

# BUSINESS CASE

CITY COLLABORATION SPACE AT THE  
UW INNOVATION ARENA

07/14/2023

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## EXECUTIVE SUMMARY

Canada's health sector spending reached \$331 billion dollars or \$8,563 per person in 2022 (representing 12.2% of Canada's Gross Domestic Product for 2022)<sup>1</sup>. As the Canadian population continues to age, health sector spending will increase significantly. If per capita public health spending were to remain the same, local spending on publicly provided health care alone could double by 2041. As a result, opportunity exists locally to accelerate the growth of companies and jobs to service this growing demand and/or develop innovations which create more efficient service delivery.

The University of Waterloo (in partnership with the City of Kitchener, Province of Ontario and Government of Canada) is currently developing the Innovation Arena - a new, state-of-the-art facility in Downtown Kitchener to significantly grow the local health innovation and medtech industries. The Innovation Arena is intended to be a community of like-minded innovators, home to multiple member organizations. The Waterloo Region Small Business Centre can play a key role in enabling its clients access to the Innovation Arena community.

As part of the City's \$8.5 million investment in the Innovation Arena, the City has the ability to establish a new 5,000 square foot purpose-built space. Operated by the Waterloo Region Small Business Centre (WRSBC), this space could accommodate 40+ entrepreneurs and small businesses at any given time. These entrepreneurs would have an opportunity to:

- Access programs and services of the WRSBC;
- Access lab facilities within the Innovation Arena;
- Build their business alongside entrepreneurs tackling similar challenges; and,
- Progress to other acceleration programs.

The estimated cost of leasehold improvements for the new purpose-built facility is \$450,000 of which \$386,000 is estimated for construction, \$25,000 for furnishings and \$39,000 for contingency. Ongoing common area maintenance costs for the collaboration space would be equally shared between the City of Kitchener and the University of Waterloo.

By investing in this space, the City of Kitchener would realize the following economic impacts:

- Support for non-tech based SMEs resulting in new companies, employment growth and economic diversification;
- Retention of health sector expenditures in Kitchener-Waterloo-Cambridge
- Health innovations driven by SMEs resulting in improved healthcare services for residents; and,
- Enable future partnerships between the region's various health focused stakeholders including UW (Velocity), McMaster University, Waterloo Med Tech, Medical Innovation Xchange, and Grand River Hospital.

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<sup>1</sup> Source: Canadian Institute on Health Information, National health expenditure trends 2022 - Snapshot

Most importantly, the new collaboration space would ensure all health-based entrepreneurs could access the Innovation Arena community.



## BACKGROUND

### MAKE IT KITCHENER 2.0

The City of Kitchener's economic development strategy – Make It Kitchener 2.0 – identifies 'Health Innovation' as a key area of focus for economic growth. It identifies an ambition to collaborate with industry and educational partners to become a global leader in the health industry. The strategy envisions supporting "Difference Makers" through the creation of spaces and programs that enable entrepreneurs to start, lead and scale new businesses, develop talent, and remain in the Region.

To support investments in health innovation, City Council earmarked up to \$10 million from EDIF 2.0. \$8.5 million has been allocated to the overall UW Innovation Arena development. \$1.5 million remains uncommitted and could be used to support an investment in this space.

### UW VELOCITY

Velocity is a leading entrepreneurial and incubator program at the University of Waterloo. From idea to product development to commercialization, Velocity provides the knowledge, tools, lab space, mentoring and network that startups, scale ups and entrepreneurs require for commercialization and success. The Velocity program in Downtown Kitchener has evolved from software, to hardware, to medical technology and deep science. UW is recognized for their leadership in technology, entrepreneurship, programming, research excellence and innovation.

Velocity's objective is to become a global leader for health innovation with a focus on deep science and medical technology companies. Deep science companies can be described as follows:

- Life sciences/therapeutics/synthetic biology;
- Medical devices, tools, and diagnostics;
- Materials science, industrials, cleantech; and
- Hardware & electronic devices.

### WATERLOO REGION SMALL BUSINESS CENTRE

As a regional leader in the development of small and medium sized enterprises, the WRSBC serves thousands of entrepreneurs with the training and support necessary to start and grow successful businesses. From concept, through start-up and early growth stages, the WRSBC is a one-stop source for information, guidance, and professional advice on creating a successful business. The WRSBC will be responsible for the delivery of support services and programming in the Health Innovation Collaboration Space.

**UW INNOVATION ARENA**

The University of Waterloo (UW), in partnership and collaboration with the City of Kitchener, is developing a new 90,000 square foot innovation facility focused on health innovation, medical technology and deep science on the UW Health Sciences Campus located in Kitchener’s Downtown Innovation District (280 Joseph Street West). The new Health Innovation Arena, driven by the UW Velocity program, will include:

- Refurbishment of a 90,000 square foot warehouse already owned by UW on the Health Sciences Campus;
- The new home for UW’s Velocity program expanding into 45,000 sq ft on the second floor;
- Multi-use biosafety, clinical instrumentation, product development and wet lab space for small and medium sized enterprises (SME’s), entrepreneurs and innovators; and,
- 45,000 square feet of space on the first floor to support the co-location of health innovation and medtech ecosystem partners.

