

Greater Toronto Area



Quick Stats

2.1%

Overall downtown office vacancy rate vs. 9.2% in the suburbs

11.2 msf

GTA-wide office area under construction – equating to 6% of existing stock

\$80+ psf

Average gross rent for the best space in Downtown Toronto

5.6%

Market-wide office vacancy rate – a two-decade low

12 msf

Total office lease transactions inked in 2019

The Greater Toronto Area (GTA) office market's strong performance in 2019 was a fitting finale to a transformative decade for market dynamics. Once driven primarily by large users in banking, finance and professional services, Toronto is now an emerging technology hub and global city, attracting major corporations from around the world. Much of the GTA office market's success during the past decade is attributable to downtown's stellar performance – but that success has also proven to be its Achilles heel, as deal velocity is now restricted by a shortage of available space in which to transact, despite abundant new construction. However, the tight conditions appear to have begun a turnaround in the suburbs, which offer tenants an alternative to peak pricing and limited options in downtown Toronto.

Following lower-than-normal leasing activity and modest (but still positive) absorption levels in the second and third quarters of 2019, activity picked up as expected in the fourth quarter. Almost 3 million square feet

(msf) was transacted across the GTA for a full-year tally of nearly 12 msf – up slightly year-over-year and above the 10-msf mark for the fifth consecutive year. GTA-wide absorption registered 1.9 msf in 2019, with the suburban market outpacing the Downtown and Midtown markets by a two-to-one margin in the fourth quarter. Meanwhile, GTA-wide availability declined 20 basis points (bps) between quarters to end 2019 at 8.7% – an 11-year low. Overall vacancy fell by the same margin to a two-decade low of 5.6%. On the development front, fourth-quarter completions were largely in the suburbs and totalled a meager 185,000 square feet (sf) – bringing the full-year GTA result to 988,000 sf – significantly below the 10-year annual average of almost 2 msf and below the 1-msf mark for the first time since 2006. Another 11.2 msf (6% of inventory / 74% preleased) was under construction at year-end 2019 with the majority downtown.

Toronto's downtown office market has been a stalwart for much of the 2010s and has



\$33.95

Average asking gross rent per square foot for suburban class A space



8.3 msf

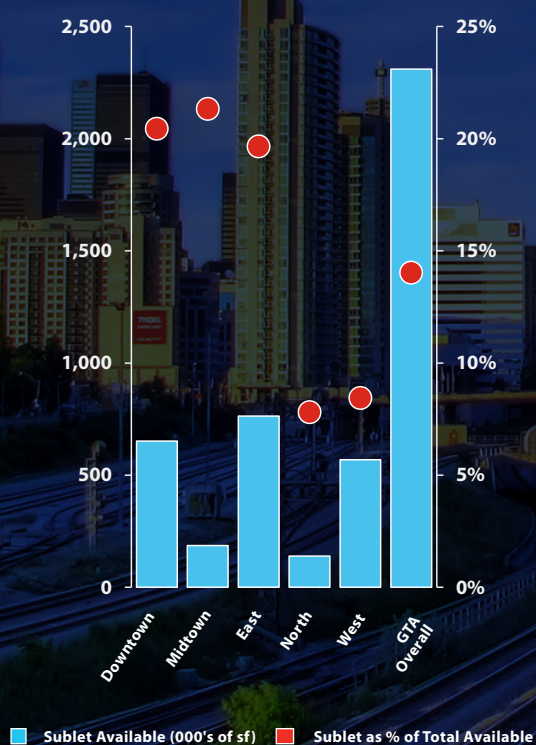
Downtown office space to be delivered between 2020 and 2022



3

Midtown class A buildings with more than 50,000 sf available

GTA Sublet Availability - All Classes

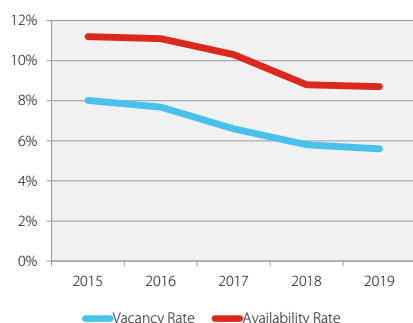


GTA Occupancy Costs - All Classes

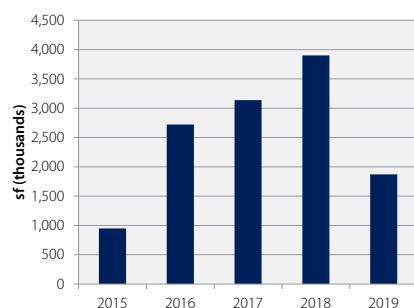


Downtown Toronto has become a victim of its own success as deal velocity is now restricted by a shortage of available space in which to transact, despite abundant new construction.

