

DRAFT June 2nd



EMPLOYMENT STRATEGY DISCUSSION PAPER 2051 ADDENDUM

PREPARED FOR:
REGION OF PEEL



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Regarding: Employment Strategy Discussion Paper – 2051 Addendum

Cushman & Wakefield is pleased to provide this *2051 Addendum* to our earlier *Employment Strategy Discussion Paper* ("*Employment Strategy*"). This document focuses on a number of topics, including evolving policy decision-making related to employment lands, Peel Region Council's decisions regarding the GTA West Corridor, and recently completed population and employment projections to the 2051 forecast horizon. Of course, the influence of the COVID-19 pandemic, recession, and recovery – and impacts on employment and real estate markets/land demand – is also addressed.

This *2051 Addendum* revisits the strategic recommendations from the *Employment Strategy* in light of current economic and market conditions. We look forward to discussing the analysis and strategies with you.

Respectfully submitted,

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1.0 INTRODUCTION

1.1 Overview and Purpose

Cushman & Wakefield delivered the original *Employment Strategy Discussion Paper* (“*Employment Strategy*”) in September 2017, and an update in February 2019. It has subsequently informed a range of land use and planning policy decisions in Peel Region. Of course, a lot has changed since this time.

The COVID-19 pandemic has caused planners to reevaluate land requirements to adjust to new employment realities and associated real estate needs. Evolving policy decision-making related to employment lands (such as the introduction of Provincially Significant Employment Zones) and decisions regarding the GTA West Corridor (no longer supported by Regional Council) must now be considered. As well, recently completed population and employment projections to the 2051 forecast horizon may now be taken into account. All of the preceding necessitates a reexamination of the strategic directions from the *Employment Strategy*, and is the purpose of this *2051 Addendum*.

Upon review, significant portions of the *Employment Strategy* remain supportable in the current environment. This *2051 Addendum* focuses on key areas of change that have been identified; it is intended to be read as a companion to the original report, and not as a standalone document.

2.0 RECENT CHANGES TO EMPLOYMENT POLICY FRAMEWORK

2.1 Introduction of Provincially Significant Employment Zones

2.1.1 Overview

Provincially Significant Employment Zones (PSEZ) were introduced by the Province of Ontario/Ministry of Municipal Affairs and Housing in 2019. As areas of high economic output, PSEZ are strategically located to provide stable, reliable employment across the region. They enable opportunities to improve coordination between land use planning, economic development, and infrastructure investments to support investment and job creation over the longer-term. *A Place to Grow: Growth Plan for the Greater Golden Horseshoe* sets out new policies that protect employment areas critical to the local and provincial economy. These policies give municipalities the flexibility to change the use of lands from employment areas to other uses, while making sure key employment areas are protected for the long-term.¹

2.1.2 Impact on Employment Strategy

Peel is home to several PSEZ (some of which overlap into an adjacent municipality). These include:

- Zone 13 – along The Queensway East in Mississauga, west of Highway 427.
- Zone 14 – a large zone generally west of Toronto Pearson Airport, extending along Highway 401, Highway 407, and north along Airport Road.
- Zone 15 – on Bolton’s west side, incorporating northeast Brampton, and extending into Vaughan.
- Zone 16 – along the CP Rail line at Mavis Road/Burnhamthorpe Road West, in Mississauga.

¹ <https://www.ontario.ca/page/provincially-significant-employment-zones>

- Zone 17 – incorporating Mississauga’s Southdown Employment Area, and west into Oakville.
- Zone 18 – along Highways 401, 407, and 403 in the west/central part of Mississauga.

Provincially Significant Employment Zones can consist of employment areas as well as mixed-use areas that contain a significant number of jobs. Lands within a PSEZ may not be converted to a designation that permits non-employment uses until a Municipal Comprehensive Review occurs (unless the affected part of the employment area is located within a Major Transit Station Area). The identification of PSEZ is aligned with the *Employment Strategy’s* recommendations regarding identifying and protecting employment lands in Peel to meet anticipated growth projections.

2.2 Peel Region Council’s Decision on GTA West Corridor

2.2.1 Overview

The GTA West Corridor is a proposed new multi-modal transportation corridor that would include a 400-series highway, transitway, and potential goods movement priority features extending from Highway 400 (between Kirby Road and King-Vaughan Road) in the east to the Highway 401/407 ETR interchange area in the west.² In March 2021, Regional Council passed a resolution opposing any and all advanced construction associated with preparations for a GTA West Highway and Transmission Corridor; to support the request for a federal Environmental Assessment; and to oppose in principle the construction of any transportation corridor traversing the Region of Peel. Council also passed resolutions requesting that the Provincial government study alternatives to the GTA West Transportation Corridor such as the proposed Brampton Boulevard, and that Provincial money budgeted for the GTA West Transportation Corridor be invested into regionally connected transit, active transportation, and other sustainable modes of transportation.³

2.2.2 Impact on Employment Strategy

Council’s decision to oppose the development of the proposed GTA West Corridor is not aligned with the recognition of the *Employment Strategy* that highway access is increasingly important to fostering growth of Employment Land Employment. The GTA West Corridor would have greatly enhanced mobility (particularly for goods movement) across southern Caledon, and “unlocked” lands for employment uses by elevating their perceived site selection attributes among prospective users. As a result, lands in proximity to in-place major highway infrastructure (Bolton’s proximity to Highway 427 and the Mayfield West area’s proximity to Highway 410) take on greater importance with respect to planning for ELE opportunities in south Caledon, and established employment areas require protection from future conversion. This issue is identified in Cushman & Wakefield’s *Employment and Commercial Opportunities Technical Study* work that forms part of Peel Region’s Settlement Area Boundary Expansion project.

The GTA West Corridor would have helped to ensure a broad variety of suitable employment lands from a location, size, servicing, and cost perspective by potentially introducing new well-connected employment areas across south Caledon – in particular at the interchange locations. Peel’s employment areas still offer a range of desirable site selection attributes to attract jobs over time. However, there is arguably some increased risk to the forecast of Employment Land Employment being achieved in the absence of the new 400-series highway, as other municipalities compete to attract jobs.

² <https://www.ontario.ca/page/gta-west-transportation-corridor>

³ <https://www.peelregion.ca/council/decisions/#2021>

2.3 Settlement Area Boundary Expansion in Caledon

2.3.1 Overview

In November 2020, Cushman & Wakefield completed the *Employment and Commercial Opportunities Technical Study* to support the Region of Peel's Settlement Area Boundary Expansion study in south Caledon. The Technical Study explored real estate market and site section attributes across a previously identified Focus Study Area in order to guide the planning of future lands for employment uses. Ongoing work includes an examination of the impacts of Peel Region Council's decision regarding the GTA West Corridor.

