

# COVID-19 - impact on TOD projects and market perspective

May 2020

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y'.

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The World Health Organization characterized COVID-19 as a pandemic and public health crisis of international scale.<sup>1</sup>

Canada, among other countries, continues to face multiple challenges caused by COVID-19, such as the shutdown of businesses, supply chain disruptions and cash flow shortages. This has resulted in businesses rapidly changing their business models in order to endure these difficult times, leading to behavioural changes and biases that are impacting real estate and infrastructure planning.

In January 2020, EY conducted a [Transit Oriented Development \(TOD\) survey](#) to capture TOD market trends in the public and private sectors. As of May 2020, EY has garnered further insights from major market players in the TOD space in Ontario to gain an understanding of their COVID-19 responses in real estate and infrastructure. The question EY sought to address was:

## What are the implications for TOD projects because of COVID-19?

Major market players have indicated uncertain demand is a significant issue both for real estate and infrastructure assets. For example, retail and hospitality industries have already seen sharp declines in activity due to lockdowns in municipalities across Canada. Effects and pressures from these measures have resulted in many retailers closing their stores. On February 17, 2020, Pier 1, the home decor chain, announced it was closing all of its stores in Canada, as the retailer began bankruptcy proceedings in the United States.<sup>2</sup> In terms of infrastructure assets, airports and demand-based assets such as public transit infrastructure are experiencing significant hardships as well due to travel bans and quarantine measures affecting usage rates, demonstrated by the challenges faced by the City of Toronto.

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This is one of the greatest challenges this city has ever faced and so we will have to rise to that challenge.

- John Tory, Mayor of Toronto  
Global News

Mayor John Tory of the City of Toronto mentioned the coronavirus pandemic could cost the city between \$1.5 billion and \$2.76 billion, depending on the duration of public health and government measures required. On April 17, he stated that “This is one of the greatest challenges this city has ever faced and so we will have to rise to that challenge.”<sup>2</sup>

Tory explained a three-month lockdown and a six-month recovery period could cost \$1.5 billion in 2020, calling that figure a “best-case scenario.” It was noted that the largest driver of the city’s financial troubles is the dip in revenue of its transit authority, the Toronto Transit Commission. The city has estimated this loss to be \$23.5 million per week, caused by the decline in fare collection.

Although it is too early to show patterns for any changes in the TOD space, EY has noted various public and private organizations in Ontario shared similar concerns. Key considerations are as follows and have been broken down by a “Positive Outlook” and “Negative Outlook” which assumes a lockdown period of less than nine months, up until August 2020 and more than nine months, where restrictions extend beyond August 2020, respectively.

<sup>1</sup><https://www.who.int/dg/speeches/detail/who-director-general-s-opening-remarks-at-the-media-briefing-on-covid-19---11-march-2020>

<sup>2</sup><https://globalnews.ca/news/6834875/coronavirus-city-of-toronto-budget-covid-19/>

<sup>3</sup><https://globalnews.ca/news/6834875/coronavirus-city-of-toronto-budget-covid-19/>



Introduction to matrix: The matrix below summarizes various survey respondents views on COVID-19 implications to TOD projects based on lockdown restrictions being held until August 2020 (positive outlook) and beyond (adverse outlook).

**Figure 1: Risk matrix**

COVID-19 implications	Impacts	Potential implications for TOD projects	
		Positive outlook (August 2020)	Adverse outlook (beyond August 2020)
Government shutdown	Risk and liquidity	Any disruption to operations will be unlikely to cause cash flow shortages or delays in TOD projects due to reprioritization of funds. To date, there are no expected project stoppages or changes to planned TOD projects.	Ongoing disruption may negatively affect economic viability of current programs due to construction and commercial delays. This may also delay, halt or cancel the development of future pipelined projects.
	Private partnerships	Material impacts on TOD projects are not expected within this time frame.	Private developers may be reluctant to take on risks associated with TOD projects, choosing more traditional and smaller-scale options (e.g., condos). This may reduce market interest, resulting in a scarcity of private partners for TODs.
	Global market demand	Reduced global market demand may reduce the pool of international consortia available or interested in TOD projects; however, no reductions to current and future TOD projects are expected.	Prolonged lockdowns may potentially impair international consortia from taking part in TOD projects due to their inability to travel, contributing to their added risks.
Behavioural changes	Work-from-home (WFH) measures	Growth of WFH culture may modify and reduce demand for traditional office space and transit ridership. Developers may re-consider real estate types needed to achieve their TOD objectives. For example, replacing retail and workplaces with more residential or commercial structures.	
	Social distancing	Material impacts on TOD projects are not expected within this time frame.	Social distancing bias may negatively affect the future desirability of TOD projects as the TOD concept promotes densification, while COVID-19 encourages social separation.
	Health and safety requirements	Material impacts on TOD projects are not expected within this time frame.	May induce policy changes affecting design and construction, requiring developers to embed safety protocols such as distancing and isolation. May delay TOD projects due to review and modification of designs to comply with new requirements and build resilient projects.

