It is possible that the rate will increase in the future, leading to further reductions in bricks and mortar retail locations.
10. The number of service establishments increased - food services by 13% and non-food services by 5%.
11. The proportion of independent businesses relative to chains in the city as a whole remained fairly stable between 2011 and 2018.
 - The exception was food retail, where the proportion of chain stores increased by four percentage points (from 23% to 27% of total establishments).
 - There were localized shifts towards more chain stores in three of the case study main streets – Albion/Islington, Lakeshore/Islington and Yonge North of Carlton.
12. There was a decrease in micro-independent businesses' (0-5 employees) share of total establishments between 2011 and 2018, especially in the food retail and food service sectors.
13. Toronto main streets are known for their abundance of small retail units and properties that are suitable locations for owner-occupied businesses and smaller landlords and businesses.
 - The last few years (2013-2019) have seen some changes to the availability of affordable locations for small business.
 - Retail rental rates fluctuate widely across the city. Amongst the eleven main street case study areas they ranged from about \$65 p.s.f. in Yonge North of Carlton to about \$12 p.s.f. in Albion/Islington (net rent).
 - 23% of the business survey respondents who rent space indicated that securing affordable space was a significant challenge impacting their business success.
 - Some main streets are experiencing extremely rapid rates of rent escalation. Average rents in six of the eleven case study main streets have increased faster than the city-wide average since 2013 –Yonge North of Carlton, Kensington Market, Yonge North of Lawrence, Queen East of Victoria, the Danforth/Pape area and Yonge North of Finch.
 - Rents in other main streets have remained fairly stable, increasing at rates at or below the rate of inflation.
 - There has been a shift in ownership from owner occupied properties to REITS, institutional investors and private equity firms. The extent of this trend also varied by district.

14. Space affordability also is impacted by property tax, which is based on current value assessment (CVA).
- There is wide geographic variation in changes in commercial (CT) assessment among the case study areas.
 - The variation is directionally aligned with the trends in average rents. This means that businesses located in the main streets with high rent increases also are experiencing high property tax increases (which the City of Toronto currently caps at 10% per year for CVA-related increases).
15. The online business survey asked whether sales had increased, decreased or stayed the same over the last two years. There was an almost equal breakdown in responses:
- 37% said sales had increased;
 - 34% that sales had decreased; and
 - 29% that sales had stayed about the same.
16. The most common reasons given for sales increasing or decreasing related to demographic or physical changes in the neighbourhood.
- This reinforces the critical importance of **tackling business revitalization at the neighbourhood level** such as is done by Toronto's BIA program and the Economic Development and Culture's Division BIA Office.
 - It also emphasizes how important it is for individual BIAs and businesses to understand the demographic profile of their immediate neighbourhoods so that they can better respond to local needs, challenges and opportunities.
17. It is noted that the study's time frame coincided with a period of economic growth and prosperity in Toronto.

Critical Factors for Business Success:

18. The research and interviews indicated the importance of:
- Predictable and stable costs.
 - A transparent and efficient regulatory framework.
 - A cost-competitive business environment when compared to other business models (e.g. online) and other locations (e.g. big box, other municipalities).
 - Efficient good quality public infrastructure and services.

City-wide Issues impacting Independent Business Success

19. The main city-wide pain points that surfaced in the online survey and interviews related to:

1. Costs of doing business:
 - High costs (especially staffing, rent, property tax, inventory, fees).
 - Sharp increases/unpredictable cost (especially staffing, rent, property tax).
 - Financing hard to access.
2. Regulatory framework (City, Province, Federal):
 - Unclear regulations (hard to find, difficult to understand, inconsistent interpretation).
 - Time needed to comply (hours of effort, timeline).
 - Changes/new regulations (lack of communication, advance notice, additional costs of compliance).

3. Lack of time or specialized knowledge:
 - HR, employment standards, labour law.
 - Building and renovation requirements (contractors, engineers, architects, etc.).
 - Finding space and negotiating leases.
 - Up-to-date business practices (e.g. digital and omni-channel implementation, “last mile” delivery/pickup), inventory control and sourcing, industry trends and best practices, succession planning and selling businesses).
4. Municipal infrastructure and services:
 - Construction in area.
 - Lack of parking or transit access.
 - Area cleanliness, maintenance.
 - Garbage and recycling.
 - Safety and social issues.

The most frequently cited challenges to business success were:

1. Cost of staff (51%);
2. Property tax (51%);
3. Rents (50%);
4. Parking 44%); and
5. Cost of doing business (i.e. recycling, maintenance) (43%).

Local Area Issues Threatening some Main Streets

20. Some main streets are experiencing extremely sharp increases in rents, property sale prices and assessments. Property ownership is becoming increasingly concentrated in REITS, institutional investors and private equity firms. Redevelopment pressures are mounting. This has created instability and increased occupancy costs (often unanticipated) for local businesses.
21. Some main streets have experienced localized decreases in the proportion of independent businesses, most notably on Yonge North of Carleton and in the Albion / Islington and Lakeshore / Islington areas.
22. Businesses in some main streets reported significant public safety concerns. The affected areas include Downtown Yonge, Kensington Market, Queen Street East of Victoria, Chinatown and Danforth / Pape neighbourhood.



Photo: 360 Collective

FRAMEWORK FOR ACTION

How can the City of Toronto better support independent main street business success?

The surveys, interviews and other research conducted for the main street study provide a factual basis for action. The research highlighted how important independent main street businesses are to city residents' quality of life, city neighbourhoods' quality of place and walkability and the economy. It has demonstrated the breadth of issues that impact independent main street business success as well as the foremost pain points independent main street businesses are experiencing and their key requirements for success.

