

# BUSINESS CASE

COMMUNITECH & CITY OF KITCHENER  
PARTNERSHIP OPPORTUNITY

04/04/2024

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## EXECUTIVE SUMMARY

Downtown Kitchener's office market has been significantly impacted as a result of the COVID-19 pandemic. A shift to hybrid work settings and the virtual delivery of start-up services has led to a significant increase in the office vacancy rate.

Despite the local impacts, Ontario's innovation technology sector remains strong, generating \$48.3 billion dollars of gross domestic product (GDP) in 2023 (representing 6.03% of Ontario's total GDP)<sup>1</sup>. The innovation technology sector grew 22.4% between fiscal years 2021 and 2023 (exceeding Canada's overall economic rate of growth). With 22,000 technology companies employing more than 404,000 workers, Ontario has the second largest concentrated IT cluster in North America.

The City of Kitchener has had a long-standing partnership with Communitech since its inception. Communitech has played an integral role in the resurgence of Downtown Kitchener. With the 2021 partnership agreement expired, the City and Communitech have engaged in discussions to define a new partnership to recharge the start-up ecosystem in Downtown Kitchener by supporting start-up and scale-up technology businesses directly in the core.

The proposed partnership would see Communitech deliver on-site programming for up to four (4) years from 2024 to 2027. The City of Kitchener would contribute \$500,000 annually for fiscal years 2024 and 2025 funded by the EDIF 2.0 reserve fund. The City would reserve the right to extend the partnership agreement for \$500,000 annually for fiscal years 2026 and 2027.

By investing in the new partnership with Communitech, the City of Kitchener should realize the following economic impacts:

- Enhance the start-up/scale-up business pipeline;
- Attract Communitech graduates to locate in the City of Kitchener, specifically Downtown;
- Creation of innovation employment;
- Support the acquisition of start-up/scale-up business capital; and
- Generate new office space tenants for Downtown Kitchener.

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<sup>1</sup> Source: Invest Ontario – IT Industry Profile, last modified January 22, 2024

## BACKGROUND – THE CHALLENGES

In 2003, the City introduced the Economic Development Investment Fund (EDIF 1.0) with two clear objectives – to build a knowledge economy and to revitalize Downtown Kitchener. Since 2010, Communitech has been a key partner in the transformation of Downtown Kitchener (and the broader community) into a globally relevant startup and tech ecosystem. With the onset of the COVID pandemic (2020 – 2023), Communitech made a business decision to pivot their program and service delivery model from on-site at the Hub to remote/hybrid. The transition of the service delivery model significantly reduced the presence of on-site incubation of start-up businesses and reduced in-person program delivery. While Communitech continued to demonstrate a significant impact in the innovation sector, the economic benefits to Kitchener were impacted. In particular:

- What had predominantly been a place-based start-up ecosystem, centred at the Communitech Hub, shifted to a virtual ecosystem with less gravitational pull to co-working environments; and,
- A loss of community “buzz” within the startup and tech communities due to the inability to offer and sustain in-person interactions through networking, events, collaborations and casual collisions, etc.

### IMPACTS TO DOWNTOWN KITCHENER

Downtown Kitchener’s office market was a direct beneficiary of the work of Communitech and other similar organizations since 2010. Startup companies graduating from the Communitech Hub would often take up space in nearby office buildings. As some companies became more successful, they would often expand their footprint or move to new or multiple locations. In several instances, this resulted in underutilized buildings being adaptively repurposed for office space.

As a result of the global shift to hybrid work, spurred by the COVID-19 pandemic, Downtown Kitchener’s office vacancy rate has increased significantly. This is due to a multitude of factors. Many companies have abandoned their office spaces entirely in favour of a remote workforce, others have scaled their footprint back in favour of a hybrid workforce, while some have retained their workspace but decreased the number of employees who are present each day. Compounding these challenges, very little absorption (new office companies locating in the core) has occurred in the past 2 years.

