

# Greater Toronto Area



## Quick Stats

**2.1%**

Overall downtown office vacancy rate vs. class A vacancy of 1.9%

**11.4 msf**

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

**5.5%**

GTA-wide office vacancy rate vs. 8.5% availability rate

**6+ msf**

GTA-wide total office lease transactions inked in the first half of 2019

**9%**

Overall suburban office vacancy rate vs. 10.1% one year ago

The Greater Toronto Area (GTA) office market remained hot during the second quarter of 2019, despite a supply shortage across most nodes and asset classes. This shortage is most apparent in the downtown and midtown markets, where incumbent landlords are reaping the benefits of near-record-low vacancy rates and rising rental rates. Office demand is widespread but continues to be driven largely by technology and co-working companies. The GTA's standing as a growing technology hub was boosted as the City of Toronto hosted its biggest-ever tech conference in May. Collision attracted more than 25,000 attendees and will remain in Toronto until at least 2021. Meanwhile, a global study by Coworking Resources ranks Toronto third among the world's cities for coworking growth, with a new coworking space opening every 13 days on average – trailing only London (every 5 days) and New York (every 7.5 days).

Leasing velocity has been impressive with more than 6 million square feet (msf)

transacted across the GTA during the first half of 2019. However, supply constraints are taking their toll (especially downtown) and are reflected in the increased number of lease renewals – often causing price sticker shock for tenants – and muted absorption levels. Following a robust first-quarter result, GTA-wide second-quarter net absorption slowed to 109,000 square feet (sf) but stands at a respectable 872,000 sf at mid-2019. Although it has been a consistent performer of late, Toronto's Downtown market contracted in the second quarter, while the suburban Toronto West market continued to post strong gains.

GTA-wide availability and vacancy each declined 10 basis points (bps) quarter-over-quarter to 8.5% and 5.5%, respectively, at mid-year. There were no new supply additions during the quarter, leaving the half-year tally at 503,000 sf. Meanwhile, the amount of office space confirmed or under construction increased slightly to 11.4 msf (69% preleased) with more than half (56%) of this space scheduled for completion in 2020 and 2021.





155

Number of full floors available for lease downtown, out of 375 total under construction



2.7%

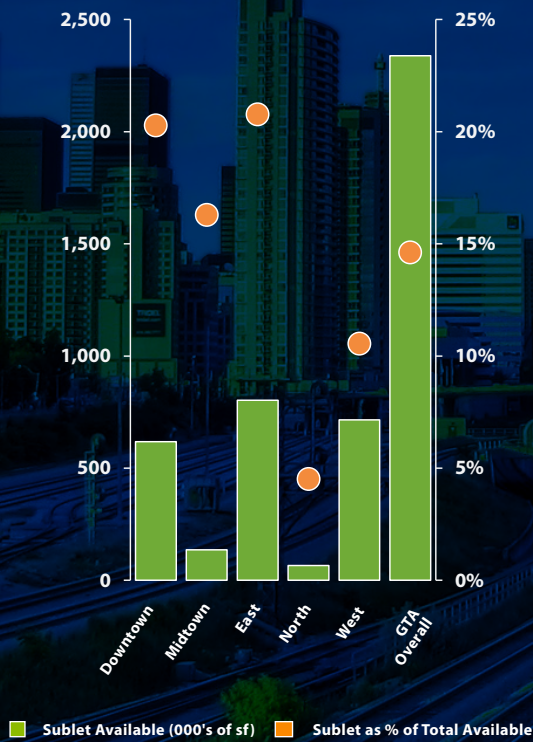
Financial Core class A office vacancy rate



15%

GTA sublet space as a proportion of available space

GTA Sublet Availability - All Classes



GTA Occupancy Costs - All Classes

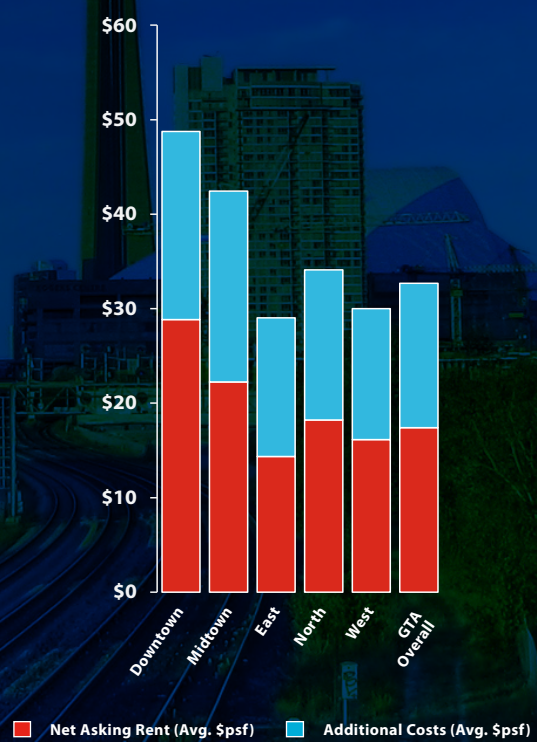
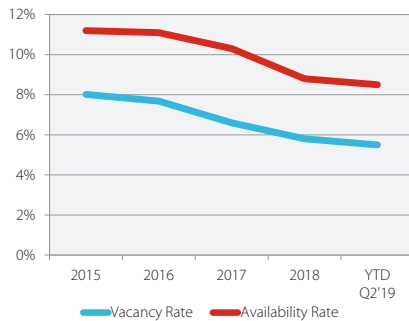


