

Toronto North & East



Quick Stats

9.6%

Overall availability rate in Toronto North, vs. 11.4% one year ago

21%

Toronto East sublet available space as a percentage of total available space, vs. 5% in the Toronto North market

684,961 sf

Total area under construction in the Toronto North market, vs. 58,543 sf in the Toronto East market

4

Buildings with largest contiguous available area greater than 50,000 sf in the Highway 404 & Steeles node

3

Nodes in the Toronto East market with sublet availability greater than 200,000 sf

The Toronto North and East office markets ended the second quarter of 2019 on a negative note. Collectively, occupancy levels decreased 57,000 square feet (sf) with class A buildings in the North market's North Yonge node making up the bulk of the loss. Quarter-over-quarter, overall availability remained at 11.3%, while vacancy rose 20 basis points (bps) to 7.3%. Meanwhile, the sublet market contracted by slightly more than 50,000 sf to 869,000 sf during the quarter, but remains just above the level reported one year ago (854,000 sf).

Toronto North saw occupancy levels fall 79,000 sf – adding to the market's year-to-date loss. The Vaughan and Yorkdale nodes combined for modest growth of 23,000 sf, while North Yonge depressed the overall market with a loss of 95,000 sf, largely in class A product. However, the North market's overall availability decreased 80 bps quarter-over-quarter to 9.6%, down 180 bps from the same quarter one year ago. Vaughan's availability continues to fall, reaching 6.5% at mid-year 2019 – a level not seen since the fourth quarter of 2017. Vacancy held steady at 6.7%, putting a pause on four prior quarters with a reported loss. North Yonge

was busy on the leasing front, securing some of the quarter's notable transactions including: Financial Services Regulatory Authority of Ontario taking 102,000 sf at H&R REIT'S 25 Sheppard Ave. W.; Wawanesa Insurance extending its lease at Cadillac Fairview's Yonge Corporate Centre (61,000 sf) while Ontario Cannabis Retail Corporation signed a new deal for 37,000 sf in the same complex. Elsewhere, tech firm Cognizant Solutions signed a new lease at Crown Properties' 5255 Yonge St. for 34,500 sf.

Though new supply additions have been absent for the past year in the North market, six buildings representing almost 685,000 sf are under construction (71% preleased) with expected completion ranging from late 2019 through 2021. During the second quarter, construction commenced on Briarwood Corporate Centre (7625 Keele St.) in Vaughan, a four-storey, 60,284-sf office condo development available for lease or sale. Meanwhile, six projects are in the preleasing phase with the potential to add nearly 1.2 msf to the North market if built.

On the infrastructure front, the Ontario provincial government announced in April the extension of the Yonge subway



2

Buildings with largest contiguous available area greater than 50,000 sf in North Yonge, vs. six one year ago



\$36.82 psf

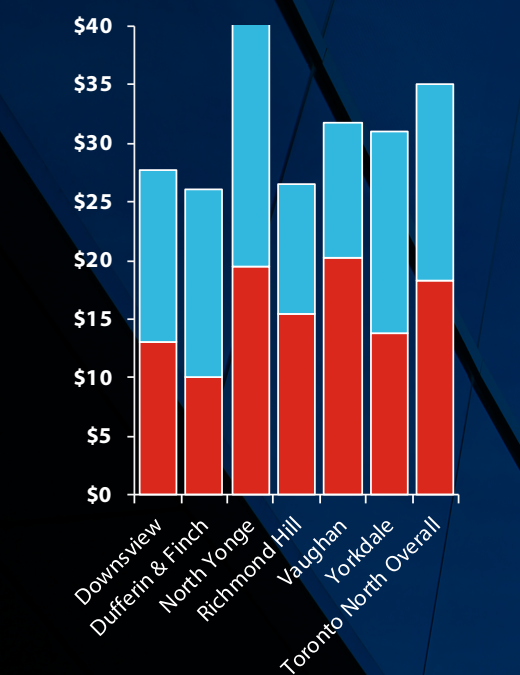
Total estimated direct gross rental rate for class A space in Toronto North vs. \$32.31 psf in Toronto East