**PARTNERSHIP BETWEEN THE UNIVERSITY OF WATERLOO AND THE CITY OF KITCHENER**

As part of the City’s \$8.5 million investment in the Innovation Arena, the City has the ability to establish a new 5,000 square foot purpose-built space. The City has the option to lease this space for a 10-year term at \$1 per year (with an option to renew for a subsequent term of 10 years). The City would need to cover 50% of the capital improvements and 50% of the ongoing Common Area Maintenance fees associated with this space.

**FUNDING PARTNERS**

To date, the following contributions have been earmarked to support the original buildout of the Innovation Arena:

University of Waterloo	\$12.5M
City of Kitchener	\$8.5M
Government of Canada (Fedev)	\$6.5M
Province of Ontario	\$7.5M
<b>Total Contributions</b>	<b>\$35M</b>

These investments are intended to support the overall building construction costs and the Velocity space (including wet lab facilities). They do not cover the costs of improvements to partner spaces, such as the space available to the City of Kitchener.





## VISION

The City of Kitchener and the University of Waterloo share a vision to establish a leading health innovation ecosystem delivering support services and programming for small to medium sized enterprises (SMEs). While Velocity will primarily support tech, deep-tech and science-based businesses, the WRSBC can support a broad range of health-based entrepreneurs. Utilizing five thousand (5,000) square foot commercial space, the WRSBC would deliver the following:

*Programs & Training* – provide early-stage business training (ex: business basics, Starter Company, Digital Service Squad) and curate health industry specific seminars with industry leaders;

*Advisory Services* – evaluation of business ideas or concepts with health industry entrepreneurs resulting in detailed business plans moving the entrepreneur from research to testing to start-up phases;

*Hot Desk Space* – provide physical space for individuals to launch their business, including works space, meeting space, etc.;

*Networking* – facilitate collaborative opportunities for local entrepreneurs and small business owners to develop relationships with Velocity companies, UW researchers, mentors, experts, start-ups, and scale ups;

*Events* – host events (ex: speaker series, showcases, hackathons, etc.) with local partners;

*Community Partners* – provide opportunity for community partners to connect with the Innovation Arena community through events, co-location, etc.; and,

*Collision of Ideas* - facilitate the collaboration of technical and non-technical health professionals resulting in early adoption of technology by practitioners and clinicians, access to commercial markets for med-techs and engineers.

Based on the WRSBC's current client base, it is anticipated that the following entrepreneurs/businesses would utilize this space:

- Paramedical Services – acupuncture, massage therapy, chiropractic, etc.
- Health, Wellness & Beauty – fitness, dietician, cosmetics, etc.
- Health Food – pre-packaged foods, supplements, etc.
- Counselling and Therapy Services – mental health, speech, addition, etc.
- Registered Health Services – Registered Practical Nurse, midwifery, etc.

**STAFFING**

Initially, this new space would be staffed by existing staff of the WRSBC and the City's Economic Development Division. As programming develops over time, including a greater understanding of demand for this space, the City may need to consider additional options for optimizing the potential of this space. This could include, for example, adding future program assistant and business advisor roles.



## OPPORTUNITY – THE BUSINESS CASE

Canada's health sector spending reached \$331 billion dollars or \$8,563 per person in 2022 (representing 12.2% of Canada's Gross Domestic Product for 2022)<sup>2</sup>. As the Canadian population continues to age, health sector spending will increase significantly. If per capita public health spending were to remain the same, local spending on publicly provided health care alone could double by 2041. As a result, opportunities exist locally to accelerate the growth of companies and jobs to service this growing demand and/or develop innovations which create more efficient service delivery.

In 2020, City Council considered a business case which outlined the future economic opportunity within the health innovation ecosystem (DSD-20-178). Key highlights include:

- Demand in the health innovation sector is projected to increase by 180% over the next twenty (20) years driven by a growing population aged 65+, greater societal awareness of preventive health and wellbeing;
- Kitchener's population aged 65+ spent \$446M on health products and services in 2021 with projections reaching \$802M by 2041;
- University of Waterloo's Velocity program has incubated 400+ health tech businesses generating 2600+ jobs with total business investment of \$1.3B; and,
- UW's Velocity program is projected to support over 100 start-up and scale-up health tech companies in the next five years; 4000 post-secondary students graduate each year from health-related programs in the Kitchener-Waterloo region. The pool of educated graduates is the key component to attracting and expanding the health innovation sector in Kitchener.