2.3.2 Impact on Employment Strategy

The *Employment and Commercial Opportunities Technical Study* prioritized the planning of future employment lands in Bolton's PSEZ, and in Mayfield West near the intersection of the planned GTA West Corridor and Highway 410 north-south extension. Other lands in proximity to highway interchanges were also identified as well-suited to accommodate growth. Ongoing work is considering the impact of the absence of the major highway infrastructure, and the resulting increased importance of planning for future employment in proximity to existing highways, in order to accommodate occupier location preferences. Providing public transit connections to established and emerging employment areas will be critical to support their ongoing function, and to enable new areas to prosper (this is particularly true in the absence of the GTA West Corridor, which would have increased mobility across south Caledon).

3.0 EMPLOYMENT GROWTH FORECAST TO 2051

3.1 Introduction

The *Employment Strategy* incorporated an employment by industry projection to 2041. Subsequently, the Province released longer-term projections to 2051 (Growth Plan Amendment 1, adjustments to Schedule 3). These prior projections had been incorporated into planning for land needs in Peel Region, and refinements are now underway to reflect the 2051 forecast horizon. The following section highlights the changes to the employment forecast by type of employment and by local municipality.

3.2 Employment Growth by Type and by Local Municipality

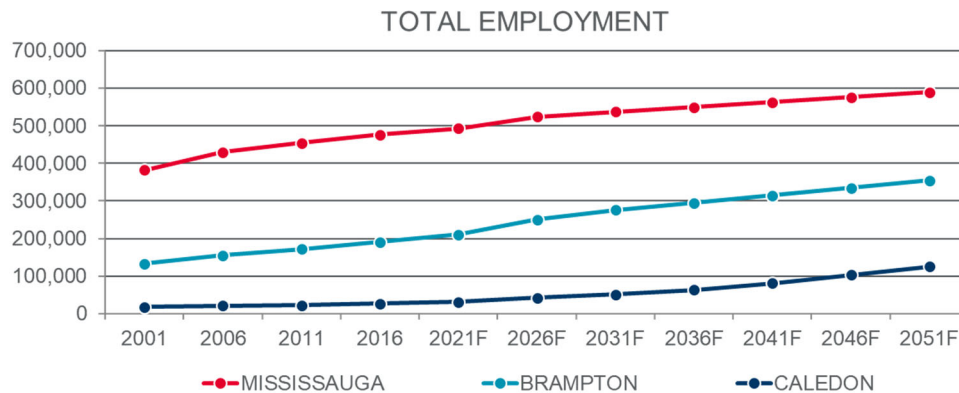
3.2.1 Total Employment

Hemson Consulting projects that total employment across Peel Region will surpass 1.07 million jobs by 2051. This represents growth of just over 375,000 jobs from 2016-2051, with Brampton leading the way (163,800 new jobs, representing a 44% share of the total increase), followed by Mississauga (113,200; 30% share) and Caledon (98,300; 26% share).

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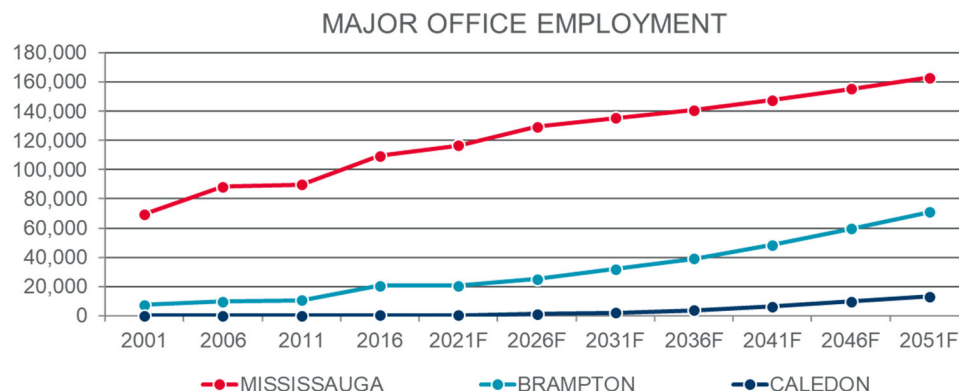
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TOTAL EMPLOYMENT BY MUNICIPALITY				
Year	Mississauga	Brampton	Caledon	Peel Total
2016	476,800	191,300	27,200	695,300
2021F	493,300	210,500	31,700	735,400
2026F	524,600	250,200	42,600	817,400
2031F	537,600	276,400	51,700	865,700
2036F	549,500	294,600	63,500	907,600
2041F	562,800	314,900	81,500	959,200
2046F	576,300	335,400	103,000	1,014,700
2051F	590,100	355,100	125,400	1,070,500
2016-2051	113,200	163,800	98,300	375,200
<i>Note: Values rounded to nearest 100.</i>				



3.2.2 Major Office Employment

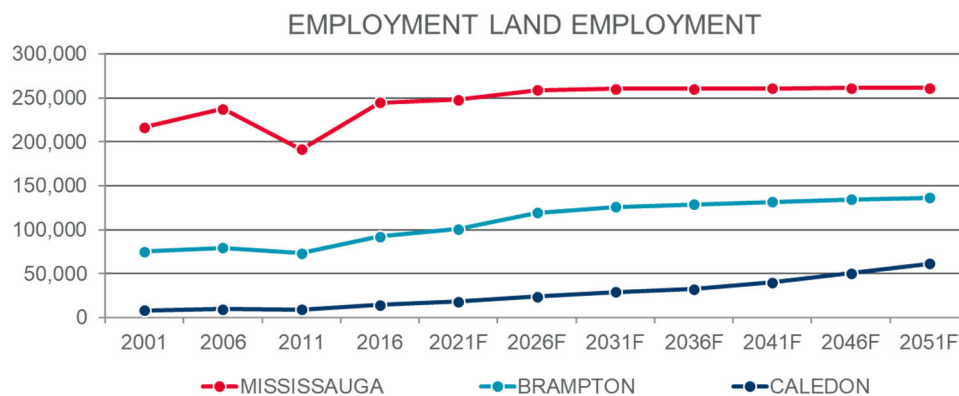
Across Peel, Major Office Employment is projected to increase by approximately 117,200 jobs over the 2016-2051 forecast period. This accounts for a 31% share of overall employment growth during this time. The *Employment Strategy* incorporated a projection to 2041 during which MOE was anticipated to account for a nearly identical 30% share of overall employment growth. For comparison, MOE represented an estimated 19% of total employment in Peel in 2016, with this share rising to 23% by 2051. This growth is projected to occur primarily in Mississauga (46% share of MOE growth) and Brampton (43% share), although new MOE jobs are also anticipated in Caledon (11% share).



