

Greater Toronto Area



Quick Stats

1.9%

Overall downtown office vacancy rate – down from 7.1% at year-end 2009

11.2 msf

GTA-wide office area under construction – up from 7 msf one year ago

5.6%

GTA-wide office vacancy rate vs. 8.6% availability rate

23

Downtown class A buildings with 50,000 sf+ available vs. 48 in the suburbs

9.2%

Overall suburban office vacancy rate vs. previous annual low of 7.6% in 2008

The Greater Toronto Area (GTA) office market recorded impressive results in 2018, fuelled by the insatiable demand for downtown office space – not only from traditional occupiers, but also a growing cohort of technology and co-sharing tenants. As the first quarter of 2019 drew to a close, the market continued to display declining availability of product, significant upward pressure on rental rates in select markets and asset classes, and a healthy development pipeline.

On the strength of more than 2 million square feet (msf) of lease transactions, coupled with leases concluded in previous quarters, GTA-wide absorption increased 763,000 square feet (sf) in the opening quarter of 2019. Demand was concentrated in – and evenly distributed among – class A and class B buildings, while the Downtown and Toronto West markets once again posted the strongest gains. Overall availability declined 20 basis points (bps) from year-end 2018 to close the first quarter at a decade-low of 8.6% – down 160 bps on a year-over-year basis. Overall vacancy also fell 20

bps between quarters to 5.6%, below 2018's first-quarter mark of 6.5%.

Meanwhile, construction cranes dot the skyline. First-quarter new supply additions totaled 503,000 sf (94% preleased), spread across five buildings in the Downtown and Toronto West markets – ahead of the four-quarter average of 411,000 sf – indicative of the market's appreciation for new product. The amount of office area confirmed or under construction remained steady at 11.2 msf (58% preleased) – equating to 6% of the GTA's existing office stock. This compares with 7 msf (51% preleased) that was under construction one year prior. Of the 11.2 msf underway, less than 10% or 1.1 msf (58% preleased) is scheduled for completion by year-end 2019, with the majority slated for the suburbs.

A supply crisis persists in Toronto's red-hot downtown market, which posted a first-quarter vacancy rate of 1.9% – down 60 bps year-over-year and still hovering near the historic low of 1.8% set at year-end 2018. Four



9.6 msf

Downtown office area under construction



2.4%

Financial Core class A office vacancy rate



5

Midtown office buildings with 50,000 sf+ available

GTA Sublet Availability - All Classes



GTA Occupancy Costs - All Classes

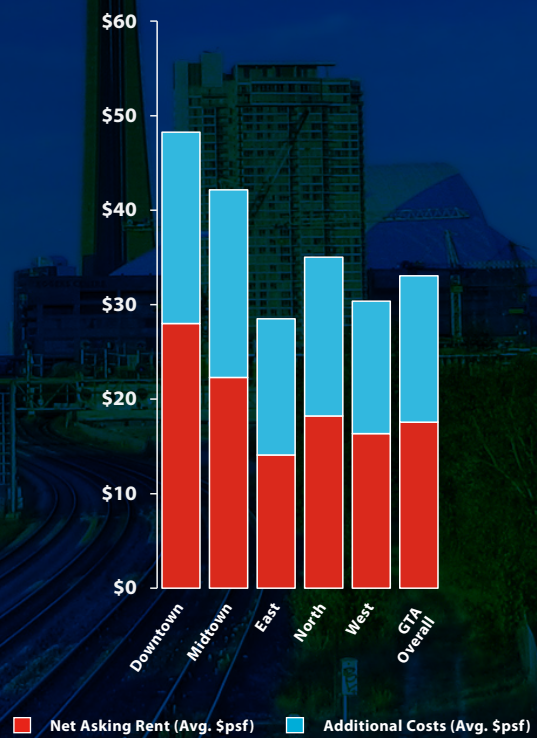
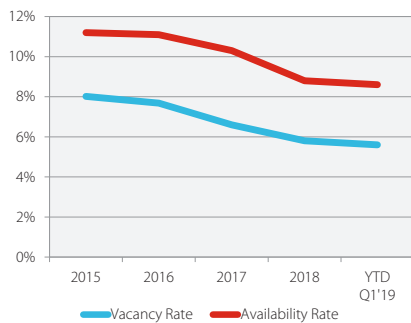