### Downtown Kitchener Office Space Statistics, Q4 2023 (Colliers)

| Class | # of Bldgs. | Total Inventory | Total Vacant Space | Vacancy Rate | Net Absorption |
|-------|-------------|-----------------|--------------------|--------------|----------------|
| A     | 12          | 1,305,351       | 309,196            | 23.6%        | 40,695         |
| B     | 19          | 1,681,081       | 580,051            | 34.5%        | -36,567        |
| C     | 12          | 489,365         | 69,492             | 14.2%        | -10,253        |
| All   | 43          | 3,479,997       | 958,739            | 27.5%        | -6,105         |

Most scaling companies from the Communitech Hub would gravitate to Class C space as the lease rates are more affordable for new companies.

The lack of office workers has contributed to an overall decrease in commercial foot-traffic during regular working hours. A University of Toronto study is monitoring activity levels (via mobile phone data) of numerous downtowns across North America. In the summer of 2021, cities had seen activity levels as low as 33% of pre-pandemic levels. Most recently, the following activity levels were reported from the Spring of 2023:

| Downtown    | % of Pedestrian Activity Compared to 2019 |
|-------------|---|
| Ottawa, ON  | 82%                                       |
| Toronto, ON | 70%                                       |
| London, ON  | 79%                                       |

Source: University of Toronto, School of Cities, Downtown Recovery Rankings (2023)

While there is no data on the impacts to Downtown Kitchener, it can be assumed that Kitchener's current numbers would be similar to those shown in the chart above.

### MAKE IT KITCHENER 2.0

The City of Kitchener's economic development strategy – Make It Kitchener 2.0 – identifies innovation technology 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 innovation technology. The strategy identifies “A City-wide Startup Network” as a key area of focus for investment. This would result in the creation and support of spaces and programs that enable entrepreneurs to start, lead and scale-up innovative technology businesses while remaining in the Region. With the new Health Innovation Arena focusing on health and med-tech based companies, the SDG Idea Factory focusing on social innovation, and 44 Gaukel focusing on creative-based entrepreneurs, the Communitech Hub remains a key nexus to continue to grow tech-based startups.

## COMMUNITECH

Launched in 1997 by a group of innovation founders, Communitech is a non-profit public-private innovation hub located in Downtown Kitchener that supports a community of more than 1,000+ innovation technology companies. Communitech provides access to talent, capital, incubation space, mentorship and programming, with supports that innovation entrepreneurs require for commercialization and success.

Communitech's technology programming has generated the following results in 2023:

- Served over 550 companies at various stages of development;
- Supported the creation of 325 start-up companies;
- Assisted local innovation technology companies raise \$400 million dollars in capital; and,
- Recruited and filled over fifteen hundred (1,500) new full-time and part-time employment positions.

As a service-delivery organization, Communitech is dependent on public/private funding to deliver core services to founders. With shifts in federal and provincial funding priorities, Communitech has seen a decrease in total funding from \$32 million to \$25 million over a three (3) year period, 2021-2023. Private sector funding represented 43% of funding in Fiscal 2023, public sector funding 57% of revenue. Without additional funding, Communitech will be unable to deliver the core startup services that were critical to expanding the ecosystem locally.



## VISION

The City of Kitchener and Communitech are committed to forming a new partnership that will support the delivery of onsite support programming for start-up and scale-up technology businesses. The new partnership will grow the start-up business pipeline, attract Communitech graduates to locate in Kitchener, spur innovation employment and increase the demand for office space in Downtown Kitchener.

As part of the new partnership, Communitech would deliver the following on-site programming and achieve the identified performance benchmarks:

***Supporting Founders Exploring Entrepreneurship:***

- Create and execute a combination of community outreach, a series of discovery and validation stage programs for early-stage tech start-ups.
- Support the creation of 425 new start-up companies annually.

***Discovery Stage Bootcamp and Community Events:***

- Support 30-50 companies per year, with a bootcamp eight (8) weeks in length to refine ideas and identify potential markets.
- Four (4) quarterly community events targeted at individuals and groups that are exploring entrepreneurship.

***Validation Stage Bootcamp:***

- Support twenty (20) companies to move from discovery to early validation.

***Start-up Intensive Track:***

- Support 5-8 late-stage start-ups and/or scale-ups that are in early revenue generation and validation.

***Communitech Founders Showcase Event:***

- Compliment the Communitech Annual Meeting by enabling bootcamp participants to showcase their companies through demonstrations and displays.

***Communitech Peer2Peer Program:***

- Facilitates a minimum of ten (10) Peer2Peer groups annually.

