



## Scoring The TORONTO 2015 Pan Am Games

by Benjamin Tal and Andrew Grantham

### Economics

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The TORONTO 2015 Pan Am/Parapan Am Games will be the largest multi-sports Games ever hosted in Canada. In terms of the number of athletes, it will be three times larger than the Vancouver Winter Olympic Games (Chart 1). The combination of the scale and brief duration of the Games suggests that the economic benefits to the city of Toronto will be significant. Those will be enhanced by the city's already strong economic momentum and by the approach to the athletes' village which is more practical and less risky than what we have seen by the hosts of some recent sporting events.

### A Good Starting Point

Like aspiring athletes, Toronto is seeking its moment of fame. The Greater Toronto Area (GTA) is expected to accommodate approximately 10,000 participants including athletes, trainers and officials from 41 countries. More than 50 sporting events (including 15 Parapan) will take place in 15 different municipalities in

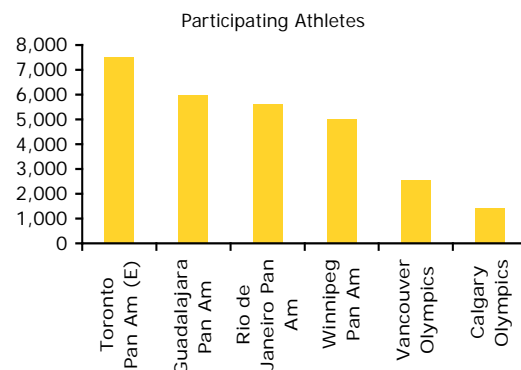
the Greater Golden Horseshoe during the summer of 2015.

The legacy of the Games will be determined by an array of factors such as the sustainability of newly constructed sport and community facilities and infrastructure, and to what extent they will boost urban revival and enhance international reputation and tourism.

Like in any other event, the starting point is an important determinant of the ultimate outcome. Sure, a big sporting event can provide a lift even to a city in decline. But with the absence of strong organic economic fundamentals, such a lift will end up being limited and temporary.

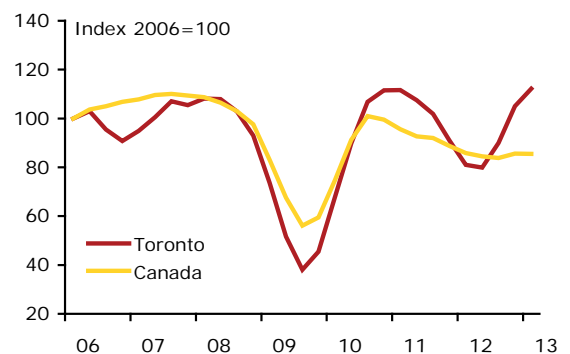
Fortunately, that's not the case for Toronto. In fact, the GTA's economy has been on a prolonged upswing. During the year ending June 2013, population growth in the GTA was twice as fast as in the rest of the country, while employment advanced even faster. In fact, not only has our Economic

Chart 1  
It's Going To Be Big



Source: Various Olympics and Pan Am Organizing Committees

Chart 2  
CIBC Metropolitan Economic Activity Index

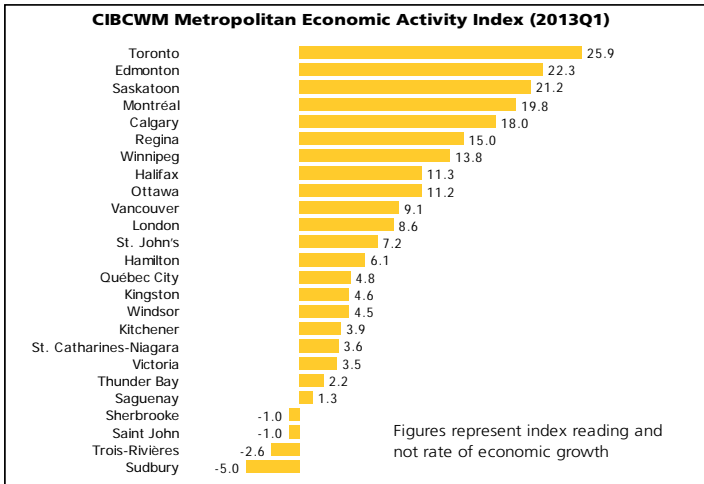


Source: CMHC, Office of the Superintendent of Bankruptcy Canada, StatCan, CREA, QFREQ, CIBC

