AVISON YOUNG

Second Quarter 2020 / Office Market Report

Greater Toronto Area

Quick Stats

2.5%
Overall downtown office vacancy rate vs. 8.7% in the suburbs

3 msf
GTA total available sublease space – a five-year high

10.5 msf
GTA-wide office space under construction – equating to 6% of existing stock

100
GTA-wide buildings with more than 50,000 sf available – 76 are class A

3+ msf
GTA first-half 2020 office leasing volume – down 50% year-over-year

To say that the Greater Toronto Area (GTA) office market has been impacted by COVID-19 is an understatement. However, the market entered the pandemic coming off a decade of transformative change and growth and, importantly, its success had been restricted by a supply shortage, despite active downtown development. Still, the Great Lockdown has muted leasing levels, led to an uptick in sublease space and forced occupiers to rethink how they use their premises. Meanwhile, landlords have worked to collect rent and facilitate government relief programs – notably Canada Emergency Commercial Rent Assistance (CECRA).

It is too early to tell how much workspace will be required as occupiers assess the pros and cons of working from home (WFH). However, two main views have emerged: that companies will require the same or less space due to WFH or that they will need the same or more space for physical distancing. From an employer's perspective, the former appeals as it reduces real estate costs, and workers may have the potential for a better work-life balance with WFH. While no solution is "one-size-fits-all", some large employers have already voiced intentions that may have long-term implications for occupancy levels.

Transactions in first-half 2020 totaled just over 3 million square feet (msf) (mostly in the first quarter) – a stark contrast to the 6-msf plus leased in first-half 2019, and putting 2019's full-year total of nearly 12 msf out of reach. Absorption turned negative in the second quarter, but not enough to offset first-quarter gains, as the resilient suburbs helped keep the overall market in positive territory year-to-date. GTA-wide vacancy inched higher between quarters to 5.6%, and availability jumped 60 basis points (bps) to 9.3% after hitting an 11-year low of 8.7% at year-end 2019. Uncertainty has added 642,000 square feet (sf) of available sublease space since year-end 2019, with the total now almost 3 msf – a five-year high. On the development front, 593,000 sf was completed (largely in the suburbs), while 10.5 msf (78% preleased) is under construction

27%

Downtown sublet space as a proportion of total available space

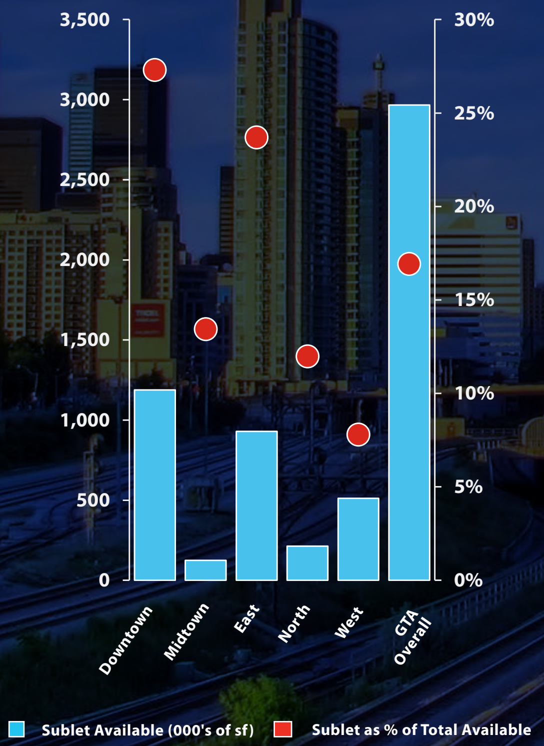
127

Full floors available for lease downtown, out of a total of 387 under construction