3.2.3 Employment Land Employment

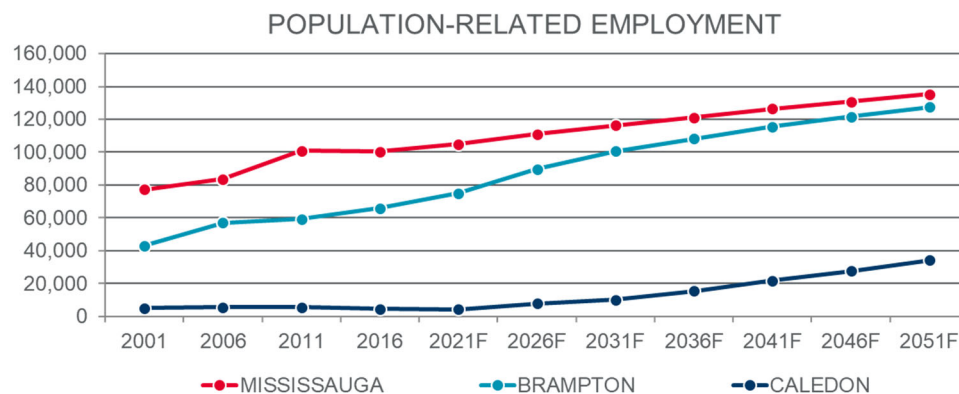
Employment Land Employment accounted for just over one-half of total employment in Peel Region in 2016 (51% share). From 2016-2051, it is projected that ELE growth will be approximately 107,600 jobs, representing a 29% share of total employment growth. The employment by industry projections to 2041 included in the *Employment Strategy* had anticipated that ELE would account for a 37% share of overall employment growth, so the more recent forecasts incorporate a notable downward adjustment in the distribution of employment by type as far as ELE is concerned (offset by an overall rise in other categories).

Caledon and Brampton are projected to account for the most significant share of these jobs (44% and 41% share, respectively), while Mississauga will account for a modest proportion of new ELE jobs (16% share). This is reflective of the remaining employment land supply in each municipality, and the nature of growth that is anticipated – including significant ELE greenfield growth in Caledon.



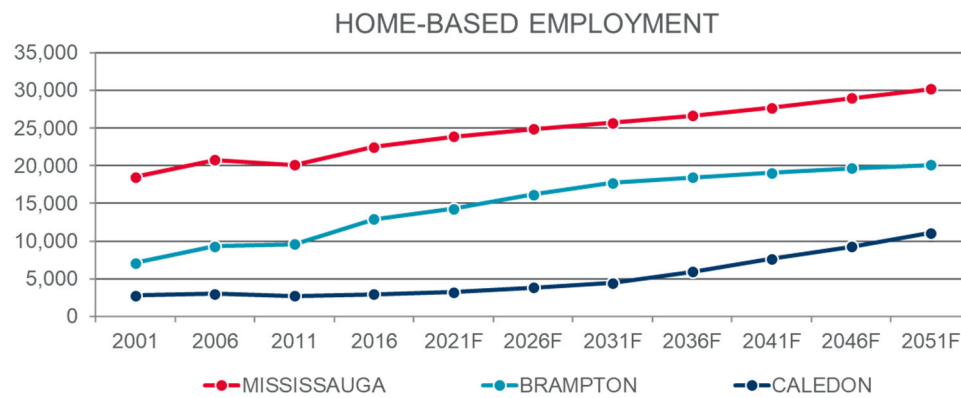
3.2.4 Population-Related Employment

Population-Related Employment represented a 25% share of overall employment in Peel Region in 2016. It is projected to account for just over one-third of total job growth during the 2016-2051 forecast period, adding in the range of 126,400 jobs. The projections used in the *Employment Strategy* anticipated PRE jobs to represent a 28% share of total employment from 2016-2041, which is six percentage points lower than the forecast share of growth through 2051 (34% share – the leading category of employment growth). Brampton accounts for the largest proportion of forecast PRE growth (49% of Peel's total growth), followed by Mississauga (28% share) and Caledon (24% share).



3.2.5 Home-Based Employment

Home-Based Employment (HBE) represented a 6% share of Peel's total employment in 2016. Some 23,000 additional jobs are forecast through 2051, divided fairly evenly across the local municipalities. This anticipated growth represents a 6% share of overall employment growth, versus the 4% share that had been anticipated through the 2041 forecast horizon in the *Employment Strategy*.



3.2.6 Impact on Employment Strategy

The 2016-2051 projection of employment by industry anticipates a greater extent of jobs to occur in the Population-Related Employment and Home-Based Employment categories compared to the earlier 2041 forecast horizon (of course, the increased population allocation to 2051 is the driver of greater PRE jobs). This is offset by a smaller share of employment occurring in the Employment Land Employment segment. Whereas ELE was forecast to account for the largest share of growth through 2041 at 37% of total employment, this has been adjusted downward to a 29% share (now trailing both PRE and MOE). This is in part due to changing plans for the future development of Heritage Heights in northwest Brampton – an original land use concept envisioned a greater extent of employment lands and ELE compared to a new plan which incorporates more mixed-use, transit-oriented development, generating more MOE and PRE uses. The outlook for MOE will require ongoing monitoring given the changing nature of office work due to the COVID-19 pandemic, which will be discussed in greater detail later in this report.

These changes have important implications for land budgeting for employment uses, and overall strategic growth management. The employment categories have different characteristics and needs, including employment densities (floor space per worker); land use patterns (differing built forms and varied site selection preferences); and infrastructure requirements (roads, water/wastewater, transit, etc.). Overall, employment in Peel is becoming increasingly more urban, as established employment areas continue to see land absorption, and more jobs are directed to strategic growth areas over time.

As expressed in the *Employment Strategy*, effective growth management is linked with implementation strategies and economic development efforts to attract and retain the different categories of employment. The risks to accommodating, sustaining, and growing employment lie in the misallocation of resources – either allocating too few, too many, or locating them incorrectly – which could contribute to the employment growth forecast not being achieved. Planning policy and land use designations need to align with the anticipated employment growth by type to ensure an adequate supply of lands in the right locations in order to capture growth as opportunities emerge.

4.0 REAL ESTATE MARKET PERSPECTIVES

4.1 Office Market Recent Performance

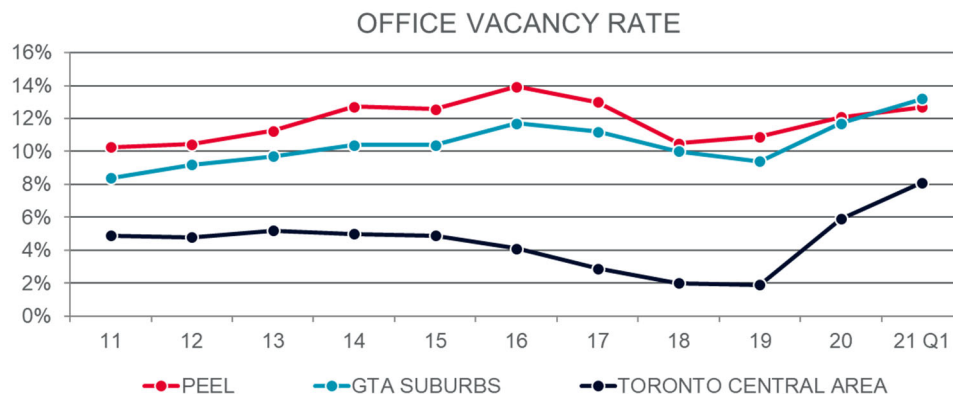
4.1.1 Introduction

Cushman & Wakefield recently released its 2021 Q1 office market survey data. This can be compared to year-end 2019 data to identify the impact of the COVID-19 pandemic on the GTA office market overall, as well as select submarkets in Peel.