<http://research.cibcwm.com/res/Eco/EcoResearch.html>

Chart 3

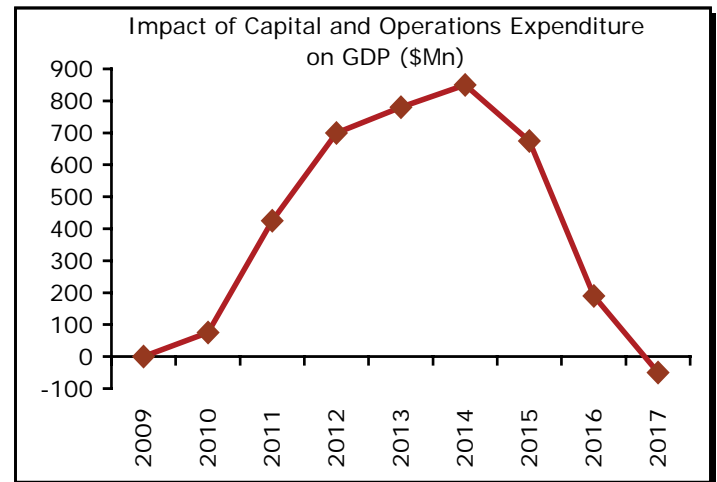
**Toronto Leads the Pack**



Source: CMHC, Office of the Superintendent of Bankruptcy Canada, StatCan, CREA, QFREQ, CIBC

Chart 4

**Boost From Capital Spending Has Already Started**



Source: The Centre for Spatial Economics, TO2015

Activity Index seen the city outperform the average index for the rest of the country in recent quarters (Chart 2) but, in fact, it is leading the pack in terms of overall economic momentum (Chart 3). What’s impressive here is that the city has topped our ranking for more than 18 months. The multi-channel nature of Toronto’s economic engine is the secret not only behind its current top position, but also behind its ability to maintain a relatively high grading. This can be easily seen in the robust activity of the city’s economy during the economic recovery, with the city outpacing the national average by a wide margin.

**The Economic Impact**

With the fundamentals in place, we can now turn to the potential impact of the Games on the GTA’s economy. In fact, the Pan Am/Parapan Am Games’ boost to Ontario’s economy has already started with 2012-2013 seeing a significant boost from capital spending (Chart 4). That primarily involves the building or upgrading of more than twenty venues for the Games, and the redevelopment of the West Don Lands. The latter, which will act as the athletes’ village during the Games and is a project funded by the Province of Ontario, will be transformed into housing afterwards. Overall, the Games are estimated to generate 26,000 new jobs.

The construction of the athletes’ village is an important part of the game’s potential legacy. It will generate affordable housing in an attractive part of the city. It will enhance linkages along the waterfront and provide the area with amenities such as parks, a YMCA and

transit infrastructure. Like in any other infrastructure project, however, there is no shortage of risks, including unsuccessful integration with the rest of the city and unforeseen financial and environmental issues. But here, it appears that the organizers have learned from the experience of Vancouver where the price tag of that project rose to more than \$1 billion due to a lack of contingency steps. Toronto required the selected development teams to bring a higher amount of equity for this project as well as other contractual details aimed at limiting the amount of risk the government faces. The city has also secured contracts with affordable housing providers. However, any real estate deal is not immune to the risk of a cooling housing market in general, and the condominium market in particular.

On that front, it is hardly a secret that the condo market in Toronto is over-shooting. But looking at today’s condo market in isolation can be misleading. The recent surge in condo activity is, in many ways, a direct consequence of the structural shift in the GTA’s housing mix, whereby the condo market compensated for the lack of growth in low-rise housing. This shift from low-density to high-density housing has been directed by provincial intensification policies under the “Places to Grow Act”, encouraging a more sustainable approach to urban development by restricting land availability for the low-rise market. The surge in condo activity also reflects the fact that due to a multitude of reasons such as rent control and preferences, condo rentals replaced apartment buildings as the main source of rental units. In fact, since 2007 virtually all of the increase in units available for rent came from the condo

market, with 22% of the stock of condos and (estimated) one-third of the flow (new construction) currently for rent.

Accordingly, while the fundamentals don't support a significant correction in the market, the likelihood is that by the time the athletes' village changes its purpose, the Toronto condo market will be notably softer.

