

The Fixed-Cost Crunch: What's Actually Squeezing Toronto Small Businesses

A 5-Year Comparative Analysis of Rising Operating Costs (2019-2024)

Summary

What is really driving small business closures in Toronto? This report examines five years of cost data across four categories - *rent, insurance, electricity, and labour* - to separate perception from reality. The findings point to fixed costs as the dominant pressure on business survival.

We examined major cost categories for a typical 1,000 square foot retail micro-business with 3 employees over 2019 to 2024. This size of business represents the vast majority (*1-4 employees - see appendix a*) of Canadian businesses - and are often the category most prone to fixed-cost shocks:

- **Commercial rent:** Up **142% in five years** - **\$5,534 more annually** for a standard format 1,000 sq ft space - often realized as a sharp increase at lease renewal
- **Business insurance:** Up ~\$650 - \$1,600 annually (based on reported 5-10% yearly increases)*
- **Electricity costs:** Up ~\$200-800 annually - estimated from rate, delivery, rebate trends and type of business*
- **Minimum wage labour:** Rose **23%**, costing **\$3,994 annually** for a 3-employee business

Fixed costs represent unavoidable expenses that - despite their name - often arrive as surprises and typically flow outside local economies, while wage increases are planned in advance and recirculate through neighborhood spending, creating local economic multiplier effects.

In our comparison, Commercial rent increases cost our sample micro-business about 1.4 times more annually than minimum wage increases.

Recommended next step: Explore a micro-business designation and complementary measures that directly target fixed-cost volatility (commercial rent, insurance, utilities) documented in this analysis.

The Numbers: Annual Dollar Impact by Cost Category

Cost Category	2019 Baseline	2024 Level	5-Year Increase	Annual Impact	Cumulative Impact
Commercial Rent	\$19,540 (19.54/sq ft) ¹	\$47,210 (47.21/sq ft) ²	+142%	+\$5,534	\$27,670
Business Insurance*	~\$12,600 (estimated) ³	~\$15,850 (median SME) ³	~+26%	+\$650	\$3,250
Electricity Costs*	~\$3,000 (estimated) ⁴	~\$4,000 (estimated) ⁴	~+33%	+\$200	\$1,000
Minimum Wage Labor (3 employees)	\$87,360 (\$14.00/hr) ⁵	\$107,328 (\$17.20/hr) ⁶	+23%	+\$3,994**	\$19,970

Five-Year Total Impact:

- **Fixed Cost Increases:** \$31,920 (Rent \$27,670 + Insurance \$3,250 + Electricity \$1,000)
- **Labor Costs (Minimum Wage increases):** \$19,970
- **Combined Total: \$51,890**

Methodology

We analyzed annual dollar impact cost increases for a typical Toronto neighborhood micro-business - a 1,000 square foot retail space with 3 employees - across 2019-2024. This reflects common businesses like convenience stores, dry cleaners, or strip mall restaurants that are most likely to employ workers at or near minimum wage.

* We have used conservative estimates - many businesses (*such as restaurants and manufacturers*) report increases upwards of 300% and more commonly between 30-50%

** Distributed annually over 5-year period: $+\$19,968 \div 5 = \$3,994$

Full methodology and sources in appendix 1.

Commercial Rent: The Biggest Hit to Small Business Budgets

[Toronto Regional Real Estate Board data](#) shows commercial retail lease rates jumped from \$19.54 per square foot in Q1 2019 to \$47.21 in Q3 2024 - a 142% increase over 5 years.

The numbers:

- 2019: \$19,540 annually for 1,000 sq ft
- 2024: \$47,210 annually for 1,000 sq ft
- **Additional cost: \$27,670 over 5 years (\$5,534 annually)**



Accelerating trend: The most recent data shows the problem accelerating dramatically, with a 68.5% spike from Q3 2023 to Q3 2024. [Industry analysts expect this trend to continue](#), with CBRE Managing Director Molly Westbrook noting that "cost of construction continues to be a limiting factor across many markets, which will keep vacancy tight and rents elevated for the time to come."

Businesses experience this as a **sudden jump at lease renewal** rather than a smooth year-over-year increase. For many operators, this represents a sharp shock in annual costs, often without any predictability whatsoever.

Business Insurance: Cost Volatility is Increasing

[CFIB's comprehensive December 2024 analysis](#) reveals significant cost pressures in the small business insurance market.