The issues the City should focus on to better support independent main street business success were discussed with City staff. It was determined that the following parameters should define priorities.

1. Support over-arching City objectives.
2. Focus on actions that are within the City's mandate.
3. Attack drivers versus symptoms and focus on actions with a strong likelihood of success.
4. Don't duplicate other ongoing studies or initiatives.
5. Build on, leverage and fill gaps in current service delivery.
6. Focus on actions that can be researched and developed within study timeframe and budget.
7. Focus on actions that promise to be cost effective to implement.

The central goal was to identify pragmatic actions that would make a difference to independent businesses and main streets.

It was recognized that many important issues could not be addressed. These include:

- The cost of doing business – many factors determine pricing and cost factors, most of which are beyond the City's mandate.
- Issues related to staffing – wage levels, employment and work place standards are regulated by the Province. The study did consider strategies for providing information, guidance as to interpretation and facilitating access to HR and legal professionals.
- Regulatory framework – the content and rationale for various regulations, permits and licenses or the associated processes were not analysed. The study did consider means through which regulations and requirements can be made more accessible to independent businesses.
- Construction mitigation – this is the subject of a separate study currently being undertaken by the Economic Development and Culture Division.
- Service levels in providing municipal infrastructure and services – these are determined by many factors beyond the scope of this study.

RECOMMENDED ACTION PLAN SUMMARY

Official Recognition of Independent Main Street Business Importance

1. Request Council to adopt an explicit policy statement recognizing the key role that independent main street businesses play in the City of Toronto by contributing to its economy, quality of life, quality of place, and social inclusion and equity objectives.

Small Business Support Services

2. Pilot an explicit “Small Business Advocate” role as part of the City’s economic development services to provide one-on-one assistance in navigating City regulations, policies and procedures and act as a point-person for liaising with other City Hall front line service providers to develop tools and strategies for better meeting the needs of small business.
3. Implement a communications plan and outreach strategy focused on how Economic Development & Culture supports independent main street business success. The plan may include a rebranding of services to clarify their applicability to independent main street businesses throughout the City.
4. Continue to disseminate information and organize workshops, webinars, etc. to help businesses understand the regulatory framework and key business requirements (e.g. understanding commercial leases).
 - a) Develop a broader audience and greater reach for sessions by facilitating their repetition by BIAs and other business associations and chambers of commerce.
 - b) Encourage information sharing among individual BIAs, chambers of commerce and other business associations as to effective tools and contacts they’ve used to better inform their members.
5. Explore options for facilitating independent businesses’ access to professionals and experts.
 - a) Promote “Ask the Expert” workshops to main street independent businesses through BIAs and other business associations. Consider topics of specific interest to this audience (e.g. commercial leasing).
 - b) Explore the feasibility and associated resource requirements of expanding the vendor listings maintained by Digital Main Streets to include other categories of services needed by main street independent businesses.
6. Explore whether the Digital Main Street training model is transferable to other types of training relevant to main street independent businesses and whether it is feasible to also serve main streets that are not BIAs.
7. Consider increasing financial support for independent main street businesses, such as:
 - a) Financial support for hiring professional services. Eligibility could be targeted at specific priorities and categories of businesses – for example legal services for negotiating commercial leases, professional services needed to comply with regulatory changes, businesses in their first five years of operation.
 - b) Façade improvement grants for main street property owners located outside of BIAs.
 - c) Grants to property owners and tenants for interior renovations and leasehold improvements. Eligibility could be targeted at specific priorities and categories of business – for example renovations needed to comply with regulatory changes, properties that have been vacant for extended periods of time, new businesses moving into their first bricks and mortar location.
8. Consider collaborating with the Business Development Bank of Canada to review the Small Business Loan application process and strategies for making the program more accessible to main street independent businesses.

Independent Businesses' Access to Space

9. Continue to:
 - a) Use planning tools to reserve space in large scale retail developments for smaller businesses and to support business incubation.
 - b) Develop, encourage and support programs providing low-cost space on short term leases to entrepreneurs and start-up small businesses and which support their “incubation” to become longer-term tenants.

Property Tax Policy

10. Ameliorate the impact of assessment volatility on business survival by continuing to cap annual property tax increases.

Public Safety

11. Create an online resource to make the Community Safety Toolkit developed as part of this study accessible to businesses throughout the city. Implement a media and outreach strategy to promote its use.
 - a) Consider the need for financial support to organizations for implementing community safety plans once the local needs have been identified.

Community Economic Development

12. Continue to facilitate community economic development focused on Neighbourhood Improvement Areas and the commercial districts that serve them.

Metrics, Monitoring and More Detailed Analysis:

13. Undertake further analyses of:
 - a) The extent to which space in new retail developments on main streets has been leased to independent businesses versus chain stores and franchises. Identify and assess any barriers being encountered in making newly constructed retail space accessible to independent businesses and consider the need for additional policy or program responses.
 - b) The incidence and impact of commercial assessment increases based on unrealized redevelopment potential versus current use. Monitor Vancouver's exploration of “split assessment rolls” and planned introduction of measures to reduce the impact of increases due to unrealized development potential on businesses.
14. Develop an “Independent Main Street Business Dashboard” and publish it annually in a consistent manner so that year-to-year changes can be monitored.
15. Undertake a follow-up comprehensive study of the Current State and Future of Toronto's Main Street Businesses in five years time (2024) to monitor changes and inform the need to amend policies and programs.



Photo: Unsplash