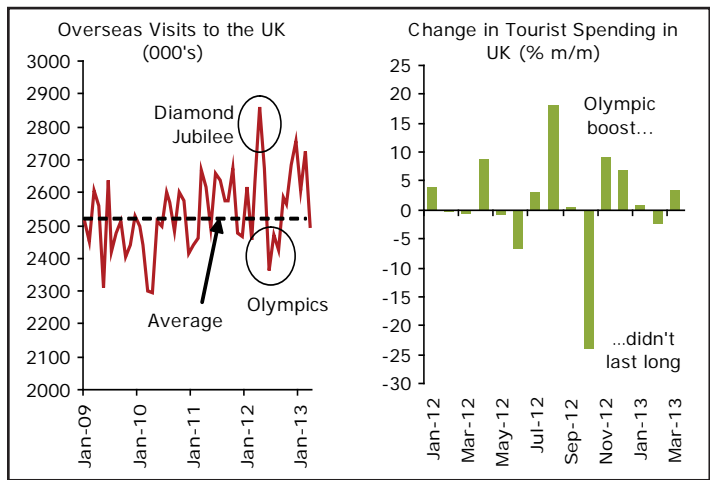
**Will They Come?**

But an increase in tourism and related spending, not just during the Games but also afterwards, is what organizers hope to achieve from events such as the Pan Am/Parapan Am Games. The basic target for Toronto in 2015 is 250K additional visitors.

History from other such events is not always favourable, though. International visits to London, England actually fell during 2012's Summer Olympics (Chart 5, left), garnering plenty of attention and also some ridicule from the international media. And although tourist spending did rise, the increase was very short-lived (Chart 5, right).

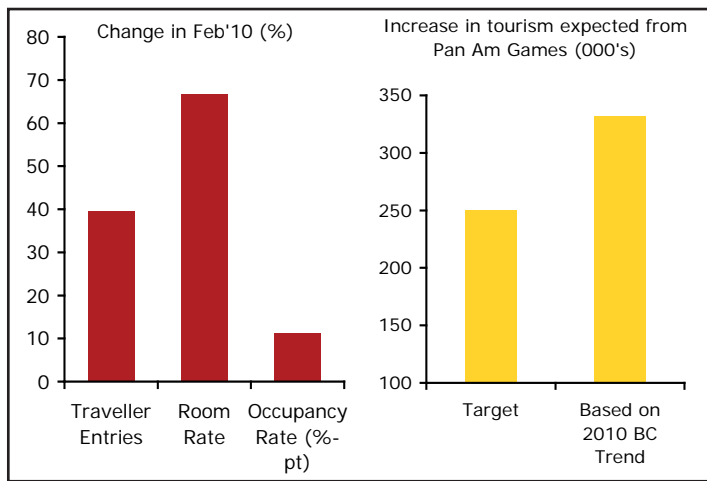
But Vancouver fared better during 2010's Winter Olympics, with international tourist visits, hotel occupancy and spending all spiking sharply (Chart 6, left) and contributing significantly to the local economy. Indeed, if Ontario saw a similar percentage boost from 2015's Pan Am/Parapan Am Games, international visitor numbers could rise by around 350K (Chart 6, right) easily surpassing the 250K basic target.

*Chart 5*  
**London Tourism Fell During Olympics (L), and Surge in Spending Short-Lived (R)**



Source: ONS, CIBC

*Chart 6*  
**Spike in Tourist Activity Around Vancouver Olympics (L), Would See Ontario Surpass Targets if Matched (R)**



Source: Statistics Canada, CIBC

And why shouldn't Toronto see at least the same percentage boost in 2015 as Vancouver did in 2010? The expansion of routes out of Pearson airport, making it a transportation hub that closely rivals those south of the border, means Toronto has the fastest improving air travel connectivity in North America (Table 1). Only developing and/or Asian cities have seen a bigger improvement. That trend will not only help bring in international visitors for the Games themselves, but maintain higher numbers afterwards as well. Meanwhile, Toronto's prime geographical position which is close to the most densely populated parts of the US, means that around 200 million people are within a day's drive of the city (Figure 1).

