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Exchange Morning Post

Leasing Activity

Business confidence improving as Greater Toronto Area office market slowly works its way back to pre-credit crisis form

Avison Young releases its Mid-Year 2010 Greater Toronto Area Office Market Report

TORONTO - Despite continued rising vacancy levels in the Greater Toronto Area (GTA) office market, strengthening business confidence has led to a surge in tenant leasing activity - especially in Downtown Toronto. Though the market remains in the red, a shrinking new-supply pipeline and limited quality space alternatives for larger tenants may alter fundamentals in the coming quarters.

Some of the key trends noted in a Mid-Year 2010 Greater Toronto Area Office Market Report, released July 28, 2010.

"As the second quarter of 2010 drew to a close, the GTA office vacancy rate (physically unoccupied space) reached 11.2%, up 60 basis points (bps) from 10.6% in the first quarter of 2010. This compares to 10.4% at year-end 2009 and 9.6% at mid-year 2009. In contrast, the availability rate (space marketed for lease) held firm for the second consecutive quarter, currently at 11.7% - a sign that the market is starting to stabilize," comments Bill Argeropoulos, Vice-President and Director of Research (Canada) for Avison Young.

"The increase in business confidence is certainly evident in the number of tenant leasing assignments circulating in the marketplace," continues Argeropoulos. "Our research shows a notable jump in tenant activity in Downtown Toronto from a year ago to now more than 3 million square feet (msf)."

According to the report, the Downtown market continues to work its way through nearly 4 msf of new office product and a stubborn sublet market, which accounts for 15% of the total office space available for lease in Downtown buildings. Downtown vacancy entered double-digit territory for the first time in five years, reaching 10.3% at mid-year 2010.

Outside of the Downtown market, and already in double digits, vacancy in Toronto's suburbs climbed to 12.5%. Apart from 744,000 square feet (sf) under construction, predominantly in GTA West, speculative development is virtually non-existent as the market struggles to show signs of a sustainable recovery.

"While the market has not returned to its pre-credit crisis conditions, business confidence has certainly improved over the past six months," notes Mark Fieder, Avison Young Principal and Managing Director of Avison Young's Ontario region. "In talking to our clients, many feel that the market has a lot to offer in terms of options and competitive pricing."

"However, for one reason or another, not every solution or option will work, especially for larger users in the market today or those hoping to enter the market in the near-term," adds Robert Armstrong, a 32-year leasing veteran and Principal at Avison Young. "Every large block of space is being toured and scrutinized, from the older-generation bank towers (some of which are undertaking significant retrofit programs to be more competitive) to recently completed buildings such as Bay-Adelaide Centre West and 18 York Street (to be completed by late 2011) which, combined, are approaching the 80% leased level."

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Argeropoulos adds that the second half of 2010 will be interesting to watch as a number of large tenants finalize new leases or lease extensions, thus further altering market fundamentals in the quarters to come and removing some of the uncertainty that exists today.

"Larger requirements are primarily from financial and professional services firms. If the existing big-block options (new and old) cannot satisfy the current requirements, don't be surprised if a new building is announced within the next six to 12 months."

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