74%

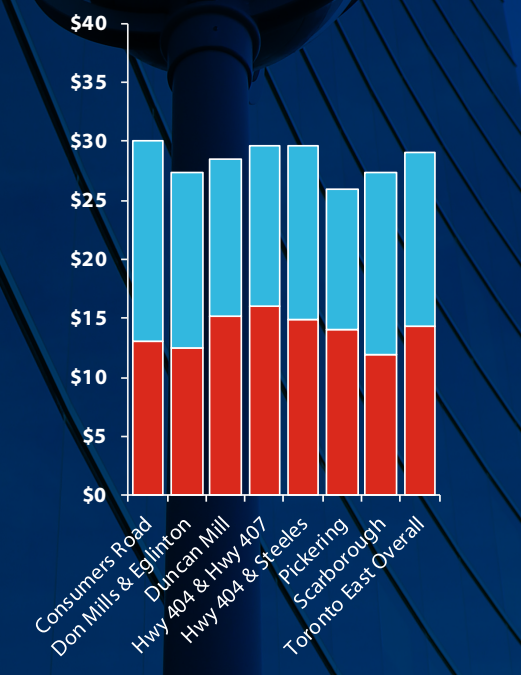
Total leased area within 743,504 sf under construction in the Toronto North and East markets

Toronto North Occupancy Costs - All Classes



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

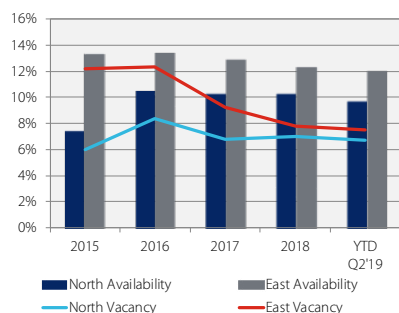
Toronto East Occupancy Costs - All Classes



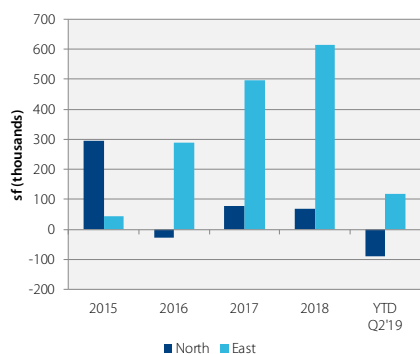
Net Asking Rent (Avg. \$psf) Additional Costs (Avg. \$psf)

The Ontario provincial government announced in April the extension of the Yonge subway line (eastern segment of TTC's Line 1) from Finch Station to Highway 7 in Richmond Hill as part of Ontario's transit plan.

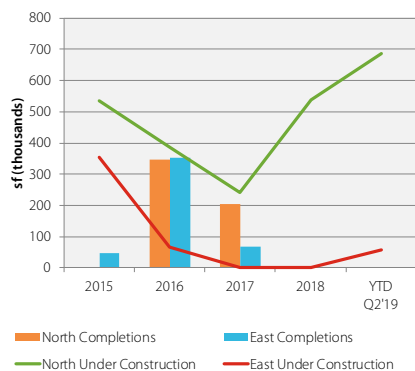
Toronto North & East Overall Availability & Vacancy Trends



Toronto North & East Overall Absorption Trends



Toronto North & East Overall New Supply Trends



line (eastern segment of TTC's Line 1) from Finch Station to Highway 7 in Richmond Hill as part of Ontario's transit plan. At an estimated cost of \$5.6 billion, the 7.4-km extension will include up to six new stations (including Steeles and Langstaff), providing ample opportunity for new high-density projects along the route. York Region estimates that 58 million riders per year would be using the extension by 2031. The project is currently in the planning and design phase – no expected completion date has been announced.

In Toronto East, occupancy levels continued to rise, gaining 22,000 sf during the second quarter – attributed mainly to leasing activity within class A buildings in Highway 404 & Steeles and class B in Don Mills and Eglinton. However, the bulk of the aforementioned gains were eroded by steep negative absorption in Consumers Road, Scarborough and Highway 404 & Highway 407. Overall availability in the East market increased 30 bps quarter-over-quarter to 12%, but is down 140 bps year-over-year, attributed to steady absorption over the past four quarters, particularly in the Highway 404 & Highway 7 and Highway 404 & Steeles nodes. Overall vacancy followed availability during the past year, ending the second quarter at 7.5% – up 20 bps between quarters, but down 100 bps year-over-year. At 21%, sublet availability as proportion of total available space remains high with at least 200,000 sf concentrated in each of the Highway 404 & Highway 407, Highway 404 & Steeles and Scarborough nodes. On the transaction front, Bell Canada renewed 445,000 sf at 100 Wynford Dr. in the Don Mills and Eglinton node as part of a 1.6-msf suburban premises renewal, all within H&R REIT's portfolio.

