

Greater Toronto Area



Quick Stats

2.2%

Overall downtown office vacancy rate vs. 9.4% in the suburbs

11.4 msf

GTA-wide office area under construction, of which 9.9 msf is underway downtown

5.8%

Market-wide office vacancy rate vs. 6.1% one year ago

2.7 msf

GTA-wide sublet available area vs. 2.2 msf one year ago

16%

GTA sublet space as a proportion of available space – a five-year high

The Greater Toronto Area (GTA) office market had a relatively quiet third quarter of 2019 – typical of the summer months when decisions are deferred to the fall and winter, and not an indication of waning demand. The summer lull was reflected in lower-than-normal leasing activity and modest (but still positive) absorption levels across most markets and building classes. During the third quarter, more than 2 million square feet (msf) was transacted across the region – about half the previous quarter’s leasing volume. Overall absorption was positive 197,000 square feet (sf), largely owing to ongoing demand for office space in the downtown and midtown markets. Sub-3% vacancy rates in these markets and the absence of near-term new supply have widened the rental-rate spread between landlord-friendly downtown and midtown and tenant-friendly suburban markets.

GTA-wide availability was up 40 basis points (bps) quarter-over-quarter to 8.9%, while vacancy increased 30 bps to 5.8%. Despite the upticks, availability and vacancy remain

below last year’s levels. There was also an unusual rise in the amount of available sublet space, jumping 371,000 sf between quarters to a two-year high of 2.7 msf – representing 16% of total available space in the market. The majority of the GTA’s sublet space is in the suburban Toronto East (31%) and Downtown (29%) markets. Third-quarter new supply additions were all in the suburbs and totalled 300,000 sf across five buildings, bringing the year-to-date completion tally to 803,000 sf – marginally ahead of the 749,000 sf delivered during the same period in 2018. There was little change in the amount of office space under construction – numbering 40 buildings and 11.4 msf (69% preleased), with almost 10 msf underway in downtown Toronto.

Toronto’s Downtown market remains tight in terms of both availability (up 30 bps to 4.3%) and vacancy (up 10 bps to 2.2%) as demand continues to outstrip supply, pushing rents higher across all building classes. Although the downtown market was devoid of any large lease transactions and construction



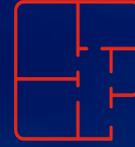
40

Number of office buildings under construction across the GTA, of which 24 are downtown



2.3%

Downtown class A office vacancy rate



42

GTA class A buildings with largest contiguous available area greater than 50,000 sf

GTA Sublet Availability - All Classes



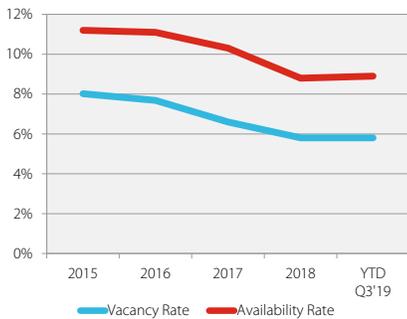
GTA Occupancy Costs - All Classes



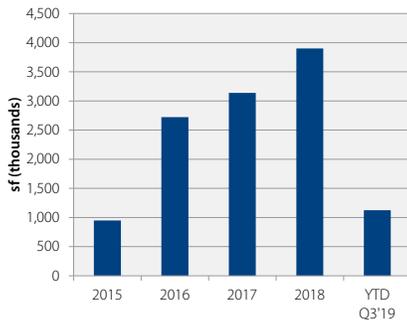
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With few prime sites remaining within the traditional confines of downtown, development is slowly shifting eastward along Toronto's waterfront.

GTA Overall Availability & Vacancy Trends



GTA Overall Absorption Trends



GTA Overall New Supply Trends



announcements during the quarter, the proliferation of technology firms and providers of flexible office solutions continues to drive the market. Knotel joined Toronto's already crowded co-working ranks, which also include beleaguered WeWork. The city's strong customer base of commercial real estate owners, and its deep labour pool, have also attracted New York-based proptech firm VTS to open a new engineering hub as it aims to add 50 staff by year-end 2020.