### OPPORTUNITY FOR THE WATERLOO REGION SMALL BUSINESS CENTRE

With limited capacity and strict guidelines for applicants, the UW Velocity program is unable to fulfil the demand for business support services and programs in the health innovation sector. The UW Velocity program accepts on average only 20% of business applicants. The gap in health innovation programming has restricted the growth of small to medium-sized enterprises (SMEs) and non-OHIP health practitioners. The Waterloo Region Small Business Centre through the collaboration space in the UW Health Innovation Arena could achieve the following outcomes in the first year of activation:

- Up to 200 business advisory service consultations with tech and non-tech health entrepreneurs;
- Up to 100 business referrals from UW Velocity program and health sector partners;
- Up to 25% occupancy of the co-working space including hot desks, labs, and collaborations spaces;
- Up to 24 networking and education events; and,

<sup>2</sup> Source: Canadian Institute on Health Information, National health expenditure trends 2022 - Snapshot

- Up to 12 business development seminars and programs.

As the collaboration space reaches the end of year five activation, with additional staff resources, the WRSBC projects it could achieve the following outcomes:

- Up to 400 business advisory services consultations with tech and non-tech health entrepreneurs;
- Up to 200 business referrals from UW Velocity program and health sector partners;
- Up to 75% occupancy of the co-working space including hot desks, labs, and collaborations spaces;
- Up to 48 networking and education events; and,
- Up to 24 business development seminars and programs.

# THE INVESTMENT

The City of Kitchener and University of Waterloo have committed to the development of the health innovation collaboration space, as part of the Health Innovation Arena partnership, dedicated to the development and retention of health sector SMEs, as follows:

## TERMS OF LEASE AGREEMENT: 280 JOSEPH ST. WEST – UNIT #2A (5000 SQ. FT.)

The City of Kitchener has the ability to enter into a lease agreement with the University of Waterloo for a 10-year term with an option to renew for an additional term of 10 years. The first term lease rate would be \$1 annually for the initial 10-year term, and \$1 annually for the optional 10-year extension. The City of Kitchener would be responsible for the 50% of the capital costs to fit-up the 5,000 square foot space. Annually, the City of Kitchener would be responsible for 50% of the common area maintenance (CAM) including, but not limited to, electricity, natural gas, water, and maintenance, with these costs to be determined when the Innovation Arena is built out. As occupancy is expected in Q3 2024, CAM and operating costs will likely be considered as part of the 2024 Budget. The University of Waterloo would be responsible for the remaining 50% of CAM costs for the space.

## PROPOSED LEASEHOLD COSTS AND FUNDING: 280 JOSEPH ST. WEST – UNIT #2A

The following is a cost and funding summary based on the competitive bid price submitted to the University of Waterloo by Melloul-Blamey Construction Inc. (September 2022) for the proposed leasehold improvements for Unit #2A (5,000 square feet):

### Proposed Leasehold Construction Costs

Partitions, doors, glazing, finishes, washroom, kitchenette	\$385,390
Contingency (10%)	\$ 39,610
Furnishings	\$ 25,000
<b>Total Leasehold Costs</b>	<b>\$450,000</b>

As a result of inflationary pressures and supply chain challenges on construction projects a contingency of 10% has been incorporated.

### Proposed Funding Allocation EDIF 2.0

Total allocation to support Health Innovation (Make It Kitchener 2.0)	\$10,000,000
Funding committed to date	\$ 8,500,000
Proposed funding to support this space	\$ 450,000
Funding remaining for future allocation	\$ 1,050,000

UW will be the Project Manager for the space and Melloul Blamey will be the contractor. Fit out costs per sq ft of \$85 per sq ft compare favourably to industry middle range buildouts of \$81-135 per sq ft.

**PROPOSED PROGRAM DELIVERY**

Initially, the Waterloo Small Business Centre will oversee program delivery including staff to oversee the space, with support from the City's Economic Development Division. As much of the WRSBC funding is dependent on grants from multiple levels of government, should the WRSBC experience a decrease in funding support, the City may have to increase program ming supports to the space. However, given the WRSBC's ability to deliver services virtually and utilizing online training resources, it is possible for the WRSBC to support use of the space with limited human resources.



## CONCLUSIONS & RECOMMENDATIONS

Based on the projected growth in health care spending across Canada, opportunity exists for local company and job growth. While Velocity will support growth of tech-based health companies, opportunity exists for the City to enable access to the Innovation Arena to a broader diversity of health-focused entrepreneurs. The WRSBC is well positioned to provide modest training and oversight supports to enable a high volume of use by local entrepreneurs. Given that the University of Waterloo will be share in 50% of the buildout costs and CAM fees, the proposed investment represents a modest and sound use of tax-payer funding.

Based on the foregoing, staff recommend entering into a lease agreement with the University of Waterloo to secure the space, and an initial investment of \$450,000 to outfit the proposed space.