***Fierce Founders:***

- Full-time project manager to support female identifying and underrepresented founders to establish and grow their ventures.

***Fierce Founders Bootcamp:***

- Host a bootcamp(s) to support 10-15 companies per year focused on pre-validation, idea refinement and identifying potential markets.

***Fierce Founders Uplift:***

- Deliver a 7-month program to support ten (10) companies with each receiving \$10,000 in non-repayable funding focused on market sizing and go-to-market strategies.
- Expand leadership and business skills through one-on-one coaching.

***Fierce Founders Intensive Track:***

- Deliver a 9-12 month program for ten (10) companies.
- Focus on finding product market fit, growing revenue and investment attraction.

***Medtech Innovation:***

- Support founders with validation, IP protection, financial literacy, commercialization, and investment attraction.
- Host an annual CEO dinner event;

***Make It Kitchener Coworking Area & Recognition:***

- Communitech would establish a coworking area within the Hub, branded Make It Kitchener, providing free workspace for Founders of many of the above noted programs.
- For each of the programs listed above, Communitech will ensure Founders and participants are aware of the City's support for these programs.

By providing a volume and diversity of start-up focused programming at the Communitech Hub provides the best opportunity to re-establish the “buzz” within the startup and tech community and the flow of prospective companies into downtown Kitchener office space.



## OPPORTUNITY – BUSINESS CASE

Ontario's innovation technology sector generated \$48.3 billion dollars of gross domestic product (GDP) in 2023 (representing 6.03% of the Ontario's total GDP)<sup>2</sup>. The innovation technology sector grew 22.4% between fiscal years 2021 and 2023 (exceeding Canada's overall economic rate of growth). With 22,000 technology companies employing more than 404,000 workers, Ontario has the second largest concentrated IT cluster in North America.

### Startup Growth

In 2023, Canada recorded over three thousand (3,000) new business start-ups raising \$6.3 billion dollars. 44.17% of all Canadian start-up businesses are from the innovation technology sector: 23.63% - technology and telecommunications, 10.27% - pharmaceutical, medical and health, and 10.27% - insurance and financial. The growth of total early-stage start-up business activity in Canada over the past ten years has grown by 66.67%.

### Tech Growth in Toronto-Waterloo Corridor

The Toronto-Waterloo Corridor is Canada's leading startup ecosystem, ranking as number 17 globally due to an impressive growth of 128 per cent. In 2021, a record \$7.7 billion went to startups in Toronto and Waterloo.<sup>3</sup> Critical to the growth of the Corridor is the talent pipeline generated by local educational institutions: Waterloo Region is ranked #1 among small tech talent markets in North America and #4 in North America for tech talent quality.<sup>4</sup>

### Downtown Office Space Availability

The City of Kitchener has a total inventory of 5,730,573 square feet of office space with an overall vacancy rate of 18.1%. Kitchener's downtown office space market has a significantly higher vacancy rate of 27.5% or 958,739 square feet. The net absorption of downtown office space in Kitchener continuing its negative trend: -121,592 square feet of net absorption for 2022 and -6,105 square feet of net absorption for the last quarter of 2023.<sup>5</sup>

Situated in the Toronto-Waterloo Corridor, the City of Kitchener has capitalized on the prosperity of the innovation sector by making strategic investments in key local institutions and organizations in the Waterloo Region ecosystem including the following:

- City of Kitchener invest \$1,500,000 over three (3) years in Communittech (2021-2023)
- City of Kitchener invested \$30 million in the UW School of Pharmacy;
- City of Kitchener invested \$500,000 in wet labs at UW Velocity in 2016;

<sup>2</sup> Source: Invest Ontario – IT Industry Profile, last modified January 22, 2024

<sup>3</sup> Source: University of Waterloo – Toronto Waterloo Corridor highlighted in 2022 Startup Genome rankings, 06/22

<sup>4</sup> Source: Waterloo EDC – Tech Feature Article, June 27, 2023

<sup>5</sup> Source: Colliers – Waterloo Office Market Report

- City of Kitchener invested \$8.5 million in the UW Innovation Arena; and,
- City of Kitchener will invest \$450,000 in the City's Collaboration Space (Small Business Centre) in the UW Innovation Arena.