*Table 1*  
**Change in Air Travel Connectivity 2009-2013**

Change in Air Travel Connectivity Index (2009-2013)		
1	Istanbul	15.0
2	Dubai	13.3
3	Singapore	11.2
4	Seoul	9.5
5	Bangkok	9.0
6	Kuala Lumpur	8.4
7	Hong Kong	8.1
8	Moscow	7.8
9	Taipei	6.2
10	Shanghai	5.8
11	Tokyo	5.3
12	Abu Dhabi	5.2
13	Toronto	5.2
17	Berlin	4.0

Source: Mastercard Global Destination Cities Index

Figure 1  
Toronto Well Placed to Attract US Driving Tourists



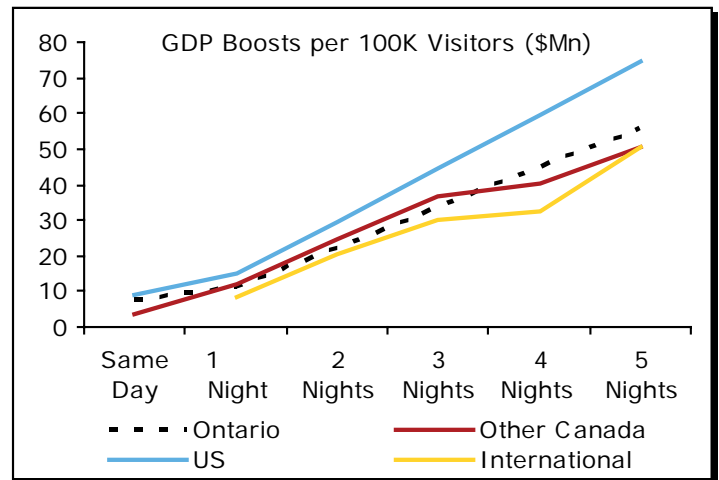
Note: Circles represent 4, 8 and 12 hour drives  
Source: CIBC

And attracting US tourist dollars will be key to determining the economic success of the Games. Based on past trends, tourists from south of the border tend to spend around 50% more than international visitors and a third more than domestic visitors to Ontario. That would provide a bigger boost not just to GDP (Chart 7) but also to employment within the area. Of the spike in international visitors to BC at the time of the Vancouver Olympics, around 75% were US residents.

But getting visitors to part with their cash has not been something Toronto has excelled at. While the city ranks fourth in North America for overnight international tourist visits (behind only New York, LA and Miami), it is only sixth for visitor spending. That means, on average, Toronto beats only Montreal in terms of spending per visitor (Chart 8). The Pan Am/Parapan Am Games will certainly help close that gap over a short period. And through the new infrastructure, creating more opportunities for other such events in the future, it will hopefully help close the gap over the longer term as well.

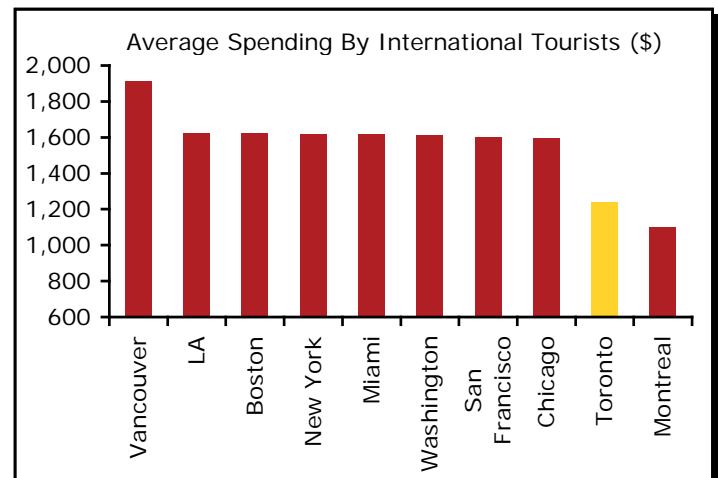
So how much could the Ontario economy benefit from hosting such a sporting event? Well, assuming 350K international tourists (split roughly 75/25 in favour of US visitors) and the large number of Canadians likely to attend the Games, the increase in tourist spending during the Games alone should generate an additional \$260 million in GDP (Chart 9) and help boost employment within that industry by over 3,500. Add on the boost to construction before the Games and the hoped for legacy impact afterwards, and you get a significant boost to Ontario's GDP.

