

Greater Toronto Area



Quick Stats

7.3%

Overall downtown office vacancy rate – eclipsing the 7.1% high during the global financial crisis

187

GTA buildings with more than 50,000 sf available vs. 97 at the start of the pandemic

7.2 msf

GTA-wide available sublet space – up from 3 msf one year ago

32%

Downtown sublet space as a proportion of total available space vs. 22% in the suburbs

9.8 msf

GTA-wide office area under construction – almost 50% to be delivered by year-end 2022

It has been five quarters since the onset of the pandemic and although key indicators in the Greater Toronto Area (GTA) office leasing market are underperforming, the conversation among occupiers and landlords is changing. The possibilities of a hybrid workplace have helped shift occupiers' mindset from 'will we ever return to the office?' to 'when and how?'. Demand has been stifled by the longest lockdown measures of any jurisdiction in North America, but the mass vaccinations currently underway could unleash it. Tour activity is rising and companies that were trying to shed office space on the sublet market are reversing course, anticipating more employees will return to the office. These are all good signs the market is on the road to recovery.

Occupiers' focus for the time being will be on successful deployment of flexible office solutions. The frequency of remote versus onsite work will vary by industry, function, and location, not to mention personal circumstances and preferences. Some positions will always require more in-person collaboration, just as some personalities prefer more

or less social interaction. Offices are uniquely good at supporting certain worker needs and will continue to be a vital component of workplace strategy. Some key trends to watch for: workplace optionality will become a top recruitment and retention tool; mobility offerings and technology products will continue to gain prominence; suburban expansion among flexible operators is a possibility; and ESG, health and wellness, and hospitality expectations will continue to influence the shift towards a flexible workspace.

Enquiries and tour activity may be increasing, but transaction volumes remain muted and below pre-pandemic levels. GTA-wide leasing velocity fell short of the 2 million square feet (msf) inked in first-quarter 2021, with 1.2 msf leased in the second quarter. However, the first-half 2021 tally of 3.2 msf is better than the second half of 2020 (2 msf) and similar to first-half 2020 (3 msf) – but is a stark contrast to the 6-msf-plus leased in first-half 2019. Unsurprisingly, the market reported yet another quarter of negative absorption, though not as severe as the first quarter. GTA-wide availability (14.8%) and vacancy



121

Full floors available for lease downtown, out of 337 under construction



2

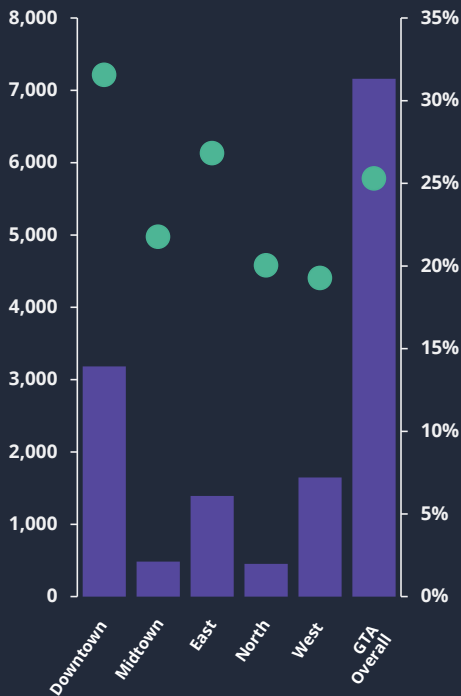
Year-to-date downtown lease transactions 100,000 sf+ vs. 20 in all of 2018



1%

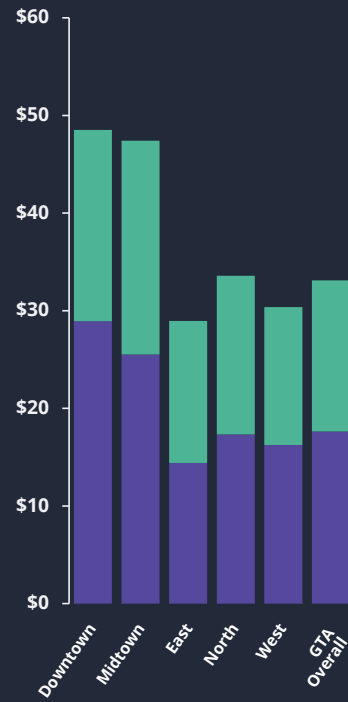
Suburban office area under construction as a proportion of suburban inventory vs. 11% downtown

GTA Sublet Availability – All Classes



■ Sublet Available (000 sf) ■ Sublet as % of Total Available

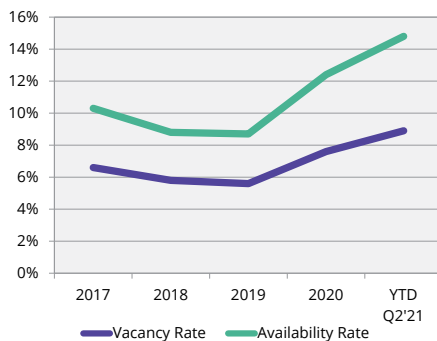
GTA Occupancy Costs – All Classes



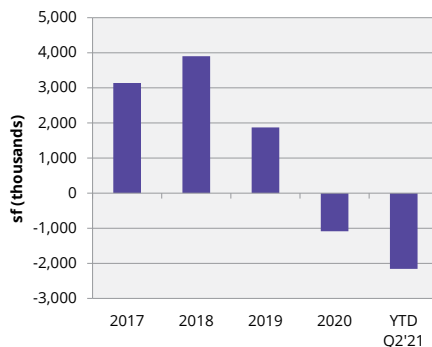
■ Net Asking Rent (Avg. \$psf) ■ Additional Costs (Avg. \$psf)

Tour activity is rising and companies that were trying to shed office space on the sublet market are reversing course, anticipating more employees will return.