4.1.2 Vacancy Rates

The overall GTA office vacancy rate at year-end 2019 was 5.6% (1.9% for the Central Area [Downtown and Midtown Toronto], and 9.4% in the Suburbs. At 2020 Q1, the overall vacancy rate stood at 10.6% (8.1% for the Central Area, and 13.2% in the Suburban markets). This profound adjustment in the level of available space is due in part to a significant rise in sublet space, which increased from 14% of all vacant space pre-pandemic to a present one-third share. Many office occupiers are postponing decision-making regarding their office needs, and some have placed unused space on the market as available for lease. It is unclear whether this is related to short-term strategies associated with work-at-home mandates, or linked to a structural change in demand for office space. Notable is the less pronounced increase in availability in the Suburbs, which are more auto-dependent, and less impacted by public transit commuting-related concerns.

In Peel Region, the local office submarkets had an aggregate vacancy rate that was slightly above the overall GTA Suburban average pre-pandemic (10.9% versus 9.4%), but vacancy in Peel has not increased as much as the overall Suburban market over the last year (current vacancy of 12.7% in Peel compared to 13.2% for GTA Suburbs as a whole).

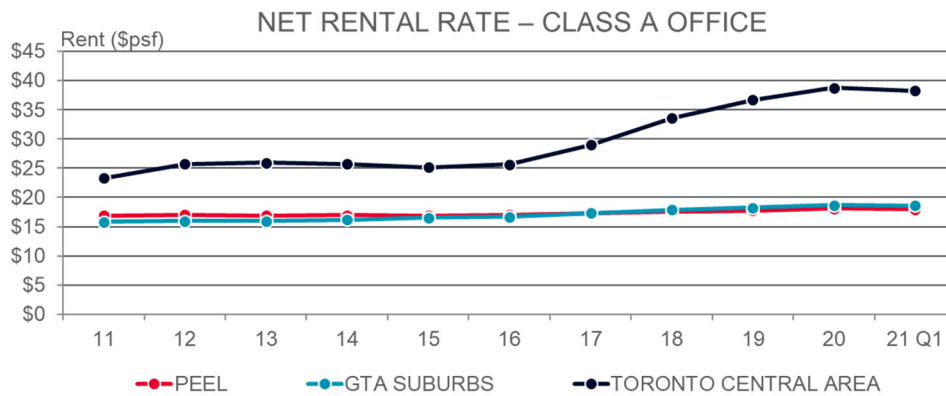


4.1.3 Rental Rates

Despite rising vacancy, asking office rents do not yet show an indication of an adjustment to weaker space demand. This may reflect a belief that demand will resume in a significant way once the return to office is meaningfully underway as the rate of new COVID cases declines in tandem with increased vaccinations. As well, those tenants that have delayed decision-making regarding near-term lease expiries, or those committing to only short-term renewals, will be faced with a commitment to make in the near future. It can be anticipated that rental rates will soften as landlord and tenant expectations adjust to market realities over the next few quarters.

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4.2 Office Market Trends

4.2.1 Overview of Recent Trends

Office buildings shifted from being 87% occupied globally in February 2020, to virtually empty in April 2020 (still leased, but without tenants). The office workforce endured a sudden, forced transition to a work-from-home paradigm due to the emergence of COVID-19. Cushman & Wakefield identifies the office sector as an “In-Between”; this is a reference to commercial real estate sectors that are being significantly impacted by the pandemic, but also have structural factors in place that are creating long-term tailwinds that will ultimately help these sectors re-emerge when the crisis is in the rear-view mirror. There is little doubt that the built environment will need to adapt as a result of these unfortunate circumstances. The bigger question is whether the office has changed forever, or if we even need offices at all. The unequivocal answer to both questions is “yes”. Leaders that perhaps weren’t historically on board with the idea of remote working have seen irrefutable evidence that individuals can remain effective while working away from the office.

The following reflects a range of sentiments regarding working from home, and the changing office ecosystem, drawn from discussions with office occupiers and landlords over the past year:

- “We don’t feel as distant because we’re all working the same way.”
- “Just because employees have the ability to work from home, it doesn’t mean they necessarily prefer it. Some find it challenging and less productive, and can’t wait to get back to the office.”
- “Many workers who are executing well with work-from-home policies by necessity will be glad to return to the office when it is safe to do so, and they again have the choice.”
- “The ability to execute focused work is similar to pre-COVID-19, while teamwork has increased. However, the bond between colleagues is hampered by exclusively working from home, as is the connection employees feel with their company’s culture.”
- “The office is a place for memorable events, learning, teambuilding, socializing, and parties. The office will no longer be a place to come and sit silently in rows doing individual work – especially at historical city centre rental rates and commute costs.”

Going forward, the office of the future will become a place for connectivity – both virtual and physical. Businesses will need to create an environment that people will want to spend time in, as opposed to seeing it as a daily chore. This will impact space layouts, amenities, and location. The positive experience that many occupiers are having with working from home is now being considered a potential major turning point in how they think about real estate. Some companies are talking about a return to a “hub and spoke” model, with a higher quantity of smaller offices in suburban locations. Other firms will come back to the office providing more individual flexibility, allowing employees to work from home more often. Whatever the future holds, the discussion about office real estate has shifted from strictly urban to a broader range of alternatives, including the suburbs.

While Peel's office market accounts for a roughly one-third share of the total Suburban office inventory across the GTA, it has accounted for half of the new Suburban office construction completed this past decade, as tracked by Cushman & Wakefield. As described in the *Employment Strategy*, the emergence of new office nodes such as Vaughan Metropolitan Centre, Downtown Markham, Midtown Oakville, and East Harbour on the edge of Toronto's downtown (to name a few), will place increased competitive pressure on office attraction. Major Office Employment growth projections will not be achieved without planning efforts to direct development to strategic growth areas and support intensification of existing employment areas. As well, new and improved transportation/transit infrastructure is required to provide enhanced labour accessibility, among other considerations. The elimination of a twice daily commute for office workers during stay-at-home mandates is widely seen as a benefit of working remotely. Efforts to reduce crowding on transit vehicles and improve service frequency are keys to enticing workers back to the office.

The pandemic has created several forces that directly impact the office sector's fundamentals. Some of the impacts are cyclical – for example, the COVID-19 recession has resulted in office-using job losses, higher vacancy, and will place downward pressure on rental rates. Other impacts are structural, such as a greater share of employees who will regularly work from home (WFH). Cushman & Wakefield's perspectives on the outlook for the office sector are that the structural impacts of work from home will be offset by factors such as economic growth, population growth, and office-using penetration, which means demand for office will continue to grow over the next decade. One offsetting effect is the potential reversal of a decades-long trend of densification, in which businesses have been absorbing less space per office-using employee. COVID-19 is requiring society to physical distance in the near-term, which is disrupting this trend. It is still unclear if a reversal of densification – “dedensification” – will emerge in a meaningful way. At a minimum, Cushman & Wakefield believes that densification will stop, and that practices that allow for distancing, such as agile working and rotating shifts, will increase. Should densification begin to reverse in the aggregate, it would offset some of the loss in demand caused by more remote working – possibly offsetting it fully.

