

OBSERVATION

TD Economics



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TORONTO - A RETURN TO THE CORE

Highlights

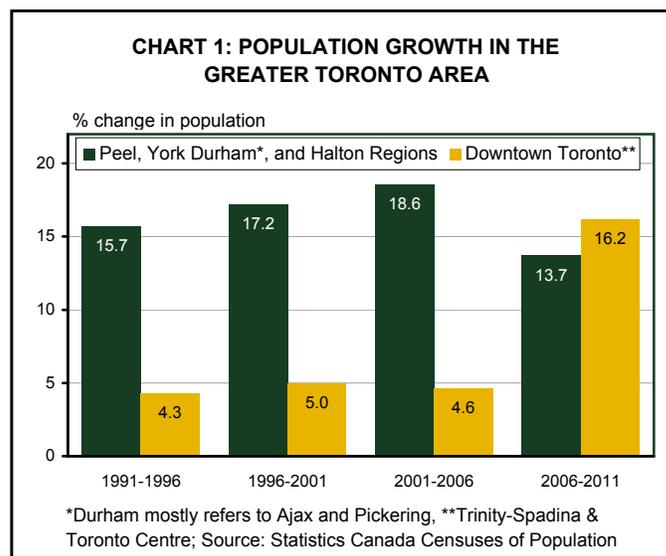
- Toronto's vibrant downtown core has seen a revival of population growth over the last five years, driven in large part by a growing Echo Boomer segment.
- This highly-skilled, highly-educated, and young population is trading the larger and (relatively) more affordable housing choices of their parents for proximity to transit, work, and amenities.
- The growing desire to locate downtown has prompted a wave of condo development. An increasing number of businesses are also acquiring office space in the core in order to be closer to this growing labour pool. New business creation, employment gains and population growth in the downtown core are now outpacing that in the surrounding suburbs, reversing a decades-long trend of exactly the opposite.
- Overall, these trends represent a huge opportunity for the City of Toronto, but it does create challenges. Notably, the city's already-strained road and transit infrastructure could face additional pressure.

Since 2006, the Toronto region has seen a revival of population growth in its downtown core. While decades prior saw an exodus of baby boomer families heading towards the outer-suburbs for larger and more affordable housing, the last five years have seen a very different trend. Young echo boomers have now become a key demographic. These individuals and young families are choosing quicker commute times, proximity to amenities, workplaces and transit, locating themselves in the downtown core's many mixed-use communities. Moreover, employers are now catching on to this recent trend and are increasingly locating themselves within the downtown core as well, hoping to attract this highly-educated, highly-skilled labour force. This also reverses a prominent trend of the last few decades in which businesses were choosing to locate in other municipalities in order to avoid the high commercial real estate costs of downtown Toronto.

Move over baby boomers

Chart 1 shows this dramatic reversal in population trends. The pace of population growth in the downtown core more than tripled in the 2006-2011 census period relative to previous censuses. It also outpaced growth in the four surrounding suburbs – the Halton, York, Peel, and Durham regions – something that has not happened since the inception of those municipalities in the early-1970s.

This shift was driven in large part by the growth in the echo boom population (Chart 2) which, as of 2011, is now the largest age group in Canada. Born between 1972 and 1992, these 19 to 39 year olds represent roughly one-quarter of Ontario's popula-



tion, but are significantly overrepresented in downtown Toronto. According to the 2011 census, close to half of the downtown core's population is made up of echo boomers (Chart 3) who were responsible for 70% of the total population growth since 2006. As a result, the median age in the downtown core is only in the mid-30s, while it has pushed above 40 in the rest of Ontario.

In addition to being younger, the downtown core is also home to the more highly-educated. The share of the population aged 25 years and over with a post-secondary education is almost 20 percentage points higher in the downtown core than in Ontario.