The biggest news in the downtown market was Cadillac Fairview's purchase of the East Harbour site from First Gulf and its partners for a reported \$690 million. The largely vacant 38-acre site is located just three kilometres east of the core, with capacity for more than 10 msf of commercial space. With few prime sites remaining within the traditional confines of downtown, development is slowly shifting eastward along Toronto's waterfront. Though there were no new supply completions for the second straight quarter, construction continued on 9.9 msf (70% preleased) – equating to 13% of the downtown's existing office inventory. Also trending is the incorporation of office space on the lower levels of high-rise residential projects. There are five such developments announced or underway downtown, offering almost 296,000 sf of office space.

Equally tight is Toronto's Midtown market, posting overall availability and vacancy of 4.8% and 2.7%, respectively. Unlike downtown, there is no new supply relief, but some blocks of space could soon return to market in the Bloor node – the

result of tenants relocating to new downtown towers in 2021. However, the prospect of new development is on the horizon. CT REIT and Oxford Properties announced they will buy out Northam Realty's 33% stake in the 846,000-sf Canada Square office complex at Yonge and Eglinton, increasing their ownership to 50% each. This, along with CT REIT's conditional deal to extend its ground lease with the TTC (adding an adjacent parcel), paves the way to redevelop the asset, likely including a new head office for Canadian Tire – after the Eglinton LRT's scheduled 2021 completion. In other news, Rogers Communications is selling its six-storey, 118,000-sf office building at 350 Bloor St. E. as it moves staff into adjacent owned facilities (333 Bloor St. E. and 1 Mount Pleasant Rd.), where a multi-year modernization plan has increased capacity.

The suburban market had a poor third quarter. Modest gains in occupied office area in the Toronto East and North markets were offset by notable losses in Toronto West, which has produced solid results of late. Consequently, suburban availability and vacancy trended higher, finishing the quarter at 13.4% and 9.4%, respectively. The suburbs accounted for all of the GTA's office completions (five buildings / 300,000 sf), while construction continued on a further 1.5 msf (62% preleased). Notable transactions included Scotiabank (406,400-sf sale/ leaseback) at 2201 Eglinton Ave. E. and 888 Birchmount Rd.; Royal Bank of Canada (193,000-sf renewal) at York Mills Centre, and the Centre for Health & Safety Innovation (101,000-sf renewal) at 5110 Creebank Rd.

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
9.2%	8.5%	8.9%	6.1%	5.5%	5.8%	197	1,124	803	11,392	69%

Comparison of Leasing Options for Tenants

Office Space in Select Districts	Available Space				Availability Rate		
	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	27	18	139	3.3	1.0	4.3
Downtown Class A	129	24	16	59	3.3	0.8	4.1
Midtown All Classes	141	4	2	29	3.3	1.5	4.8
Midtown Class A	39	2	1	15	2.9	2.7	5.6
Toronto East All Classes	333	19	12	94	9.6	2.6	12.2
Toronto East Class A	135	11	7	53	9.7	2.6	12.3
Toronto North All Classes	130	11	4	48	9.9	0.4	10.3
Toronto North Class A	59	9	4	33	9.9	0.6	10.5
Toronto West All Classes	529	36	20	153	13.7	1.5	15.2
Toronto West Class A	256	27	14	77	13.4	2.1	15.5

Greater Toronto Area Significant Transactions

Address	District	Tenant	Size
The Well	Downtown	Quadrangle	47,500 sf
Canada Square	Midtown	Canadian Tire	455,000 sf
2201 Eglinton Ave. E. & 888 Birchmount Rd.	East	Scotiabank	406,400 sf
York Mills Centre	North	Royal Bank of Canada	193,000 sf
5110 Creekbank Rd.	West	Centre for Health & Safety Innovation	101,000 sf



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Properties

For more information, please contact:

Bill Argeropoulos
Principal & Practice Leader, Research (Canada)
416.673.4029
bill.argeropoulos@avisonyoung.com

18 York Street
Suite 400, Mailbox #4
Toronto, ON M5J 2T8
416.955.0000