Key findings:

- **Insurance costs now rank as the #2 concern** (62% of businesses)
- **50% experienced increases of 10% or more** in premiums over the last 12 months alone
- **62% of small businesses** obtain coverage from just three insurance companies

For our typical micro-business with median coverage (property \$6,000, auto \$5,000, liability \$4,850 = \$15,850 total), a 10% increase means \$1,585 in additional annual costs.

Market concentration creates different pricing for micro-businesses: While [industry-wide commercial rates increased just 5.02% in Q4 2024](#), CFIB data shows 50% of small businesses face increases of 10% or more. With 62% of small businesses obtaining coverage from just three insurance companies. Micro and small businesses often lack negotiating power to secure the rates available to larger commercial clients.

Sector-specific impacts: Hospitality businesses face particularly steep increases, with [25% reporting premium hikes of 25% or more](#) and some establishments seeing premiums triple. One Toronto restaurant reported annual premiums jumping from \$6,000 to \$20,000. Based on informal polling by the BWA and other business groups, this could be more common than available data may indicate.

Real impact: 52% of small businesses are reducing investments due to insurance cost increases - money that would otherwise go toward equipment, inventory, or expansion now absorbed by premium hikes.

Electricity: Complex System Costs Without Alternatives

Ontario's electricity system experienced significant rate growth following 2009, with a compound annual growth rate of 3.8%. Small business electricity rates follow similar patterns, but unlike industrial users who can secure bulk contracts, small retailers face standardized rates set by the Ontario Energy Board.

Small business electricity bills include multiple components beyond the energy commodity rate:

- Delivery charges (transmission and distribution)
- Regulatory fees
- Provincial rebates

While commodity rates showed modest increases from 2019-2024, cost pressures emerged from delivery charge increases, reduced Ontario Electricity Rebate levels (from 31.8% in 2019 to 13.1% in 2024), and various regulatory adjustments.

The combined impact of these factors represents approximately \$200 in additional annual costs for a typical retailer using 8,000-10,000 kWh - meaning businesses now pay \$200 more per year compared to their 2019 electricity bills, totaling \$1,000 in additional costs over the five-year period.

However, this is an extremely conservative measurement. **Many businesses in manufacturing, hospitality and food production informally report increases between 30-70% can be more common.**

How businesses experience these increases varies by lease structure: those with gross leases may see electricity cost increases reflected in rent adjustments, while net lease tenants pay utility bills directly.

Unlike rent negotiations or insurance shopping, small businesses have few alternatives in many Ontario markets - creating a "captive market" situation. This makes electricity costs an unavoidable and steadily rising expense that micro-businesses must absorb regardless of their financial capacity.

Minimum Wage: Real but Different Impact

[Ontario's minimum wage](#) remained frozen at \$14.00 from 2019 through most of 2021, then increased gradually to \$17.20 by 2024.

Total 5-year impact:

- **3-employee business:** \$87,360 (2019) → \$107,328 (2024) = **\$3,994 additional annually**

In practice, minimum wage increases ripple upward: employees earning slightly above the floor often see raises too. Research shows this "spillover" effect can reach roughly three times as many workers as those directly on minimum wage.

Crucially, these increases create a **local multiplier effect**. When low- and modest-income workers earn more, they spend more in their own communities. Studies show higher minimum wages are associated with GDP growth, not job loss.

[Following Ontario's minimum wage increase from \\$11.60 to \\$14.00 in January 2018, Statistics Canada analysis shows the economy continued to grow](#) while employment impacts were minimal. Academic research supports this pattern more broadly, with [Manning \(2021\)](#) concluding that feared "job-killing" effects are small or non-existent. California saw similar local spending gains and steady employment following wage increases.

The key difference is that wages are often spent nearby at restaurants, small grocers, entertainment venues and other locally owned businesses. They multiply locally - circulating back through neighborhood shops, services, and small businesses - unlike fixed costs such as rent, insurance, and utilities which typically flow outside the local economy.

Conclusion: Micro Businesses Need a Specific Designation

Fixed costs, not labor costs, are driving Toronto's small business difficulties. Our analysis reveals that unavoidable expenses like rent, insurance, and utilities cost micro-businesses \$31,920 over five years - 60% more than minimum wage increases (\$19,970).

When we examine the actual dollar impact on micro-businesses, a clear hierarchy emerges:

1. **Commercial rent increases:** +\$5,534 annually
2. **Minimum wage increases:** +\$3,994 annually
3. **Business insurance increases:** +\$650 annually
4. **Electricity cost increases:** +\$200 annually

Commercial rent alone costs micro-businesses 1.4 times more annually than minimum wage increases - yet policy discussions often remain focused primarily on labor costs.