The attraction of convenience

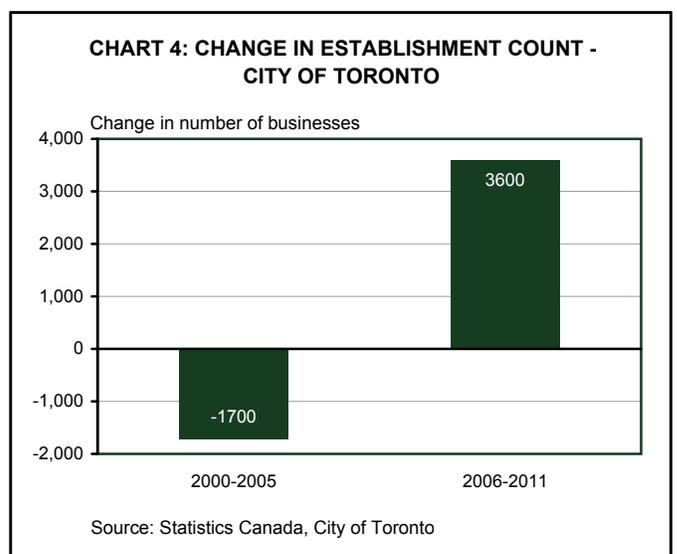
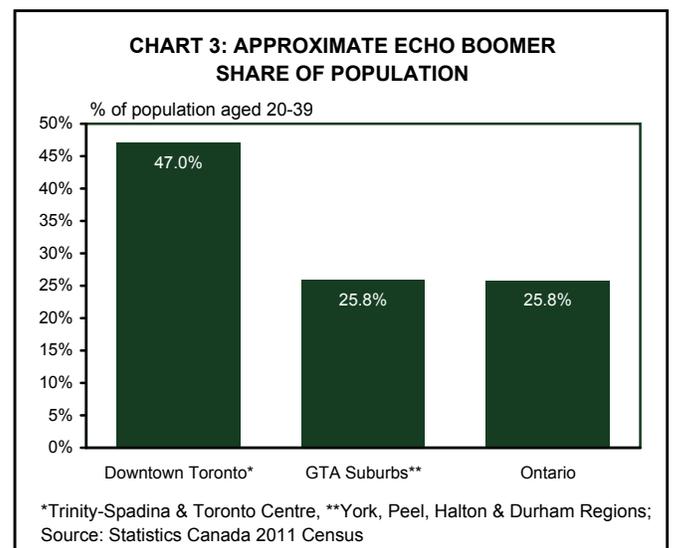
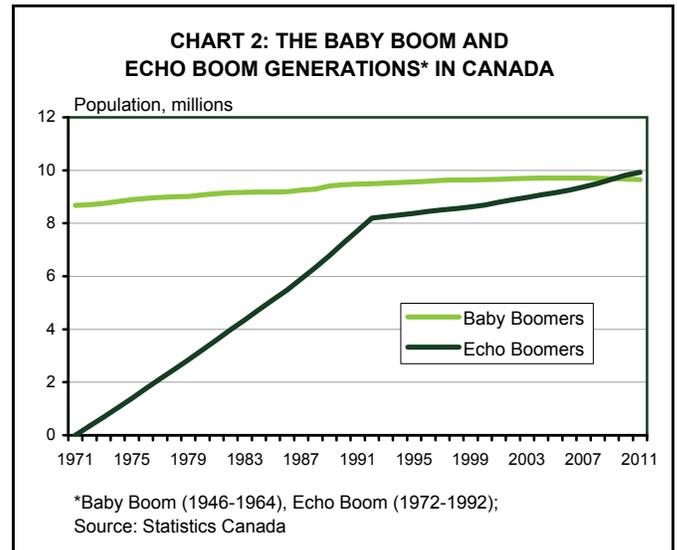
While the previous generation fled towards the outer-suburbs for larger and (at the time) more affordable housing, this new generation of Torontonians is being pulled back to the core, attracted by shorter commute times and access to the core's transit hub. According to the 2011 Living in the Downtown and Centres Survey conducted by the City of Toronto, access to public transit and being close to work were the top two reasons why residents choose to live downtown. It is no surprise why. The current generation of workers is much more likely to switch jobs or careers throughout their lifetime than the previous generation, requiring more flexibility with respect to commuting in order to facilitate that.