While work from home has benefits, a common workplace provides critical value to both firms and workers. Cushman & Wakefield believes that the paradigm of the future is a mix of traditional office spaces, home offices, and semi-public spaces. We also believe that it is very unlikely for the pendulum to permanently swing so far in one direction – particularly for firms that rely on innovation, knowledge spillovers, and creativity, to generate value and revenue. Overall, the present uncertainty regarding the future of office demand introduces additional concern that Peel's Major Office Employment forecasts may not be achieved.

4.2.2 Timing of Recovery

Early signals from U.S. market data from 2020 Q1 (the U.S. is further ahead in vaccination efforts compared to Canada, and fewer work-from-home mandates remain in effect) indicates some optimism for the office sector. Anecdotally, post-Labour Day is a targeted return to office date for many U.S. firms (this may be optimistic for Canadian markets, but perhaps not far off). Tours of office space by prospective occupiers accelerated dramatically across the U.S. in Q1, and the proportion of short-term lease deals (< 1 year term) was lower in each of the past two quarters compared to the recent peak in 2020 Q3. New sublet space added to the pool of available office space has also declined in each of the past two quarters. The extent of the permanent work-from-home shift is still unclear as to the overall impact this will have on office space demand, so the overall outlook remains uncertain, but the return to office in a meaningful way is clearly on the horizon. The go-forward effects on different office-using industries may be uneven, as may be the performance of various geographic submarkets. The next 12-24 months will be a period of adjustment, as more and more leases expire, and decisions need to be made about the office workplace ecosystem of the future.

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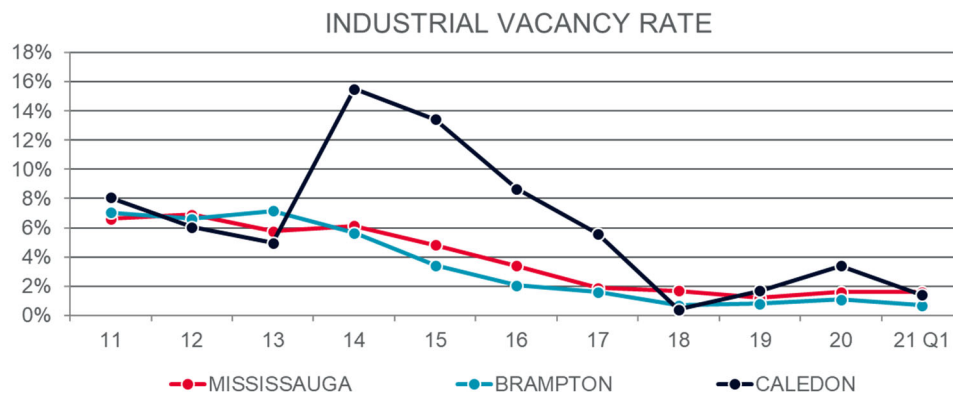
4.3 Industrial Market Recent Performance

4.3.1 Introduction

Cushman & Wakefield recently released its 2021 Q1 industrial market survey data. This can be compared to year-end 2019 data to identify the impact of the COVID-19 pandemic on the GTA's industrial market overall, as well as Caledon, Brampton, and Mississauga (industrial data is tracked by municipality – unlike office data, which is tracked by office concentration/submarket).

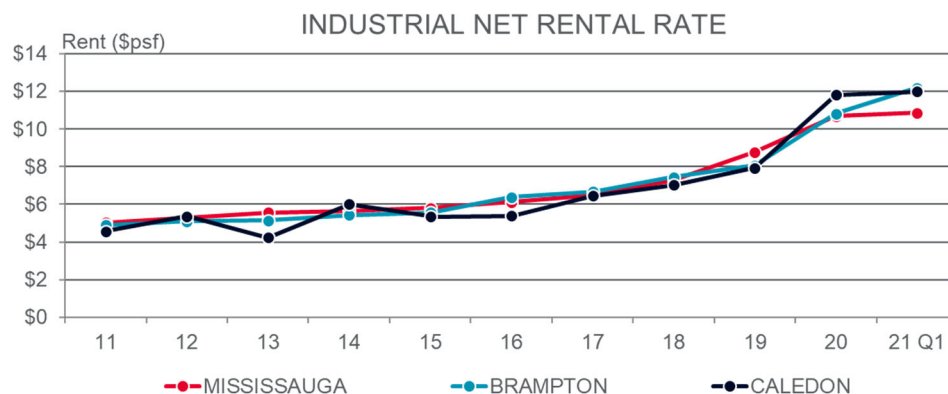
4.3.2 Vacancy Rates

The overall GTA industrial vacancy rate was 1.5% this past quarter. This is only 0.2 percentage points higher than the all-time low recorded at year-end 2019, and a testament to the resiliency of the industrial sector during the pandemic. The GTA's industrial vacancy rate has declined steadily from a level of around 7% back in 2010. In Peel, the same strong performance over recent quarters is observed. The three local municipalities have a vacancy rate in the range of about 1.0%-1.5%, and are essentially unchanged from pre-pandemic levels.



4.3.3 Rental Rates

Industrial net rents across the GTA continue to reach unprecedented levels. At year-end 2019, the average asking net rent was \$8.75 psf, which represented year-over-year growth of nearly 20%. At year-end 2020, rents approached \$10.00 psf, and the asking net rent this past quarter exceeded \$10.50 psf. Net rents have doubled in the GTA market over the past decade (for the period from year-end 2011 through 2020), and rents in Peel's local municipalities have followed a similar trajectory.



4.4 Industrial Market Trends

4.4.1 Overview of Recent Trends

Cushman & Wakefield identifies the industrial/logistics sector as a clear “Winner” among the various commercial real estate asset classes. The “Winners” are those sectors that were already benefiting from long-term demographic and structural shifts in the economy, only to see those shifts accelerated by COVID-19. The move to online shopping has been happening for some time now, and its rate of acceptance has expanded over the past year or more (out of necessity) due to lockdown mandates. With the sale of more products online, there is a need for the logistics space to house the goods outside of a traditional brick and mortar store. Especially in the COVID-19 era, consumers want goods shipped directly to them, cutting out the retail location as the middleman, going straight from business to consumer. This will drive the need for more industrial inventory in more locations, both for large box warehouse and “last mile” infill to reach the consumer more rapidly.

With increased consumer demand for goods at a faster, more streamlined rate, and growing retailer demand, the answer for suppliers is to invest in an e-commerce model for direct to consumer shipments. Greater adoption of e-commerce will take several years to implement across many markets, meaning demand will continue to be widespread for longer than just through the remainder of the pandemic.