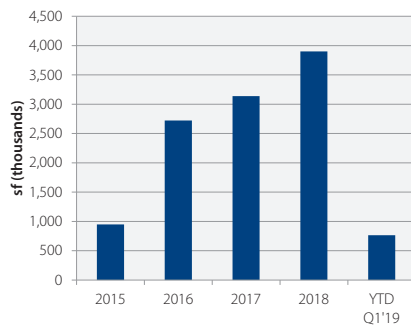
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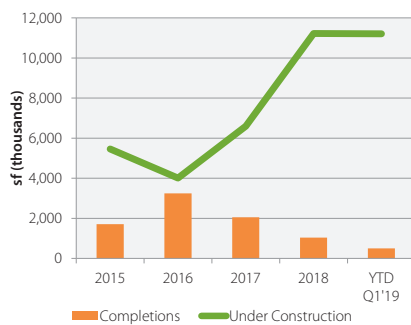
GTA Overall Availability & Vacancy Trends



GTA Overall Absorption Trends



GTA Overall New Supply Trends



of the six downtown office nodes posted positive results with total downtown absorption of 360,000 sf. Downtown availability declined 10 bps and was down 170 bps year-over-year to 4%. In the absence of new supply and with relocation options in existing buildings severely restricted for tenants of all sizes, rental rates continue to climb. Tenants seeking short-term relief via the sublet market are out of luck. Competition is fierce and rental rates rival those offered directly by the landlords – and in some circumstances are even higher for turnkey solutions.

Despite registering 20 100,000-sf-plus transactions in 2018, downtown was devoid of any big deals in the opening quarter of 2019. However, the market remains busy and is a magnet for technology companies and co-working providers. For example, DocuSign, a San Francisco-based electronic signature software vendor, opened a regional headquarters in WeWork's location at KingSett Capital's Scotia Plaza, while rival Spaces expanded its footprint, leasing 47,000 sf in Oxford Properties' Royal Bank Plaza. Elsewhere, the Ontario Teachers' Pension Plan preleased an additional 79,000 sf for its future head office at Cadillac Fairview's 160 Front St. W., bringing its commitment to 340,000 sf in the 1.2-msf tower, scheduled for completion in 2022.

Construction continues on 9.6 msf of space in the downtown market, with 57% preleased at the end of the quarter. That number is poised to jump to 71%, however, as speculation was rampant near quarter-end that pending deals

would take the remaining available space at 160 Front St. W., as well as Carttera's 400,000-sf 65 King St. E. project. With the probability increasing that these towers will be fully leased by the time they are delivered, attention is turning to the next wave of development. Notable projects include Oxford's The HUB (1.3 msf), QuadReal Properties' Commerce Court 3 (1.8 msf), Allied Properties REIT and Westbank's Union Centre (1.3 msf) and Hines' 10-storey mass-timber office building (phase 1 / 240,000 sf) called T3 Bayside.

Market lows persist for both availability (4.5%) and vacancy (2.4%) in Toronto's Midtown market. Given the scarcity of product, leasing activity is muted, and smaller deals are more common. The largest deal during the quarter was YMCA's 33,600-sf lease at Canada Square. Only five of the market's 141 buildings have more than 50,000 sf available, mostly concentrated in the Bloor node – 2 Bloor St. E. (80,000 sf), 160 Bloor St. E. (66,000 sf) and 80 Bloor St. W. (53,000 sf).

Coming off an 11-year high of 1.7 msf of absorption in 2018, the suburban market continues to improve. First-quarter absorption was almost 370,000 sf – led once again by Toronto West. Quarter-over-quarter, overall availability declined 30 bps to 13.2%, while vacancy dropped 60 bps to 9.2% – the most recent yearly low being 7.6% in 2008. Completions included 174,000 sf in Toronto West (Heartland and Burlington), while construction is firmly underway on 1.6 msf (56% preleased), largely in Toronto West (Airport Corporate Centre, Oakville and Heartland) and Toronto North (Vaughan).

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
10.2%	8.8%	8.6%	6.5%	5.8%	5.6%	763	763	503	11,206	58%

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	24	15	131	3.2	0.8	4.0
Downtown Class A	128	23	15	57	3.2	0.5	3.7
Midtown All Classes	140	5	2	34	3.9	0.6	4.5
Midtown Class A	39	2	1	12	3.9	0.7	4.6
Toronto East All Classes	330	18	14	95	9.1	2.6	11.7
Toronto East Class A	135	10	7	52	8.3	2.5	10.8
Toronto North All Classes	131	13	4	45	9.9	0.5	10.4
Toronto North Class A	58	11	4	29	10.8	0.7	11.5
Toronto West All Classes	525	37	27	169	13.6	1.6	15.2
Toronto West Class A	254	27	19	93	12.5	2.4	14.9

Greater Toronto Area Significant Transactions

Address	District	Tenant	Size
160 Front St. W.	Downtown	Ontario Teachers' Pension Plan	79,000 sf
2200 Yonge St.	Midtown	YMCA	33,600 sf
55 & 105 Commerce Valley Dr. W.	East	Qualcomm	75,000 sf
5700 Yonge St.	North	Questrade	105,000 sf
1900 Ironoak Way	West	Samuel, Son & Co.	55,000 sf



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Properties

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