The desire to live in the core has also gone hand-in-hand with an increase in housing choices. The gentrification of formerly-deteriorating industrial and commercial areas has led to a massive development of condominiums hoping to ride the wave of increased housing demand. According to a recent report prepared for the City of Toronto, just under 50,000 condo units have built, sold, and occupied in the downtown core south of Bloor Street since 2000. As of the end of 2011, more than 90,000 additional condo units have been approved to be built within the City of Toronto, the majority of which are planned for the downtown core.

Young? Highly-educated? Sign here

So adding all of this together, downtown Toronto now houses a rapidly growing, young, highly-educated population that is generally restricted to working along public transit lines.

This is not lost on employers. With a rising share of their existing workforce pushing close to and beyond the normal retirement age of 65 years, employers are concerned about

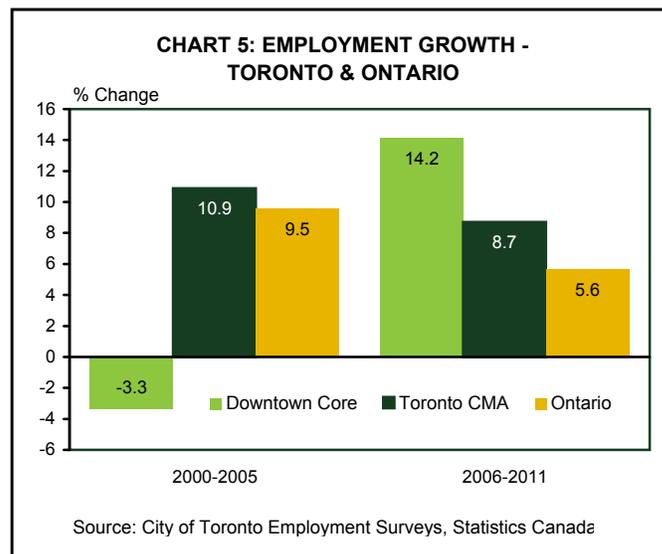


high-skill labour shortages and have needed to find new ways of attracting precisely the young, highly-educated people now concentrating in downtown Toronto. Since 2006, a rising number of employers have located there specifically to do so. However, the growing echo boomer segment does not just represent a pool of labour, but a growing market, as well – businesses are also locating downtown simply to draw on rising demand for goods and services. This, again, reverses a trend that began in the early-1990s where businesses fled to the surrounding suburbs in order to avoid the higher costs of locating in the downtown core (Chart 4). And commercial real estate developers are catching on as well. For the first time in twenty years, there are new buildings being built and completed in the downtown core and growth in commercial real estate space is outpacing the surrounding suburbs. Since 2009, 4.7 million square feet of office space has been built in the city of Toronto relative to 3.9 million in the surrounding suburbs. Like the condo boom, the majority of that development has occurred in the downtown core – although, it is worth noting that a portion of high-rises are being developed as “mixed-use” buildings which house a combination of commercial space and residential units.

As a result of this residential and commercial development boom, employment has skyrocketed. Double-digit job growth in the downtown core between 2006 and 2011 heavily outpaced that in the surrounding suburbs (Chart 5). This pace is a far cry from the 2000 to 2005 period in which downtown jobs were outright lost.

Final thoughts

These trends represent a substantial turning point for the City of Toronto. While notionally a positive development, growth can create challenges. Rising population density, specifically along transit lines, will put serious pressure on the city’s already-strained road and public transit infrastructure. Furthermore, the employment base will need to keep



pace with population growth in order to ensure that recent trends are sustained. However, Greenbelt legislation in the province has physically limited the amount of space available for development. Property developers have heavily favoured condos over office real estate due to the higher demand for living space. This could potentially lead to a shortage of office space in the future to employ the city’s growing workforce.

It is also uncertain as to whether or not these trends are permanent. The echo boomer segment could begin demanding larger homes as they begin having children, leading them back to the surrounding suburbs. Conversely, they may decide to raise families in the downtown core. Or their flight to the suburbs could be offset by aging baby boomers downsizing from their current homes and relocating to the downtown core, as well. So while these trends represent a huge opportunity for the City of Toronto, some growing pains could be in the docket on its way to becoming a world-class city.

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