As the world has adjusted to life during the COVID-19 pandemic, we have seen a marked acceleration in the adoption or improvement of supply chain innovations, and an opportunity to address some pain points that had been lower on the priority list for many industries. COVID-19 has amplified awareness of the need for contactless technology far beyond payment and delivery solutions used by sellers and consumers. Optical and voice-enabled technology, automation, and robotics will find new adopters in warehouse material handling equipment, order pick technology, and shipping/receiving processes. Robotics in the warehouse help limit contact among team members receiving goods, picking orders, and shipping them out. Autonomous vehicles may help to offset driver shortages to meet the increased demand for shipments to consumers, and to expedite the shipment of critical goods to rural or remote geographies with fewer transit options.

One of the most active property types in industrial real estate is cold storage. With online grocery more popular than ever before, restaurants and farmers forced to adjust their food supply chain, and the shutdown of some processing plants despite being “essential”, the need for cold storage warehouse space is growing like never before. These trends are likely to continue post-pandemic, with changing consumer preferences taking hold.

As a consequence of the impacts of the pandemic, some manufacturers are likely to hold more inventory as they seek increased flexibility and less vulnerability to disruptions. Diversifying component sourcing – including an emphasis on localizing or regionalizing components to be closer to plants while holding more inventories – will require additional logistics real estate. Reshoring or nearshoring would shorten supply chains, effectively reducing long lead times, thereby giving manufacturers more control over production quantities to allow for greater flexibility in response to demand.

The outlook for continued employment growth for industrial-type space appears robust. The industrial sector has performed very well during the COVID-19 pandemic, despite initial supply chain-related concerns. Mississauga and Brampton are two of the GTA’s largest industrial markets by inventory size, and Caledon has emerged over the past decade and is certainly now very much “on the radar” for prospective occupiers. Peel’s industrial areas have the key site selection attributes that occupiers desire, such as highway/transport infrastructure, labour availability, and an established business climate. While the GTA West Corridor would have added another vital east-west link to support goods movement, these markets exhibit very strong underlying fundamentals for industrial-type employment growth in the region.

4.4.2 Timing of Recovery

The industrial sector has been a leading commercial real estate sector, despite the recession linked with the pandemic. Across the GTA, new supply continues to be initiated, rental rates are at record highs, and vacancy is well below historic norms. There is really no “recovery” to be attributed to this sector; it has continued to be a driver of land demand and employment growth, and this is poised to continue for the foreseeable future. Growth will be fueled by strong demand from the e-commerce sector, reshoring of critical manufacturing, and rationalizations to existing supply chains.

4.5 Retail Market Recent Performance

Unlike the office and industrial markets, Cushman & Wakefield does not track vacancy and rental rate data for the retail market. A significant challenge in gathering retail market information is that shopping centre tenants often negotiate directly with a landlord, and these negotiations do not involve a real estate leasing professional/broker. Many major regional/national retailers have an in-house leasing team, and do not retain outside brokerage professionals. Accordingly, details of these leasing arrangements do not become known across the industry. This differs from the office and industrial markets, where real estate leasing professionals are much more frequently a participant in lease negotiations among landlords and tenants (indeed, both parties may have brokerage representation).

4.6 Retail Market Trends

4.6.1 Overview of Recent Trends

Pre-COVID, the “Most Challenged” commercial real estate sector, retail, had already been undergoing major structural changes leading to reduced demand for space and, at the same time, has been hardest hit by lockdown mandates. With so many stores forced to shut down, retailers have had to move sales strictly online. Although people still have to shop and necessity retail (grocery, drug stores, etc.) is doing well, bankruptcies are an unfortunate outcome of this pandemic.

Some restaurants started offering outdoor dining and take out with the hopes of surviving, and others turned their operations into ghost kitchens (delivery-only restaurants). After COVID-19, experiential concepts may come storming back. People are pining to go out and shop, eat, and be entertained – pent up demand will be unleashed. But there will be longer lasting implications for certain concepts, with continuing transition across the retail spectrum. The issue with this recession has not been one of demand; it’s been supply led. Households whose incomes have been sustained during the crisis haven’t had the chance to spend the money they’d like to... as opposed to not having the money to spend.

With the continued rise of e-commerce, the introduction of new paths to purchase, and the impact of COVID-19, mall developers are faced with difficult challenges and the ultimate question: what does the future hold for the shopping mall? When first developed, the mall welcomed everyone, and it housed everything. As time progressed, so did the mall. Movie theatres, food courts, and bars extended our stay and expanded our spending. Each year, developers, landlords, and retailers put more emphasis on driving footsteps to shops, restaurants, and theatres. Then, in the early 2000s, everything changed; consumers shifted their focus to experiences over clothes, and convenience over community. During the last decade, we have seen even further erosion of the mall experience. Malls have seen thousands of stores close, consumers disengage, and communities struggling to understand the intrinsic value to the neighborhood.

For the past several years, the department store model – once the lifeblood of the mall – has been in transition. There have been countless bankruptcies, closures, consolidations, and liquidations within this once formidable segment of the retail industry. At one time, department stores were the centre of the retail universe, and viewed as innovators in merchandising techniques and customer service. But unfortunately, department stores started to lag their nimbler competitors and saw market share slip. Besides having to deal with potentially millions of square feet which will need to be backfilled or repurposed, mall owners are faced with the related impacts on other tenants of the shopping centre. As the long-held belief that the department store was the anchor for a mall's success has diminished, we have seen several new, innovative uses replace these fortress stores. Examples include food halls, movie theatres, entertainment concepts, and gyms – and grocery stores could be next on the list.

This is a natural evolution of the slow but steady shift over the last decade of bringing more food and entertainment into the mall, while reducing the footprint of apparel, given its vulnerability to digital competitors. Adaptive reuse is another viable option mall owners could consider. Repurposing unused vacant spaces can be an excellent way to recoup revenue losses. The list includes uses such as: aquariums, casinos, community services, data centres, food halls, government offices, healthcare, health clubs, hotels, houses of worship, last-mile logistics/distribution, libraries and museums, multi-family apartments, schools, self-storage, senior housing, and trampoline parks.

Whether driven by “shelter in place” mandates across the globe, current consumer sentiment around venturing out into stores, or constraints around the number of shoppers allowed in stores to accommodate physical distancing, online shopping has seen a dramatic increase over the past year or more. Consumers are challenging companies to step up their digital capabilities, and to answer diverse needs for delivery of orders, ranging from traditional at-home parcel delivery to curbside pick-up to contactless delivery of perishable goods, and everything in between. The lines between how the customer shops in-store and via direct distribution are increasingly blurred, and successful companies will find new ways to leverage processes, diversify building and space types, and inventories, for a seamless customer experience.

4.6.2 Timing of Recovery

Changes in the retail sector have been underway for some time, with increased adoption of e-commerce causing store sizes to decrease, an increase in experiential concepts, and omni-channel product offerings. The pandemic has accelerated trends that were already taking hold, and bankruptcies and store closures will continue to alter the retail-commercial landscape. Pent-up consumer demand will underpin the recovery of the retail sector, once stay-at-home mandates are lifted, and vaccination levels reach critical thresholds. However, the recovery will likely be uneven and protracted, and it is unclear when pre-pandemic levels of employment will return.

