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Canada's cities need a venture capital revolution

Canada continues to lag far behind the U.S. and other leading nations in startups and venture capital — but it doesn't need to be that way.



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Venture capital investment is heavily concentrated in the urban cores of Canadian cities, write Richard Florida and Karen King.

By: Richard Florida Karen King Published on Tue Nov 17 2015

With the new Trudeau government committed to bolstering Canadian productivity and innovation, it must deal with the fact that Canada continues to lag far behind the United States and other leading nations in startups and venture capital.

Over the past few years, \$2 billion in venture capital has been invested in Canadian startups annually. That's just 6 per cent of the U.S. total, and less than a third of the venture capital invested in the San Francisco Bay Area alone. Canada ranks fifth in the world in global venture capital, behind not just the U.S., but the United Kingdom and the emerging nations of China and India, according to our newly released study "[Startup City Canada](#)."

The great technological revolution — personal computers, biotech, smartphones, Internet and social media — is a product of venture capital-backed startup companies like Intel, Apple and Google that grew out of the entrepreneurial milieu of Silicon Valley. Over the past few years, however, venture capital and high-flying tech startups have undergone a fundamental urban shift that works to the advantage of Canada's big cities. The locus of venture capital and entrepreneurial innovation has shifted from Silicon Valley's sprawling suburban campuses and office parks to vibrant urban neighbourhoods in San Francisco, New York and London. These dense, diverse, urban neighbourhoods are home to the great research universities, key industries and consumers, and the top tech and creative talent that power innovation.

Canada is well positioned to benefit from this urban shift. Venture capital investment is enormously concentrated in its biggest cities, with Toronto, Vancouver, Montreal, Ottawa and Calgary accounting for 85 per cent of the country's total venture capital investment (but only about half of all its economic activity). The Toronto, Waterloo, Ottawa and Montreal mega-region alone accounts for \$1.25 billion in venture capital, nearly two-thirds of the nation's total.

Venture capital investment is even more heavily concentrated in the urban cores of Canadian cities. More than three-quarters of all venture capital investment in Toronto, Vancouver and Montreal is clustered in areas close to their downtowns, like Toronto's Fashion District and Annex (close to the University of Toronto), Vancouver's Mount Pleasant and Yaletown/Gastown areas, and the neighbourhoods surrounding McGill University and Old Montreal. Despite these isolated successes, Canada still trails in venture capital-backed innovation.

A big reason for the gap is that Canada has historically thrown money at the problem, boosting the government-backed venture capital that flows to isolated companies. But research by Douglas Cummings of York's Schulich School of Business finds that the government's venture capital programs have significantly underperformed compared to private venture funds. The real issue is not a lack of venture capital, but the weak and underdeveloped entrepreneurial ecosystems of Canada's cities.

Like the leading startup hubs of San Francisco, New York and London, Canada's great cities stack up very well on the fundamentals with the great research universities, the urbanity, the density, talent and diversity required to succeed. What is missing is the basic connective fibre needed to pull together and mobilize these assets. Once that is done, Canada's cities can — and will — attract the venture capital they need.

Two decades ago, New York City had little in the way of a startup scene and virtually no venture capital. Now it is the world's second largest startup hub, attracting \$3 billion in new venture capital every year. This was achieved by fostering a network of entrepreneurs and startups in Lower Manhattan rather than pumping government investments into the system.

Miami — a city of sun, fun and nightlife, but with far fewer innovation assets than Toronto, Montreal or Vancouver — has transformed into a vibrant startup hub in just the past five years by building up its own entrepreneurial ecosystem, spurred by strategic investments by the Knight Foundation in Lab Miami, a co-working space for creative startups housed in an old warehouse in the Wynwood Art District, and in the first U.S. office of Endeavor Global, which helps mentor and develop new startups. Just a year or so ago, two students from the U of T's Rotman School of Management, where I teach, relocated to Miami to launch their new startup.

Canada's leading cities have all the elements required to prosper in this new era of urban entrepreneurship. To close the innovation and entrepreneurship gap, the new administration and Canada's cities must work together to develop the urban networks and ecosystems that power urban entrepreneurship, which will drive innovation and economic growth into the future.

Richard Florida is Director and Karen King is a Research Scientist at the Martin Prosperity Institute in the University of Toronto's Rotman School of Management