On the East market's development front, construction continues on the Howland Green Business Centre (59,000 sf / 100% sold) with completion targeted for December 2019. Six buildings are in the preleasing phase

with the potential to add 994,000 sf to the market. With a wide-lens view of the East, many significant projects loom – either in the works, or on hold. Partners Cadillac Fairview and Armadale Group announced in April that Buttonville Airport will remain in operation until at least 2023, stalling the long-awaited redevelopment of the site. In contrast, just to the north, the City of Markham announced in May at the Collision tech conference the development of an "urban innovation district" on 1,920 acres of public and private lands fronting Highway 404, dubbed the Markham Innovation Exchange (MiX). This innovation district is envisioned as a 21st-century employment cluster for knowledge-based employment and industrial activity. To the east in Pickering, construction commenced in April on Durham Live, an entertainment complex dubbed a "mini-Las Vegas". Yet further east in Clarington, Ontario Power Generation announced a new corporate campus scheduled to open in 2024 on the site of the Darlington Energy Complex.

Finally, on the investment front, a number of office building transactions occurred during the second quarter. The largest office trade by a wide margin (and within the GTA suburban market overall) was Wafra – a New York-based investor – taking a 25% stake (\$132 million) in six Slate Asset Management assets, three of which are in the Toronto North and East markets. The North and East portion of the portfolio comprised 767,428 sf, including 4211 Yonge St. (169,929 sf) in North Yonge and seven buildings in Markham (597,499 sf) including the Woodbine Steeles Corporate Centre and Gateway Centre. Also in Markham, Davpart acquired 140 Allstate Pkwy. (84,037 sf) from Dorsay Realty for \$9.8 million, representing \$202 psf. In all, \$168 million worth of office assets has changed hands in the North and East markets in the first half of 2019, down significantly from the \$696 million sold over the same period in 2018.

Toronto North and East 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
Toronto North	11.4%	10.4%	9.6%	7.3%	6.7%	6.7%	-79	-90	0	685	71%
Toronto East	13.4%	11.7%	12.0%	8.5%	7.3%	7.5%	22	115	0	59	100%

Comparison of Leasing Options for Tenants – Toronto North

Office Space at Selected Nodes	No. of Bldgs.	Available Space			Availability Rate		
		Buildings with more than 50,000 sf	Buildings with largest contiguous available area greater than 50,000 sf	Number of spaces between 4,000 sf and 8,000 sf	Direct %	Sublet %	Total %
North Yonge	40	7	2	24	10.4	0.5	10.9
Richmond Hill	4	0	0	0	6.7	0.0	6.7
Vaughan	52	2	1	11	6.0	0.5	6.5

Comparison of Leasing Options for Tenants – Toronto East

Office Space at Selected Nodes	No. of Bldgs.	Available Space			Availability Rate		
		Buildings with more than 50,000 sf	Buildings with largest contiguous available area greater than 50,000 sf	Number of spaces between 4,000 sf and 8,000 sf	Direct %	Sublet %	Total %
Hwy. 404 & Hwy. 407	121	2	1	23	5.5	2.2	7.7
Hwy. 404 & Steeles	61	4	4	17	10.3	3.6	13.9
Don Mills & Eglinton	32	2	0	16	9.6	1.4	11.0
Consumers Road	34	5	1	22	14.7	0.4	15.1
Duncan Mill	25	2	2	6	12.0	3.1	15.1
Pickering	13	0	0	1	3.7	0.0	3.7
Scarborough	48	5	4	10	13.3	4.5	17.8

Toronto North and East Market Significant Transactions

Address	District/Node	Tenant	Size
100 Wynford Drive	East / Don Mills & Eglinton	Bell Canada	445,000 sf
25 Sheppard Avenue West	North / North Yonge	Financial Services Regulatory Authority of Ontario	102,000 sf
Yonge Corporate Centre	North / North Yonge	Wawanesa Insurance	61,000 sf
Yonge Corporate Centre	North / North Yonge	Ontario Cannabis Retail Corporation	37,000 sf
5255 Yonge Street	North / North Yonge	Cognizant Technology Solutions	34,500 sf


avisonyoung.ca

For more information, please contact:

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



Properties

Charles Torzsok
Research Analyst
905.968.8023
charles.torzsok@avisonyoung.com

55 Commerce Valley Drive West
Suite 501, Mailbox #7
Markham, ON L3T 7V9
905.474.1155