5.0 STRATEGIC RECOMMENDATIONS

5.1 Overview

The recommendations contained in the updated *Employment Strategy* reflect conditions that were observed in late-2018/early-2019. Since then, the COVID-19 pandemic and associated economic recession and recovery have profoundly affected all aspects of the economy. Overwhelmingly, the recommendations put forward in the *Employment Strategy* remain appropriate today. Below, we discuss the ongoing importance of these recommendations; identify one specific recommendation that requires augmentation (monitoring MOE density); and provide two new recommendations (one linked to the changing nature of office work, and the other linked to evolving real estate market trends influencing the potential future adaptive reuse/redevelopment of shopping centres).

5.2 Major Office Employment (MOE)

5.2.1 **NEW RECOMMENDATION**: Monitor Impacts of the Changing Nature of Office Work

Pre-pandemic, the GTA office market exhibited near record low levels of office vacancy, rising rental rates, and a new development pipeline approaching 11 million sf of space (almost all located in Downtown Toronto). Office space was in high demand. The pandemic-linked forced work-from-home paradigm shift has resulted in a reevaluation of the role of the office workplace. Fundamentally, our offices serve two very distinct purposes: (1) *to enable our best work*: including colleague, team, and client connections; knowledge transfer, mentoring, and learning; ideation and brainstorming; exploration and networking; and concentration and focus; and (2) *to serve as a home for the organization*: including a physical expression of its values and culture; serving as an inspiring destination; advancing career development; fostering socialization, bonding, and belonging; and a place to showcase our expertise.

The need for office spaces will persist, although the way business manage their office workplaces – including floor plans/desk utilization policies/dedensification; in-office versus work-from-home flexibility policies; and more – will evolve, and remains uncertain at this time. The transition will vary across office occupying industries, across geographies, and over time, as in-place leases mature. These trends will need to be monitored to understand their impact on land needs and associated infrastructure requirements, and the extent of dedicated Home-Based Employment that emerges.

5.2.2 Suburban Locations Must Offer an Urban Environment to Compete for Sought-After Major Office Employment

Over the past five years, Downtown Toronto (7.3 million sf of new construction since 2016) has accounted for two-thirds of all new office supply across the GTA. There is a further 8.2 million sf presently under construction or firmly committed in the Downtown submarkets, compared to just over 200,000 sf in the Suburbs as a whole. In the near term, the Downtown office market in particular will face challenges related to uncertain occupier requirements in the return-to-work phase, at a time of rising vacancy and considerable new supply being added to the market.

Suburban municipalities must offer a compelling office site selection alternative on more than just a financial (rent) basis. Enhanced multi-modal transportation and an urban, amenity-rich environment is sought-after, and highly valued among office occupiers. This includes evaluating the impact of improved transit service levels and enhanced infrastructure (including broadband service) to established office nodes and ensuring that a high quality public realm is a feature of new development/redevelopment. This recommendation takes on arguably greater importance at this time, as major organizations are reevaluating their office needs. Peel has begun to address this through its Major Transit Station Area policy work to date.

5.2.3 Leverage Positive Spin-Off Effects from Major Office Development

Linked to the previous recommendation, it remains critical to ensure that land use planning provides opportunities for shopping, recreation, and other amenities to support the office workforce in established and emerging office locations. Urban, mixed-use nodes are likely to emerge as a location preference for office occupiers; therefore, capitalizing on the present dynamic environment from an office workplace strategy perspective is a unique opportunity. Peel can build upon its successes in attracting suburban office development going forward, and take actions to increase the attractiveness/competitiveness of its more urban nodes. Associated opportunities include directing new development to strategic growth areas; optimizing transit infrastructure and generating new ridership; and balancing development charge revenues through increased non-residential construction activity.

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5.2.4 Consider Financial Incentives to Attract New Office Development

The *Employment Strategy* identified a range of potential incentives to attract new office construction. The *Feasibility Assessment for a Major Office Employment Community Improvement Plan for the Region of Peel* recommended that the Region offer funding on a matching basis to each local CIP targeting Major Office Employment. This is an example of taking action on the *Employment Strategy*'s recommendations, and remains supportable given present GTA office market dynamics.

5.2.5 REVISED RECOMMENDATION: Monitor MOE Density to Understand Impacts on Real Estate Market

The monitoring guidance related to office employment density referred to in the *Employment Strategy* pertained to increasing densities (less office space per worker). The pandemic has almost certainly brought an end to this densification trend. While occupancy planning visions that will guide the preferred layout of the future office workplace are not yet known – and will play out over many years to come as in-place leases expire – there is a consensus that a greater allocation of space per worker is a likely outcome. Personal workstations may become less common as employees work from home part of the time, “hotelling” (shared workstations) strategies are introduced, and more communal spaces take their place in new floorplan designs. These dynamics will be critical to monitor, as they impact demand for new office construction/land absorption, along with financial considerations such as the collection of development charges and property taxes.

5.3 Employment Land Employment (ELE)**5.3.1 Identify Employment Areas**

The introduction of Provincially Significant Employment Zones (PSEZ) augments planning for employment growth and land needs budgeting, alongside other lands within Peel's municipalities that are designated as Employment Areas, as per Growth Plan requirements. The evolving planning policy landscape regarding employment areas must continue to be implemented across Peel's local municipalities, in order to plan for infrastructure needed to support these lands, and to protect them from conversion, as appropriate.

5.3.2 Protect Budgeted Employment Lands from Conversion

Municipalities must continue to protect the designated, budgeted employment lands that are necessary to meet employment targets from conversion to other uses. This guidance from the *Employment Strategy* remains equally important today, as plans for growth to 2051 are underway.

5.3.3 Ensure Variety of Employment Lands – Location, Size, and Servicing

The current Settlement Area Boundary Expansion project in Caledon will add to the Region's supply of employment land, and bring to market additional locations for growth, with varied parcel sizes and levels/timing of servicing. Broadband service within employment areas is another key site selection factor in the modern economy.

Planning for employment lands in Heritage Heights in northwest Brampton is an important opportunity. Caledon, Brampton, and Mississauga all continue to offer employment lands with excellent site selection characteristics to suit a range of occupier needs. This is critical, as low levels of vacancy, escalating rents, and very strong occupier demand is causing some businesses to explore leasing/new development in location alternatives such as Hamilton, Guelph, Kitchener, Waterloo, and municipalities north of the GTA, where there is growing interest.