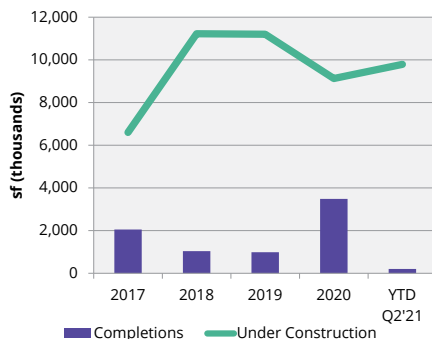
GTA Overall Availability & Vacancy Trends



GTA Overall Absorption Trends



GTA Overall New Supply Trends



(8.9%) rates trended higher, but less sharply than in previous quarters. Though one quarter does not constitute a trend, total available sublet space declined slightly between quarters to 7.2 msf (25% of total available space). Development remains steady with 9.8 msf underway (65% preleased / equal to 5% of inventory) – almost 50% to be delivered by year-end 2022.

Toronto's downtown office market has certainly been stress-tested, but its year of poor results and pundits' predictions of its demise do not reflect the strong underlying property market fundamentals that made it North America's tightest market not long ago. Ongoing restrictions keep downtown Toronto's office towers empty for now, but downtown will be the catalyst for the GTA's growth when the market recovers. In addition to larger requirements, there is demand in the 3,000-to-5,000-sf range (especially for model or built-out suites) and co-working options.

Looking ahead to the reopening, the Toronto Board of Trade, with the City of Toronto and other key business partners, launched a playbook called "We're Ready Toronto". Meanwhile, Sun Life and Apple's recently announced plans offer an early look at a broad return-to-work strategy. Sun Life is allowing staff the flexibility to decide their own work arrangements, while Apple asked its employees to return to the office on Mondays, Tuesdays, and Thursdays starting in the fall.

Quarter-over-quarter, downtown availability rose 110 basis points (bps) to 12.8% while vacancy climbed 90 bps to 7.3% – eclipsing the global financial crisis peak of 7.1%. New supply, backfill space and return-to-office uncertainty are expected to push vacancy higher in the near-to-medium term. On the upside, sublet available space fell for the first time

in six quarters – ending the quarter at 3.2 msf (32% of total available space downtown). While some occupiers are transacting in this space (Pinterest and SkipTheDishes), others (TMX Group and Intelx Technologies) have withdrawn sublet space from the market, in part or altogether. Affirming the market's growing tech-hub status, Netflix selected Toronto over Vancouver for its Canadian headquarters.

In development news, Hines kicked off T3 Sterling East and West (270,000 sf in total) – its latest mass timber undertaking downtown following T3 Bayside in 2020 – this time with partner Hazelview Investments. Total area under construction downtown is 8.7 msf (67% preleased / equal to 11% of inventory).

Midtown's availability and vacancy jumped 120 bps and 150 bps quarter-over-quarter to 13.6% and 7.4%, respectively. Over half of available space can be found in the Bloor node – with eight buildings offering more than 50,000 sf. Regrettably, sublease space remains at an all-time high; however, Uber removed its space from the market.

The GTA's suburban office markets appear to have stabilized from the perspective of availability (16.9%, unchanged quarter-over-quarter) and vacancy (10.5%, -10 bps). A bright spot during the quarter was positive absorption posted by the Toronto West market, which lifted the suburbs overall into the black. Total space under construction fell just below 1 msf (62% preleased).

The third quarter is often quieter for leasing activity in the GTA office market, but in these unusual times, it is also possible that decisions will need to be made in anticipation of a fall return to office, which could bring a flurry of activity and a better end to 2021.

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
9.3%	14.2%	14.8%	5.6%	8.4%	8.9%	-725	-2,158	204	9,789	65%

Comparison of Leasing Options for Tenants

Office Space in Select Districts	No. of Bldgs.	Available Space			Availability Rate		
		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	436	75	29	364	8.8	4.0	12.8
Downtown Class A	139	57	25	129	7.7	3.5	11.2
Midtown All Classes	142	13	4	72	10.6	3.0	13.6
Midtown Class A	39	7	4	28	9.2	5.0	14.2
Toronto East All Classes	332	32	16	122	11.8	4.3	16.1
Toronto East Class A	135	18	8	78	11.4	4.8	16.2
Toronto North All Classes	133	17	9	62	11.7	2.9	14.6
Toronto North Class A	59	16	8	40	12.2	4.0	16.2
Toronto West All Classes	534	50	20	208	14.6	3.5	18.1
Toronto West Class A	262	43	17	121	16.1	4.3	20.4

Greater Toronto Area Significant Transactions

Address	District	Tenant	Size
85 Richmond St. W.	Downtown	Pinterest	50,200 sf
150 Bloor St. W.	Midtown	Intel Corporation	48,300 sf
19 Allstate Pkwy.	East	Huawei Technologies	109,600 sf
5255 Yonge St.	North	iLobby	12,000 sf
405 The West Mall	West	Livingston International	40,600 sf

Get more market information

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