Chart 7  
US Tourism Creates Biggest Boost to GDP



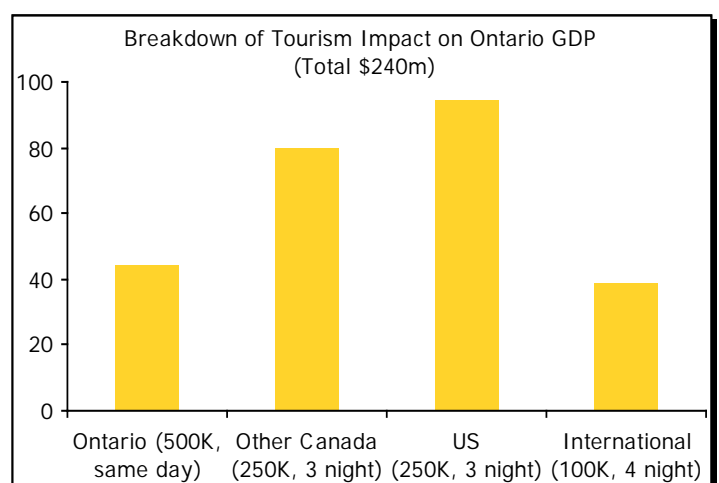
Source: TREIM, CIBC

Chart 8  
Average Tourist Spending Lags in Toronto



Source: Mastercard Global Destination Cities Index

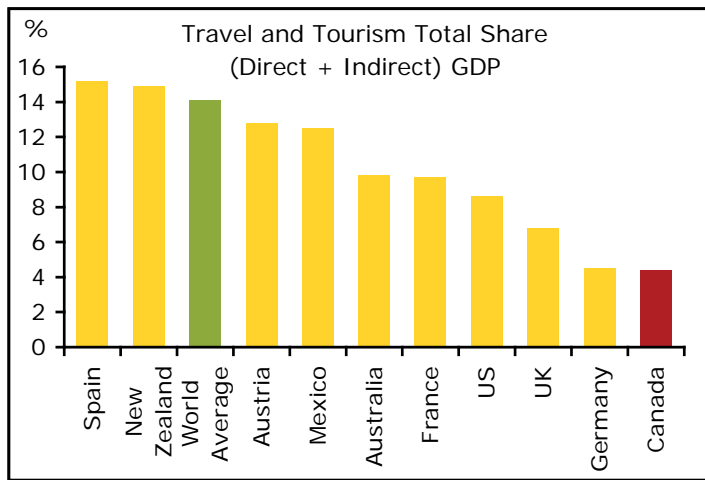
Chart 9  
Boost to Tourism Spending by Source (Assumptions in Brackets)



Source: CIBC based on TREIM

Chart 10

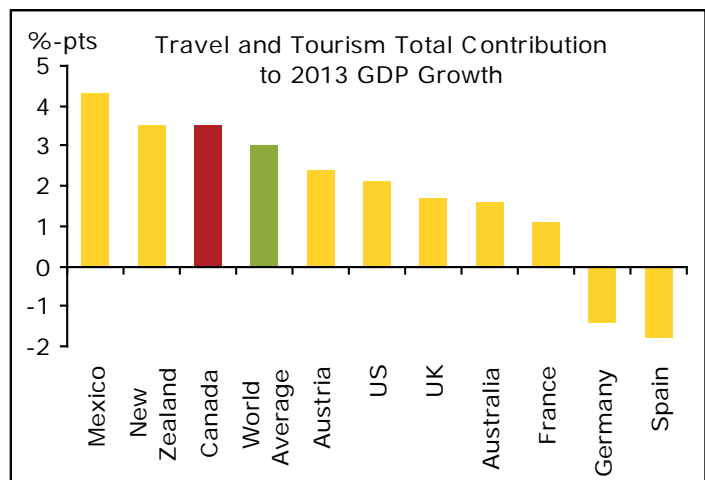
**Tourism a Small Part of Canada's Economy**



Source: World Travel and Tourism Council

Chart 11

**But It Is Growing Quickly**



Source: World Travel and Tourism Council

Such sporting events could also benefit the wider Canadian economy. Today, despite plenty of attractions, tourism constitutes a far smaller proportion of the economy than in other similarly sized countries (Chart 10). But that is changing, with the growth of Canada's tourist

sector above the global average (Chart 11). Hosting global events such as the Pan Am/Parapan Am Games and having facilities to attract additional events down the road, should help that trend continue.

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