5.3.4 Support Employment Land Intensification Opportunities

The *Employment Strategy* provided a recommendation to provide flexibility in planning policy to facilitate the redevelopment of older/dysfunctional industrial building to alternative uses. While this may displace/replace Employment Land Employment, such adaptive re-use of buildings could include more office-type functions – particularly firms seeking low-cost environments that do not need conventional office space (such as high-tech start-ups, and other “new economy” uses). This recommendation remains supportable at this time – particularly as businesses reevaluate their office occupancy requirements (non-traditional office buildings may play a role in future employment accommodation in a more dispersed office location strategy). While new office construction should continue to be directed to transit-supportive areas (such as Major Transit Station Areas), the adaptive re-use of aging/obsolete industrial facilities as low-cost office spaces should be supported, where market demand exists.

5.3.5 Support Redevelopment within Existing Employment Areas

The *Employment Strategy* identified that some industrial developers have sought opportunities to build a modern, large facility in place of several older, obsolete buildings. Such properties that are well located and accessible, and are home to industrial buildings that are older-generation (lower ceiling clear height, in need of significant capital repair, etc.) may be well suited to become a target for demolition. Such development permissions present the possibility of retaining jobs in existing employment areas, and this initiative is in support of the preservation of employment lands for ongoing employment uses.

Select employment areas will evolve over the longer term to provide a home to intensified uses, including mixed-use development. These opportunities exist adjacent to transit infrastructure (such as within Major Transit Station Areas) and at nodes and along key arterials that have a highest and best use that differs from the current on-the-ground built form.

5.3.6 Recognize that Highway Access is Increasingly Important

Direct or frictionless access to highways is vital as a site selection driver for many industrial occupiers. Warehousing and logistics uses are increasing as a component of the industrial stock, as e-commerce growth is necessitating new distribution models for retailers (a trend accelerated by the pandemic). Due to their large building footprint (and accordingly, land cost), warehousing and logistics uses are often attracted to large sites on the urban periphery. As discussed earlier, Council's decision regarding the GTA West Corridor presents a change in position from the direction recommended in the *Employment Strategy* (we appreciate that this decision is multi-faceted).

Many of Peel's established employment areas feature remaining undeveloped land that offers ready access to the GTHA's urban market and beyond, and will remain a sought-after location to accommodate ELE growth. From a market demand and site selection perspective, absent any new major highways being constructed, proximity to established major highway infrastructure is of heightened importance to facilitate the required labour access and goods movement to enable successful employment areas. Protecting these well-located employment lands from conversion – whether they form part of established employment areas, or those planned for future growth – takes on heightened importance in the absence of new major highway infrastructure, such as the GTA West Corridor.

5.3.7 Recognize that Multi-Modal Transportation Access is Increasingly Important

As noted earlier, providing/enhancing transit connections to established and emerging employment areas will be critical to support their ongoing function, and to enable new areas to prosper. Employers will increasingly be attracted to employment areas that offer good accessibility, to draw upon the regional labour pool. Providing public transit to serve employment areas can be challenging, from a ridership/service level perspective (and therefore, also a financial challenge). In planning for future land needs, it is an opportunity to designate additional lands with good highway access, while continuing to plan for expanded infrastructure such as arterial roads and new highways, along with transit and active transportation modes. These principles remain relevant in the current market environment.

5.3.8 Consider the Creation of an Economic Activity Area in Caledon

Employment Land Employment uses such as warehousing and distribution centres will continue to play an important role as a part of Peel's employment base, and land will be needed to accommodate continued growth. Of note, this is presently being addressed as an element of the Region's Settlement Area Boundary Expansion project in the Town of Caledon.

To help mitigate the impacts of goods movement – and to focus such operations and provide the supportive infrastructure they require – the creation of an economic activity area such as an “enterprise zone” or “business park” could be considered which includes a set of supportive infrastructure and land use policies to help foster business/industry clustering. The increased e-commerce activity that has emerged during the pandemic – and is likely to be sustained – is a further driver of the need for policies to support the goods movement industry while mitigating impacts on other land uses.

5.3.9 Monitor ELE Density to Ensure Adequate Land Supply

Increasing warehousing and distribution activity in employment areas, as well as automation taking the place of some labourers in some industrial workplaces, is resulting in declining industrial-type employment density (which means increasing floor space per worker). As expressed in the *Employment Strategy*, municipalities must continue to monitor this trend, and align land budgets with the appropriate ELE density to ensure an adequate supply is provided for this land-intensive use.

5.4 Population-Related Employment (PRE)

5.4.1 Recognize that Population-Related Employment Requires a More Nuanced Level of Consideration

As identified in the *Employment Strategy*, prevailing planning practices envision more mixed land uses, integrating retail and institutional functions with other complimentary uses. It is important to plan for the location of these uses in both greenfield and intensification development scenarios, in order to attract these forms of employment. Changing consumer shopping preferences may result in less demand for physical retail-commercial space, and this needs to be considered in planning for new greenfield development, as well as supporting transitional uses in established areas.

5.4.2 Plan for Decline in Future Retail Employment Demand, as E-Commerce Increases as a Share of Total Retail Spending

Closely linked with the preceding recommendation is the acknowledgement that the retail sector is undergoing transformational change. It had begun pre-pandemic, and has been fast-forwarded over the past year or more. Greater retail spending occurring online transfers space demand (and employment) to warehousing and distribution facilities, and away from shopping centres/retail nodes.

5.4.3 NEW RECOMMENDATION: Provide Increased Planning Flexibility to Encourage Adaptive Reuse/Redevelopment of Shopping Centres

The decline of traditional anchor tenants such as department stores has caused landlords to reimagine their shopping centres. The loss of key customer draws has a detrimental impact on other occupants at the centre, with less consumer traffic, and lower sales. While the phenomenon is likely to be far less prevalent in Canada compared to select over-retailed U.S. markets, converting vacant anchor units into alternative uses such as industrial logistics is an emerging solution, to serve as “last mile” distribution sites (where these new uses are compatible with adjacent/nearby land uses). Other options include adding residential and office uses to the property – which tend to be well located and transit accessible (those within major urban areas) – in order to revitalize struggling shopping centres.

5.5 Home-Based Employment (HBE)

5.5.1 Recognize a Continuum of Home-Based Employment, and Provide Supportive Policy

The *Employment Strategy* identified a need to recognize a continuum of Home-Based Employment (a single home office, a home business, and more formal live-work spaces featuring physical separation of the residence and workplace), and to provide supportive policy. This recommendation emphasized the importance of striking the right balance of permission for such uses, while maintaining the character of residential areas. Home-based jobs had been a modest but growing component of the overall mix of employment.

In March 2020, a huge segment of the workforce shifted to work-from-home, out of necessity. It is likely that a segment of workers (particularly office-type occupations) will permanently work from home going forward, rather than return to their pre-pandemic communal workplace setting. Businesses are still in the process of developing their post-pandemic workplace arrangements, and the mix of home-based versus office-based versus a hybrid employment model is not yet known. This is a topic that should be closely monitored, as it has significant implications for employment land demand, and the rate of new non-residential construction (offices in particular).

Increased levels of work from home would place greater importance on the provision of reliable broadband infrastructure to meet the telecommunications needs of workers. This is of particular importance with the increased adoption of videoconferencing and data transfer requirements in industries that are well-suited to allow their workforce to work remotely.