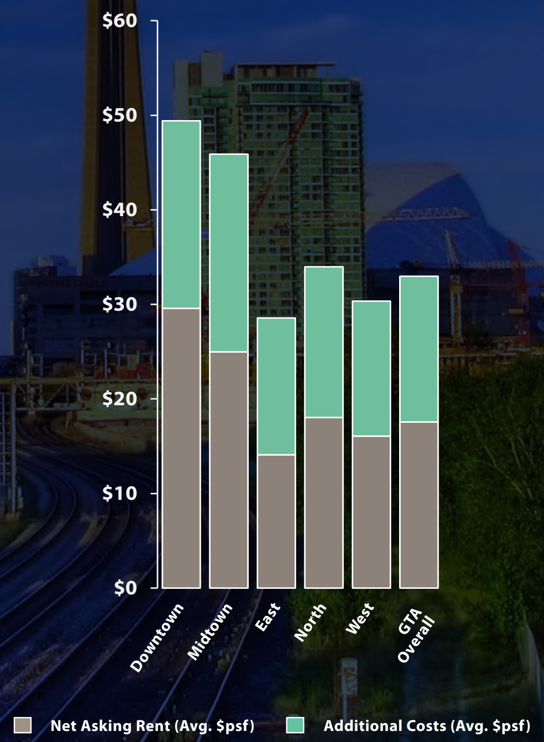
654 ksf

Suburban office area under construction – down from 1.7 msf a year ago

GTA Sublet Availability - All Classes

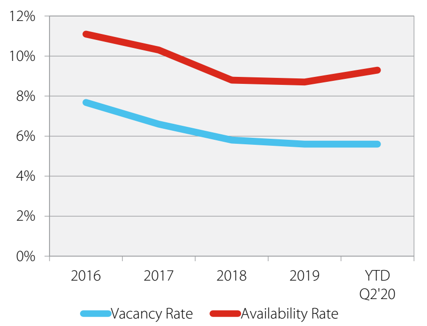


GTA Occupancy Costs - All Classes

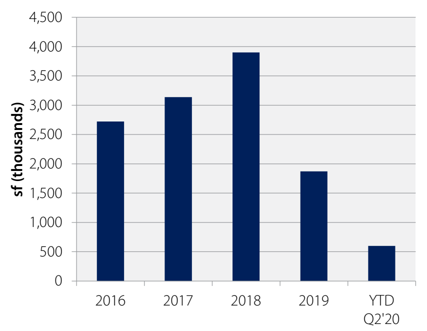


In the pandemic's wake, the suburbs will look to capitalize on major occupiers' plans to de-densify and distribute their workforce in satellite offices, outside the expensive and crowded downtown.

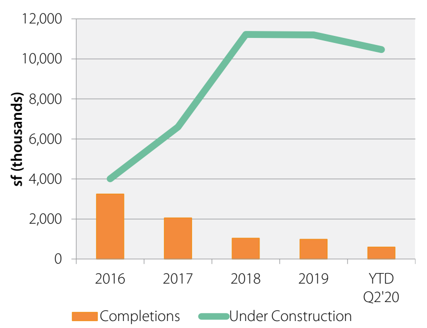
GTA Overall Availability & Vacancy Trends



GTA Overall Absorption Trends



GTA Overall New Supply Trends



(largely downtown) – down about 1 msf year-over-year. For the most part, rental rates have held steady. However, as demand remains soft in the near term and availability is likely to rise, downward pressure on rates is anticipated, especially downtown.

Toronto's downtown availability and vacancy rates are up, but remain the lowest in North America. Availability ended the quarter at 5.6%, up from 4.6% and 4.1% three and six months ago, respectively. Coming off a record-low 1.8% (third-quarter 2018), vacancy has risen 40 bps year-to-date to 2.5%. Absorption fell into unfamiliar territory as occupancy declined 69,000 sf during the quarter. Leasing activity was also down – jeopardizing the five-year trend of record-setting leasing volumes. This is not indicative of a lack of demand, but rather the lockdown and scarcity of available space. In fact, the uptick in available sublease space could help the market by providing room to transact. Of 177 downtown sublease listings available at mid-year (totaling 1.2 msf), most were in the Financial Core (72 / 395,000 sf) and Downtown West (52 / 336,000 sf). Listings under 10,000 sf were predominant (144 / 554,000 sf), while longer terms were most common (99 had more than two years of term remaining, and 37 more than four).