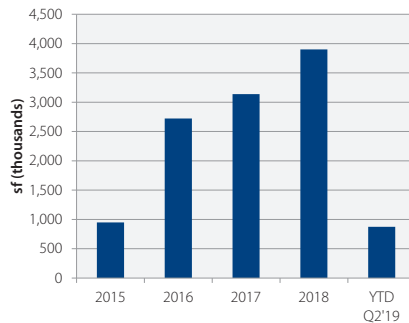
Photo by Paul Bica / CC-4.0

*Although often overshadowed by the red-hot Downtown and Midtown markets, the suburbs collectively posted stronger absorption through the first half of 2019.*

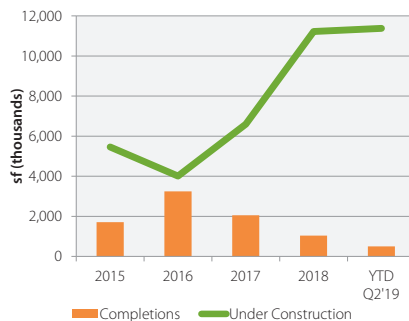
GTA Overall Availability & Vacancy Trends



GTA Overall Absorption Trends



GTA Overall New Supply Trends



Toronto's Downtown office market remains tight as a drum, with tenants having few options and limited leverage within the existing stock. While availability was unchanged (4%), vacancy increased 20 bps between quarters to 2.1%. This is down from a decade high of 7.1% (in 2009) and still just above the historic low of 1.8% at year-end 2018. The uptick in vacancy indicates not softening demand, but rather the full recognition of absorption related to recent office building completions as remediated back-fill space makes its way to the market. Downtown absorption fell into unfamiliar territory as occupancy declined 101,000 sf in the quarter, with losses in class B and C buildings, mainly in the Downtown East, Downtown North and King and Dufferin nodes.

On the transaction front, inevitably, many of the larger lease deals were in the 9.7 msf of new development underway scheduled to come online between 2019 and 2024 (now 70% preleased). The bulk of this space (8 msf / 71% preleased) is slated for completion between 2020 and 2022, with a significant "gap year" in 2023. The biggest downtown deal of the quarter and year-to-date was TD Bank signing a long-term lease for 840,000 sf at 160 Front St. W. The bank will also take a 30% equity stake in the new development while Cadillac Fairview's (CF) and IMCO's shares drop to 50% and 20%, respectively. In other news, the Toronto Region Board of Trade and its trade-services arm, the World Trade Centre of Toronto, leased 90,000 sf in Menkes Developments' and TD Greystone's 100 Queens Quay E. development; co-working provider

Spaces inked a deal for 106,000 sf at First Gulf's 25 Ontario St. (The Shift); while Freedom Mobile committed to 113,000 sf at CF's 16 York St.

The narrative remains unchanged for Toronto's Midtown market with little change in availability (5.1%) and vacancy (2.5%). With development non-existent, Midtown exhibits upward pressure on rental rates similar to downtown. Absorption was flat during the quarter, but totals 55,000 sf for the year, led by the Bloor office node. In a market devoid of large deals, the biggest transaction was by leading market research firm Ipsos, which reduced its footprint to 45,000 sf while renewing its premises at 160 Bloor St. E.

Although often overshadowed by the red-hot Downtown and Midtown markets, the suburbs collectively posted stronger absorption than Downtown and Midtown through the first half of 2019. This is largely attributable to the performance of Toronto West, which has recorded more than 520,000 sf of net absorption and a 120-bps drop in vacancy since the beginning of the year, reaching 10.7% in the second quarter. Toronto West also accounts for 56% (938,000 sf) of the suburban development pipeline of 1.6 msf. More than half of suburban office nodes registered positive absorption during the quarter, nudging suburban availability (12.9%) and vacancy (9%) downward. Dominating the list of significant transactions during the quarter was Bell Canada's 1.6-msf renewal of its premises in Toronto West and Toronto East – rivaling CIBC's 1.75-msf blockbuster downtown deal in 2017.

## 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
9.6%	8.6%	8.5%	6.2%	5.6%	5.5%	109	872	503	11,374	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	423	27	17	131	3.2	0.8	4.0
Downtown Class A	128	25	15	54	3.2	0.5	3.7
Midtown All Classes	141	5	1	33	4.3	0.8	5.1
Midtown Class A	39	2	0	12	3.9	1.5	5.4
Toronto East All Classes	334	20	12	95	9.5	2.5	12.0
Toronto East Class A	135	11	6	51	9.1	2.5	11.6
Toronto North All Classes	131	10	3	48	9.2	0.4	9.6
Toronto North Class A	58	8	3	33	9.7	0.6	10.3
Toronto West All Classes	527	36	23	150	13.1	1.5	14.6
Toronto West Class A	254	27	15	79	12.3	2.2	14.5

## Greater Toronto Area Significant Transactions

Address	District	Tenant	Size
160 Front St. W.	Downtown	TD Bank	840,000 sf
160 Bloor St. E.	Midtown	Ipsos	45,000 sf
100 Wynford Dr.	East	Bell Canada	445,000 sf
25 Sheppard Ave. W.	North	Financial Services Regulatory Authority of Ontario	102,000 sf
5099, 5025 & 5115 Creebank Rd.	West	Bell Canada	1,140,300 sf



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