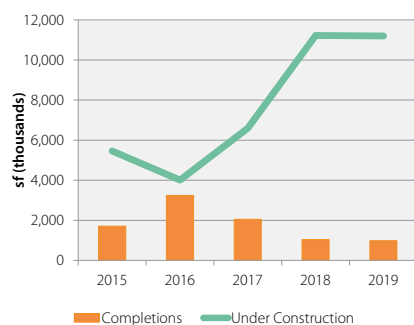
GTA Overall Availability & Vacancy Trends



GTA Overall Absorption Trends



GTA Overall New Supply Trends



become a victim of its own success as availability and vacancy trended lower, closing 2019 at 4.1% and 2.1%, respectively. After five consecutive years of record-setting leasing volumes, culminating with almost 9 msf leased in 2018, transaction activity slowed to just over 5 msf in 2019 – indicative of scarce available space, not lack of demand. Downtown was also short on large deals (100,000 sf+) in 2019, with just seven inked – five in buildings under construction, highlighted by TD Bank's 840,000-sf second-quarter deal at Cadillac Fairview's (CF) 160 Front St. W. development. By comparison, there were 20 such deals (13 in buildings under construction) in 2018.

Hullmark's 81,000-sf mass timber project at 80 Atlantic Ave. was the quarter's only downtown delivery, bringing 2019's new-supply tally to a quiet 410,000 sf – less than half the 10-year average. In a product-starved market, even the 9.8 msf under construction downtown (the bulk coming online by year-end 2022) offers little respite, with pending transactions raising current prelease levels above 80%. Notable completions in 2020 will include Ivanhoe Cambridge and Hines' first phase of CIBC Square (100% preleased) and CF's 16 York St. (77% preleased), which added Morneau Shepell (118,000 sf) to its growing tenant roster during the quarter. With few options for tenants, downtown landlords continue to exercise their pricing power, pushing average gross rents for the best space above \$80 per square foot. Though not immediate, the impact of large banks' (primarily CIBC) backfill space may

open up some options and temper rental growth.

Midtown posted another year of growth thanks to strong demand in the Bloor node. Quarter-over-quarter, Midtown's vacancy across all building classes declined 30 bps to 2.4%, while availability rose 50 bps to 5.3% – primarily the result of Choice Properties REIT marketing the 92,000-sf Willis Towers Watson space at 175 Bloor St. E. (68,000 sf contiguous), with a possession date in mid-2021. This opportunity coincides with the potential consolidation of WPP group of companies (i.e. J. Walter Thompson and Young & Rubicam) from Bloor to the new Waterfront Innovation Centre under construction downtown – providing much-needed relief for prospective tenants. In other news, Uber officially opened its engineering hub at 121 Bloor St. E. – part of the company's \$200-million-plus investment in the city.

The suburban market – though inconsistent at times – is gaining momentum, capturing roughly half of the GTA's office absorption in 2019. Meanwhile the suburban availability rate has trended lower, falling from a decade-high of 15% in 2016 to 13.2% at year-end 2019. Overall vacancy ended 2019 at 9.2% – its lowest level since 2011. Two small buildings were completed during the quarter (104,000 sf) for a full-year total of 579,000 sf – just over two-thirds in Toronto West. This marks the first time the suburbs have delivered more space than downtown since 2015. A further 1.4 msf (70% preleased) is under construction (split between Toronto West and North) – all coming online by year-end 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 |
| 8.8% | 8.9% | 8.7% | 5.8% | 5.8% | 5.6% | 679 | 1,872 | 988 | 11,199 | 74% |

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 | 426 | 25 | 15 | 132 | 3.3 | 0.8 | 4.1 |
| Downtown Class A | 130 | 22 | 13 | 59 | 3.3 | 0.6 | 3.9 |
| Midtown All Classes | 141 | 5 | 3 | 27 | 4.2 | 1.1 | 5.3 |
| Midtown Class A | 39 | 3 | 1 | 12 | 3.8 | 2.0 | 5.8 |
| Toronto East All Classes | 334 | 21 | 11 | 92 | 9.7 | 2.4 | 12.1 |
| Toronto East Class A | 135 | 11 | 6 | 56 | 9.3 | 2.2 | 11.5 |
| Toronto North All Classes | 131 | 9 | 5 | 47 | 10.7 | 0.9 | 11.6 |
| Toronto North Class A | 59 | 7 | 4 | 30 | 9.6 | 1.1 | 10.7 |
| Toronto West All Classes | 527 | 34 | 19 | 160 | 13.3 | 1.2 | 14.5 |
| Toronto West Class A | 256 | 25 | 13 | 82 | 13.2 | 1.7 | 14.9 |

Greater Toronto Area Significant Transactions

| Address | District | Tenant | Size |
|-----------------------|----------|-----------------|------------|
| 16 York St. | Downtown | Morneau Shepell | 118,100 sf |
| 1929 Bayview Ave. | Midtown | LMC | 21,400 sf |
| 2255 Sheppard Ave. E. | East | belairdirect | 32,000 sf |
| 90 Sheppard Ave. E. | North | Mulvey & Banani | 28,000 sf |
| 1004 Middlegate Rd. | West | AstraZeneca | 97,200 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