## OPPORTUNITY FOR THE CITY OF KITCHENER

A new partnership agreement presents an opportunity for the City of Kitchener to continue to support a key organization in the regional ecosystem, outlining programming and funding conditions that ensure the City will maximize local economic impacts and create a cooperative business development relationship. The new partnership agreement with Communitech will be built on the following four (4) pillars:

### 1) **Bringing Start-Ups Back To The Communitech Hub**

Key start-up programming will be delivered on-site at the Communitech Hub including but not limited to Discover/Validation Stage Bootcamps, Start-up Intensive Track and Fierce Founders. The premise is to "supercharge" the start-up pipeline in Kitchener generating new business development, innovation employment and office space tenants.

### 2) **Support Start-Ups To Locate In The City Of Kitchener**

Develop a cooperative business development strategy to attract and locate new start-ups businesses graduating from Communitech programs in Downtown Kitchener.

### 3) **"Make It Kitchener 2.0" Cohort Space At The Communitech Hub**

A dedicated in-person cohort workspace in the Communitech Hub for founders and start-ups that provides branded presence of the City of Kitchener.

### 4) **Joint Communications Strategy**

Cooperative communications strategy to market the City of Kitchener to start-up innovation technology businesses, the City's role in supporting an enhanced start-up pipeline and the Make It Kitchener 2.0 branding.

## INVESTMENT

If approved by Kitchener City Council, the City and Communitech would enter into a new partnership agreement to deliver onsite technology support and programming for up to four (4) years from 2024 to 2027. The City of Kitchener would contribute \$500,000 annually for fiscal years 2024 and 2025. The City would reserve the right to extend the partnership agreement for fiscal years 2026 and 2027. Funding would be conditional on the successful completion of stipulated programming and the achievement of stated benchmarks (as defined on pages 6 and 7 of this business case) and the availability of funding through EDIF 2.0. Communitech would agree to the following use of City funding:

- 1) Onsite and in person programming to accelerate the growth of start-up and scale-up technology businesses at the Communitech Hub;
- 2) Deliver entrepreneurial programming including the attraction and retention of program participants within Kitchener;
- 3) Deliver programming that supports diversity, equity, and inclusion through the Fierce Founders program;
- 4) Identify a co-working space within the Communitech Hub for program participants with mutually agreeable City of Kitchener branding;
- 5) Continue to house the City of Kitchener's Digital Innovation Lab in a mutually agreed upon location in Area 151 for the period of 2024 to 2027, which the City will continue to maintain and operate;
- 6) Supply the City of Kitchener with quarterly and annual reports of all partnership activities, including stipulated benchmarks; and,
- 7) Provide prominent recognition of the City's investment under the partnership agreement including digital, social media and promotional platforms.

In total, the City's investment could total up to \$2 million over 4 years.

## CONCLUSIONS & RECOMMENDATIONS

Based on the size and growth of Ontario's innovation technology sector, including the growth of new startups in Canada, the City of Kitchener is poised benefit through a new partnership agreement with Communitech. Given the current challenges with the Downtown office market, resulting from the shifts to hybrid and remote work arrangements, opportunity exists to drive more localized, in-person startup activity to the core. As evident by the positive impacts new startups had on Downtown Kitchener from 2010 to 2020, a significant increase in in-person startup services delivered by Communitech should, over time, support a decrease in Downtown's office vacancy rate.

The proposed partnership aligns with the City of Kitchener's economic development strategy - Make It Kitchener 2.0. The partnership supports the Area of Focus "A City-Wide Startup Network" and can be accommodated with the funding allocations of the Economic Development Investment Fund 2.0 (EDIF 2.0).

In addition, the structure of the new partnership agreement would ensure that the City of Kitchener supports a key organization in the local innovation ecosystem and maximize the local economic benefits of the technology sector including but not limited to:

- Enhance the start-up/scale-up business pipeline;
- Creation of innovation employment;
- Support equity, diversity and inclusion through Fierce Founders
- Support the acquisition of start-up/scale-up business capital; and
- Generate new office space tenants for Downtown Kitchener.

Based on the foregoing, staff recommend entering into a new partnership agreement with Communitech to deliver onsite technology support and programming for up to four (4) years from 2024 to 2027 based on mutually agreed conditions and benchmarks/milestones and funding availability from EDIF 2.0.