Notable pre-COVID-19 transactions downtown included Google's 400,000-sf lease at Carttera's 65 King St. E. development and Equitable Bank's 180,000-sf deal at First Gulf's 25 Ontario St. (to be known as EQ Bank Tower). Carttera is set to add to downtown's burgeoning development pipeline (9.8 msf / 80% preleased, the bulk coming on stream by year-end 2022). Demolition is underway at 530 Front St. W., recently acquired by Carttera with plans for a new and innovative 530,000-sf speculative office tower (currently known as Portland Commons), for summer 2023 delivery.

Toronto's Midtown is equally tight (sub-1% vacancy / 5.6% availability) – with much of the available space concentrated in the Bloor node. Infrastructure Ontario inked the largest deal (a 68,000-sf renewal) at KingSett's 2 Bloor St. W. In other news, CT REIT and Oxford Properties increased their ownership stake in Canada Square – slated for redevelopment – to 50% from 33%, while Manulife Real Estate is proposing to repurpose its existing six-storey Traders Building – adding a new purpose-built rental tower.

The suburban market has fared relatively well compared with Downtown and Midtown – building on its 2019 momentum. Availability fell to 13% at mid-year, while vacancy was down 40 bps year-to-date to 8.7% – a 12-year low. This narrowed the downtown-suburban vacancy spread to 620 bps. Completions totaled 461,000 sf, while construction slowed from 1.7 msf one year ago to 654,000 sf (54% preleased) in the second quarter – both categories led by Toronto West. In the pandemic's wake, the suburbs will look to capitalize on major occupiers' plans to de-densify and distribute their workforce in satellite offices, closer to employees' homes and outside the expensive and crowded downtown. Though too early to be a trend, all stakeholders will be watching this closely in coming quarters.

Greater Toronto Area Market Summary

Availability Trend			Vacancy Trend			Change in Occupied Area (000's of sf)		New Supply (000's of sf)		
12 Months Ago	3 Months Ago	Current Quarter	12 Months Ago	3 Months Ago	Current Quarter	Current Quarter	YTD	YTD Completions	Under Construction	Preleased
8.5%	8.9%	9.3%	5.5%	5.4%	5.6%	-86	598	593	10,467	78%

Comparison of Leasing Options for Tenants

	Available Space				Availability Rate		
Office Space in Select Districts	No. of Bldgs.	Bldgs. with more than 50,000 sf	Bldgs. with largest contiguous available area greater than 50,000 sf	Number of spaces between 4,000 sf and 8,000 sf	Direct %	Sublet %	Total %
Downtown All Classes	424	33	17	176	4.1	1.5	5.6
Downtown Class A	131	29	15	66	3.8	1.2	5.0
Midtown All Classes	142	4	1	32	4.9	0.7	5.6
Midtown Class A	39	2	0	11	5.1	1.1	6.2
Toronto East All Classes	335	21	12	95	9.3	2.8	12.1
Toronto East Class A	136	11	6	57	9.1	3.1	12.2
Toronto North All Classes	131	11	7	48	10.1	1.4	11.5
Toronto North Class A	59	10	6	27	10.1	1.6	11.7
Toronto West All Classes	531	31	13	173	12.9	1.1	14.0
Toronto West Class A	258	24	9	95	13.0	1.2	14.2

Greater Toronto Area Significant Transactions

Address	District	Tenant	Size
65 King St. E.	Downtown	Google	400,000 sf
2 Bloor St. W.	Midtown	Infrastructure Ontario	68,000 sf
260 East Beaver Creek Rd.	East	RBC Financial	62,000 sf
4211 Yonge St.	North	Registered Nurses Association of Ontario	35,100 sf
2300 Meadowvale Blvd.	West	McKesson Canada	237,500 sf

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Properties

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