# If lockdown restrictions are discontinued by August 2020

Most TOD market players do not anticipate extensive disruptions or changes to their TOD plans. Given TOD projects are linked to infrastructure assets, which are considered long-term and sustainable alternative investments, public and private sector organizations do not expect COVID-19 to have a major impact on their 10- to 15-year planning horizon. Although there may be a drain to cash flows in the short term and potential declines in market interest both locally and globally, TOD projects are expected to remain resilient through these times.

As for behavioural changes, developers may need to combat a potential reduction to office-space demand and increased safety protocols. Although these are important considerations, market players do not anticipate this will drain their ability to commit to current and future TOD plans. However, the public and private sectors have acknowledged that real estate concepts may need to be reconsidered and are required to be flexible as a result of COVID-19.

Federal Minister of Infrastructure and Federal Infrastructure Minister Catherine McKenna is preparing plans to rush out billions of dollars in budgeted infrastructure funds to stimulate the Canadian economy once current pandemic restrictions are lifted. McKenna noted the scope of a future stimulus plan will depend on the scale of the economic damage created by COVID-19, which is currently unknown. However, she stated her current focus is on speeding up the more than \$180 billion in infrastructure spending that has been approved through to 2028, but mostly unspent.<sup>4</sup>

Given the market is aware of these developments, no major changes are to be expected to TOD projects and plans in the near future.



<sup>4</sup><https://www.theglobeandmail.com/politics/article-mckenna-seeking-shovel-ready-projects-for-post-shutdown-stimulus/>

# If lockdown restrictions are prolonged past August 2020

TOD projects may face the risks associated with construction and commercial delays, forcing developers to reconsider their real estate concepts and infrastructure players to review station designs. Private sector partners and consortia may shift their capital agenda priorities to primarily investing in core operations for continuity, preserving balance sheet strength and improving liquidity through the conservation of cash and capital. This may lead to private real estate developers expressing lower market interest for TOD projects.

The impact of COVID-19 on global economies and markets is still largely unknown. The measures taken to limit the spread of the virus are unprecedented, while, the duration of these measures is uncertain and further measures may be taken. This may also impair international consortia from taking part in TOD projects, causing further delays.

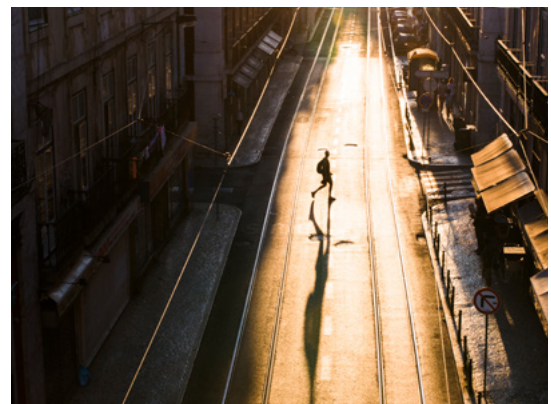
In terms of behavioural impacts, governments and private enterprises predict that customer behaviours may fundamentally shift along with changes to the workforce and work culture. In the scenario where people prefer working remotely, this may trigger a decline in demand for office space and transit ridership, an upward trend for decentralization and reduced density, all of which affect TOD real estate concepts. The implications of this extend into city densification and further diminish the value for money derived from TOD projects as consumer behaviours shift from desiring compact spaces to live, work and play to preferring greater spatial distance as a result of the social-distancing experience.

Furthermore, lessons learned from COVID-19 may result in new safety requirements and impact design standards. New TOD projects in highly dense areas would need to encode pandemic responses into their fundamental designs to accommodate six-foot distancing and isolation measures. This would result in more complex designs in highly compact spaces, likely causing a material increase to development costs, thereby negatively affecting developers' desired rates of return.

## Conclusion

Although the scale of the impact of this pandemic is still yet unknown, market players in the TOD space are confident that their future will withstand the effects of COVID-19, resulting in few to no changes to their TOD planning. Both public and private sector organizations realize the current situation requires flexibility in the TOD concept, where irrespective of lockdown restrictions, TOD projects will remain integral to municipalities in their pursuit to develop more productive economies.

Furthermore, given the fact TODs are real estate projects linked to infrastructure assets that are long-term and sustainable, sector players are confident and hopeful for a recovery in both demand and usage. The market is aware that moving forward, the needed stimulus support from the federal government will exist to prevent organizations from changing their "formula" in order to achieve their desired returns.



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