The micro-business vulnerability

These cost pressures hit neighborhood businesses disproportionately hard and are leading to an acceleration of displacement and extinction level events in Toronto and across Canada. A 142% rent increase that might represent 2-3% of revenue for a large retailer can consume 15-20% of a micro-business's gross income, often leaving them with two choices: moving or closure.

When combined with insurance and utility increases, fixed cost increases are creating systematic pressures that micro-businesses cannot absorb through operational adjustments or economies of scale. **Micro-businesses represent over half of all Canadian enterprises** - and face a fundamentally different economic reality than larger retailers.

Policy Direction: Stabilizing Costs for Micro-Businesses

Our analysis shows fixed costs rose about 60% more than wage costs for a typical 3-employee, 1,000-sq-ft retailer. Commercial rent alone is up 142% since 2019, costing nearly 1.4 times more each year than minimum wage increases. Micro-businesses (1–4 employees) feel these shocks the hardest, yet current policy often treats them the same as much larger firms.

Recognizing micro-businesses as a distinct category would create a foundation for better-fitted government supports and grants.

Examples of measures governments could explore:

Municipal – More right-sized retail

- Encourage a supply of 2–800 sq ft storefronts in developments and main-street builds.
- Use plain-language, short-form leases for the smallest units.

Impact: Expands affordable space options and reduces the sudden rent “cliffs” many tenants face.

Provincial – Commercial Renter Bill of Rights

- Require plain language in leases and clarity on key terms (base rent, charges, escalation terms)
- Provide access to low-cost mediation and set timelines for resolving disputes
- Consider basic good-faith standards for renewals and transfers of small units

Impact: Creates more transparency and balance in negotiations, especially for micro-tenants with little leverage.

Federal – Pathways to Ownership for Main Street

- Modernize the Canada Small Business Financing Program by:
 - Raising the property loan cap from \$1M to \$5M to reflect today’s market prices.
 - Reduce fees and interest margins to improve access.

Impact: Gives local entrepreneurs a path to property ownership, stabilizes occupancy costs, and keeps community anchors from being displaced by sudden rent hikes.

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Appendix A: Detailed Methodology

Among all Canadian businesses, 55.3% have 1-4 employees, with nearly three-quarters (73.8%) having fewer than 10 employees. When policy discussions focus on 'small business' impacts, they're primarily addressing this majority segment of micro-enterprises.

Table 1: Number of Businesses with Paid Employees by Size

Number of Employees	Number of firms	% Cumulative
1-4	672,602	55.3%
5-9	225,784	73.8%
10-19	151,159	86.3%
20-49	105,194	94.9%
50-99	35,288	97.8%
100-199	15,641	99.1%
200-499	7,754	99.7%
500 and over	3,128	100%
All businesses	1,216,550	n/a
Source: Key small business statistics, 2024		

While Toronto businesses average larger due to big-city market dynamics (21.9 employees citywide), the sectors most relevant to minimum wage policy - retail (10.3 employees per establishment) and service (9.4 employees per establishment) - remain closer to our 3-employee baseline than large institutional employers (49.1 average) or office businesses (29.3 average). Our analysis focuses on businesses where minimum wage often impacts operations.

This micro-business focus is critical because businesses with 1-4 employees lack the financial reserves and operational flexibility to absorb sudden cost shocks. Unlike larger retailers that can spread fixed cost increases across multiple locations or negotiate volume discounts, micro-businesses face the full impact of cost increases on their single operation.

This 3-employee structure reflects common Toronto neighborhood businesses - the convenience store with owner and two shift workers, a dry cleaner with owner, presser, and counter staff, or independent cafe with owner, barista, and part-time helper - that employ workers most likely to earn minimum wage.

Electricity and Insurance Cost Clarity

Electricity and insurance cost estimates are based on typical small business experiences and industry data. Actual impacts vary significantly by business type, usage patterns, location, and coverage requirements.

Restaurants, manufacturers, and higher-consumption businesses may experience substantially greater cost increases. Electricity costs include commodity rates, delivery charges, regulatory

fees, and changes in provincial rebate structures. Insurance costs reflect median small business coverage levels and typical premium increases reported by industry associations.

Sources

1. [Toronto Regional Real Estate Board Market Snapshots, 2019](#)
2. [Toronto Regional Real Estate Board Commercial Report, Q3 2024](#)
3. [CFIB "Insuring Main Street" Report, December 2024](#)
4. [Ontario Energy Board Historical Analysis](#)
5. [Ontario Minimum Wage History](#)
6. [Ontario Employment Standards Act](#)
7. [Toronto Employment Survey 2024, City Planning](#)