

# Greater Toronto Area



## Quick Stats

**6.4%**

Overall downtown office vacancy rate – up from 2.1% one year ago

**2 msf**

GTA-wide leasing activity – 67% renewals

**176**

GTA buildings with more than 50,000 sf available vs. 97 buildings one year ago

**9.3 msf**

GTA-wide office area under construction – 8.1 msf underway downtown

**35%**

Downtown sublet space as a proportion of total available space

The ongoing COVID-19 pandemic continued to cloud the already subdued Greater Toronto Area (GTA) office market in first-quarter 2021. The onset of a third wave, fueled by variants of concern, and perpetual lockdowns suggest that growth will be slower than was anticipated at the close of 2020. Given market risks, occupiers in general are taking a wait-and-see approach. Notwithstanding this, the hope is that the market is poised to recover strongly once vaccinations reach a critical mass, leading to a widespread reopening of many offices in fall 2021 or early 2022.

Seeking clarity, a multitude of survey results indicate the spectrum of what workplaces of the future will look like when we return. The consensus seems to be that many companies will provide employees with increased flexibility, but fully remote environments will likely be exceptions, rather than the rule. Occupier options range from a *traditional headquarters* (with most staff at a central location), to a *central hub* model (with minimal staff at a central location and the majority working remotely), to a *hub-and-spoke* model (with some staff at a central location, some at

flexible locations and some remote), to *fully distributed* operations (with no fixed locations and all staff working remotely). Most occupiers will likely choose an option in the middle of that range. As seen elsewhere in the world recently, another trend to watch is whether large occupiers will expand partnerships with coworking providers, offering employees access to the flexible providers' ubiquitous locations.

Although quantitative measures continue to point to a suppressed market, there are signs of optimism: an uptick in qualitative measures such as tour activity and interest from prospective tenants, as reported by brokers and landlords. A year into the pandemic, vaccines have provided a view to its conclusion, but the fundamental impact has been the much longer time required to negotiate and finalize lease transactions. GTA-wide leasing activity totaled 2 million square feet (msf) in the first quarter of 2021 (two-thirds of that renewals) – the best quarterly result since the pandemic began, and equal to almost 40% of 2020's full-year total. The pandemic has also amplified the trend toward smaller lease deals and shorter terms.



## 22%

Suburban sublet space as a proportion of total suburban available space – up from 13% one year ago



## 11

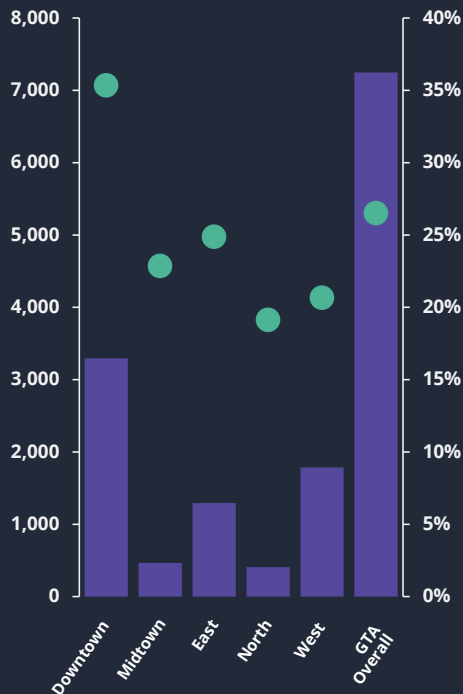
Midtown office buildings with 50,000 sf+ available – up from five one year earlier



## 1 msf

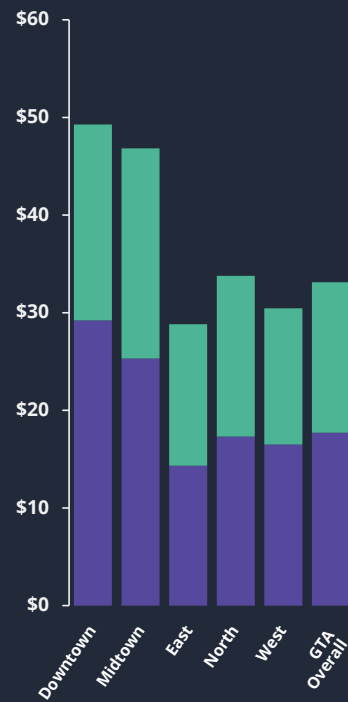
Suburban office area under construction – evenly split between Toronto North and Toronto West

### GTA Sublet Availability – All Classes



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

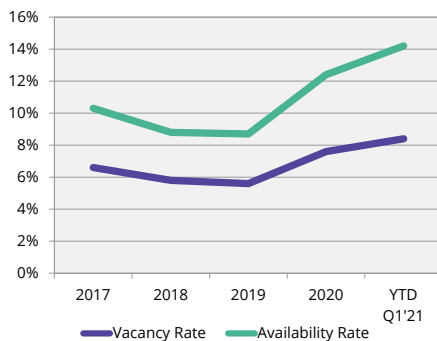
### GTA Occupancy Costs – All Classes



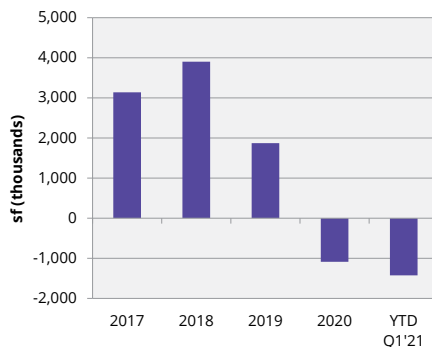
■ Net Asking Rent (Avg. \$psf)    ■ Additional Costs (Avg. \$psf)

**A year into the pandemic, the fundamental impact has been the much longer time required to negotiate and finalize lease transactions.**

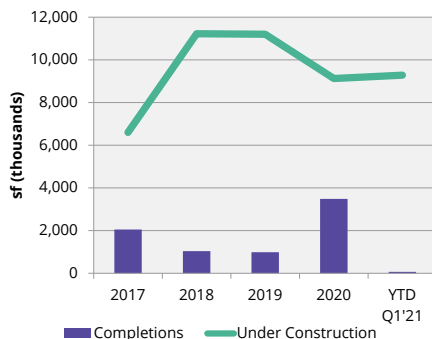
## GTA Overall Availability & Vacancy Trends



## GTA Overall Absorption Trends



## GTA Overall New Supply Trends



The market has experienced broad-based contraction in office demand since the onset of the pandemic, pushing availability and vacancy rates higher. At 14.2%, GTA-wide availability is higher now than it was following the global financial and dot-com crises, while overall vacancy (8.4%) is heading in that direction. Sublet supply makes up 26% of total availability – up from 15% one year ago. While face rates vary across the region, net effective rents are slightly off their pre-pandemic highs, owing to an increase in incentives. The development pipeline is virtually unchanged – 9.3 msf underway (67% preleased / equal to 5% of inventory).

Availability and vacancy rates increased again as Downtown Toronto's office towers remain largely devoid of workers. Year-over-year, overall availability has more than doubled to 11.7% from 4.6%, while vacancy tripled to 6.4% from 2.1%. For comparison, availability is between the levels recorded after the global financial and dot-com crises, while vacancy remains below both those peaks, for now. Sublease space increased to 3.3 msf (35% of total available space downtown, and 45% of the GTA's total available sublease space). Though up quarter-over-quarter, it appears that the rate of increase may be starting to level off. Harder to quantify is how much of this sublease space is "speculative" as occupiers test the market. For now, landlords with notable sublease space in their buildings, and in-place rents well below market rates, are confident that demand will allow them to secure higher rents down the road by converting shorter-term leases into new longer-term deals.

Driven largely by renewals, downtown leasing activity dropped 63% quarter-over-quarter to 1.3 msf – boosted only by Scotiabank's 560,000-square-foot (sf) renewal

at Scotia Plaza and 100 Yonge St. – the market's single largest deal thus far during the pandemic. In other news, Netflix plans to open a head office in either Toronto or Vancouver – a positive sign for post-pandemic office fundamentals. Development is stable, with 8.1 msf under construction – 69% preleased and equal to 10% of inventory. Barring any delays, 1.7 msf (70% preleased) is scheduled for completion by year-end 2021.

Toronto's Midtown market is also awash in office space. The pandemic and pending relocations of long-standing tenants (primarily from the Bloor node) to downtown developments have led to a two-fold increase in availability (12.4%) and vacancy (5.9%) rates year-over-year.

Higher availability and vacancy rates prevail in the suburbs compared with downtown and midtown, but their year-over-year increases have been less severe. Suburban availability closed the quarter at 16.9% – up from 13% one year earlier – while vacancy rose to 10.6% from 8.7% during the same period. New development stands at 1 msf (61% preleased), largely in the Toronto North and West markets.

Interestingly, some landlords have noted that for tenants with suburban satellite offices, the utilization rate has been much higher than in urban locales – perhaps attributable to the greater number of workers who can drive to work as opposed to taking transit. A few landlords are seeing an uptick in tenant inquiries looking to move away from downtown, but it is too early to consider this a trend. The perennial urban/suburban dichotomy could find an unexpected resolution as increased adoption of hub-and-spoke models and a more distributed workforce blurs the lines of these traditional geographic concepts.

## 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
8.9%	12.4%	14.2%	5.4%	7.6%	8.4%	-1,424	-1,424	66	9,280	67%

## 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	433	70	26	347	7.5	4.2	11.7
Downtown Class A	138	55	22	121	6.4	3.4	9.8
Midtown All Classes	142	11	3	63	9.6	2.8	12.4
Midtown Class A	39	6	3	25	8.7	4.6	13.3
Toronto East All Classes	332	31	16	118	12.1	4.1	16.2
Toronto East Class A	135	19	8	68	12.0	4.6	16.6
Toronto North All Classes	131	14	6	47	11.2	2.6	13.8
Toronto North Class A	59	13	5	31	11.4	3.5	14.9
Toronto West All Classes	531	50	22	204	14.6	3.8	18.4
Toronto West Class A	261	41	17	120	15.2	4.8	20.0

## Greater Toronto Area Significant Transactions

Address	District	Tenant	Size
Scotia Plaza / 100 Yonge St.	Downtown	Scotiabank	560,000 sf
30 St. Clair Ave. W.	Midtown	Northland Power	35,900 sf
60 Mobile Dr.	East	Ontario Secondary School Teachers' Federation	94,400 sf
5140 Yonge St.	North	Celestica	75,000 sf
100 Milverton Dr.	West	GlaxoSmithKline	24,200 sf

**Get more market information**

**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

**AVISON YOUNG**

avisonyoung.ca

